



CHEMONICS INTERNATIONAL INC.

April 3, 2002

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Re: Revised Bangladesh Enterprise Development Assessment Report
Task Order No. 817 under the GBTI IQC
No. PCE-I-00-98-00015-00

Dear Mr. Fleming:

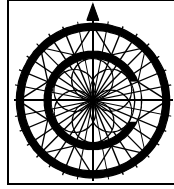
Attached please find our revised report on the above-captioned topic. We trust that you will find this report a useful document for use by your office in the design of future interventions in enterprise development in Bangladesh.

If you have further questions concerning the findings, recommendations or other statements contained in this report, please do not hesitate to contact me at rivey@chemonics.com.

Sincerely,

Ronald J. Ivey
Director
Banking and Enterprise Development Group





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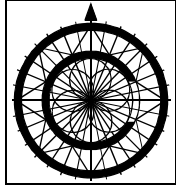


BANGLADESH ENTERPRISE DEVELOPMENT ASSESSMENT REPORT
Task Order No. 817 Under the GBTI IQC
No. PCE-I-00-98-00015-00

Submitted to:
USAID

Submitted by:
Chemonics International Inc.

December 2001
Dhaka, Bangladesh



CHEMONICS INTERNATIONAL INC.



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We hope that our deliberations will be of value to USAID Bangladesh in charting their waters for enterprise development in the coming period.

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ACRONYMS

ACF-DF	Agribusiness Credit Fund-Development Fund
ADAB	Association for Development Agencies in Bangladesh
ADB	Asian Development Bank
ASA	Association of Social Advancement
ASEAN	Association of South East Asian Nations
ATDP-I	Agro-based Industries and Technology Development Project-I (1995-2000)
ATDP-II	Agro-based Industries and Technology Development Project-II (2000-2004)
BASC	Business Advisory Services Center
BASIC	Bank of Small Industries and Commerce Corporation
BB	Bangladesh Bank (Central Bank)
BBS	Bangladesh Bureau of Statistics
BDS	Business Development Services
BDSP-B	Business Development Services Program-Bangladesh (Swiss Contact)
BFFEA	Bangladesh Frozen Food Export Association
BGMEA	Bangladesh Garment Manufacturers and Employers Association
BHB	Bangladesh Handloom Board
BIDS	Bangladesh Institute of Development Studies
BIM	Bangladesh Institute of Management
BITAC	Bangladesh Industrial Technical Assistance Centre (BITAC)
BKB	Bangladesh Krishi Bank, an agricultural development bank
BKMEA	Bangladesh Knitwear Manufacturers and Employers Association
BMDC	Bangladesh Management Development Center
BMEDP	Bogra Metal Enterprise Development Project
BMEEG	Bogra Metal Engineering Entrepreneurs Group
BMET	Bureau of Manpower, Employment and Training
BOI	Board of Investment
BPDB	Bangladesh Power Development Board
BRAC	Bangladesh Rural Advancement Committee
BRDB	Bangladesh Rural Development Board
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSO	Business Support Organization
BSS	Business Support Services
BSRS	Bangladesh Shilpa Rin Sangstha (Bank)
BTDPLA	Bangladesh Textile Dyeing and Printing Industries Association
BTMA	Bangladesh Textile Mills Association
BTMC	Bangladesh Textile Mill Corporation
BUET	Bangladesh University of Engineering and Technology
BUSBC	Bangladesh United States Business Council
CDS	Community Development Service
CEFE	Competency-Based Economy Through Formation of Enterprises

CESO	Canadian Executive Services Organization
CGS	Credit Guarantee Scheme
CIB	Credit Information Bureau
CIDA	Canadian International Development Agency
COP	Chief of Party
Crore	Equivalent to 10,000,000 Tk
DAE	Department of Agricultural Extension
DANIDA	Danish International Development Agency
DBI	DCCI Business Institute
DCCI	Dhaka Chamber of Commerce and Industries
DESA	Dhaka Electric Supply Authority
DFI	Development Financial Institution
DFID	Department for International Development (United Kingdom)
EC	European Community
ECOTA Forum	An NGO network involved in handicrafts and hand-woven textile products
EDBM	Enterprise Development for Business and Management
EDP	Enterprise Development Project
EGAD	Economic Growth and Agricultural Development
EOPS	end-of-projects status
EPB	Export Promotion Bureau
FBCCI	Federation of Bangladesh Chambers of Commerce & Industries
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEMINI	Growth and Equity through Microenterprise Investment and Institutions
GNP	Gross National Product
GOB	Government of Bangladesh
GTZ	German Technical Assistance Agency
HES	Handloom Enterprise Survey
HKI	Helen Keller International
HRD	Human Resource Development
IBA	Institute of Business Administration
ICLARM	International Center for Living Aquatic Resources Management
IDA	International Development Agency
IFC	International Finance Corporation
IFDC	International Fertilizer Development Center
IGA	Income Generating Activity
ILO	International Labour Organization
IMF	International Monetary Fund
INFOMAT	Information on Markets and Technology
IP	Industrial Policy
IPP	Industrial Promotion Project (USAID)
IRR	International Rate of Return
ISAC-2	Second Industrial Structural Adjustment Credit (World Bank)
ITDG	Intermediate Technology Development Group

IUB	Independent University of Bangladesh
IVS	International Volunteer Services
JOBS	Job Opportunities and Business Support
LoP	Life of Project
LPG	Loan Portfolio Guarantee program
MACH	Management of Aquatic Eco-systems through Community Husbandry
MCCI	Metropolitan Chamber of Commerce and Industry
ME	Micro Enterprise
MECGS	Micro Enterprise Credit Guarantee Scheme
MELA	Microenterprise Lending and Assistance
MFI	Micro Finance Institute
MGF	Matching Grant Facility (World Bank BDXDP Project)
MIDAS	Micro Industries Development Assistance and Services
MIS	Management Information System
MoA	Ministry of Agriculture
MoC	Ministry of Commerce
MoF	Ministry of Finance
MoI	Ministry of Industries
MoSW	Ministry of Women's Affairs
MoT	Ministry of Textile
NBC	New Business Creation
NBR	National Board of Revenue
NETP	National Export Training Program
NGO	Non-Government Organization
NMCP	Netherlands Management Cooperation program
NORAD	Norwegian Aid Agency
NOVIB	Netherlands Organization for International Development Cooperation
PIAG	Policy Implementation and Analysis Group
PKSF	Palli Karma Sahayak Foundation
PO	Partner Organization
PROSIKA	A National NGO
RDP	Rural Development Program
RDRS	Rangpur Dinajpur Rural Service
RMG	Ready Made Garments
SAARC	South Asian Association for Regional Co-operation
SAP	South Asia Partnership
SCI	Small and Cottage Industries
SCITI	Small and Cottage Industries Training Institute
SDC	Swiss Agency for Development and Cooperation
SEDP	Small Enterprise Development Program (DANIDA)
SEED	Small Economic Enterprise Development (Program of Proshika)
SEs	Small Enterprises
SHAKTI	A NGO
SICIS	Small Industry Credit Insurance Scheme

SME	Small and Medium Enterprises
SMME	Small Medium and Microenterprise
SOE	State-owned Enterprise
SO5	Strategic Objective 5
TA	Technical Assistance
TARD	Technical Assistance for Rural Development, a NGO
TOR	Terms of Reference
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
WEDP	Women's Entrepreneurship Development Program
WID	Women in Development
WTO	World Trade Organization

Executive Summary

1.0 Executive Summary

1.1 Purpose of the Study

The purpose of this study is to help USAID take a fresh look at potential interventions in support of small enterprise development in Bangladesh, with a view toward guiding the direction of such interventions. To that end, the study distills lessons learned from current and past enterprise development projects funded by USAID and other donors. The study also analyzes the supply and demand for business development services (BDS) in Bangladesh in order to guide the design of future related activities. The Statement of Work is included as Annex C of the report.

1.2 Organization of the Report

The Executive Summary (Section 1.0) summarizes the study methodology, discusses important elements of the context in which the study was conducted, and captures the major findings and recommendations of the study. Section 2.0, Background and Context, covers in further detail the macroeconomic, policy and regulatory environment in Bangladesh, including important statistical data. This section also outlines characteristics of the MSME sector – including an analysis of the position of women in the sector -- and provides an overview of donor-funded enterprise development activities in Bangladesh. Section 3.0 describes results and lessons learned from current and past USAID enterprise development projects in Bangladesh, including Job Opportunities and Business Support (JOBS) and Agro-based Industries and Technology Development Project – II (ATDP II), as well as a similar analysis of non-USAID donor initiatives. Section 4.0 provides an overview and comparative analysis of the various modes of supply of BDS. The section also covers issues related to market distortion caused by free or subsidized BDS, and the usefulness of alternate forms of BDS such as policy reform or trade fairs. Section 5.0 provides an overview of the demand for BDS, and responds to questions in the SOW relating to the willingness of businesses to pay for services. (Sections 4.0 and 5.0 are supplemented by four sub-reports on specific sectors identified in the SOW: training, handicrafts and textiles, leather shoes and products, and microenterprise. These are found in Annexes T, U, V and W.) Section 6.0 extracts the major findings of our assessment and makes recommendations for the future. The annexes -- in addition to the sub-reports mentioned above -- include key operational and analytic documents related to the assessment, including lists of persons interviewed, profiles of the assessment team, case studies, the business survey questionnaire used in the study, tables of tabulated study results and other key documents. For a complete list of the annexes, see Table of Contents, Volume Two.

1.3 Study Methodology

1.3.1 Clarification of Key Terms

The terms, micro, small, medium and large are subjective and vary in usage among donors and other interested parties. However, for the purposes of clarity and uniformity, we have adopted the official GOB definitions, in which size is categorized as a function of number of employees (as opposed to sales or profits), as follows:

- **Microenterprises** – one to 9 employees
- **Small enterprises** – 10 to 49 employees
- **Medium enterprises** – 50 to 99 employees
- **Large enterprises** – 100 or more employees
- **Micro, small and medium enterprises (MSME)** - This includes the range of enterprises targeted for enterprise development assistance by USAID, other donors, and the public and private sectors.
- **Business Support Services (BSS) vs. Business Development Services (BDS):**
The “Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention”¹ describes BSS as operational support and BDS as strategic support. BDS “improve the performance of the enterprise, its access to markets, and its ability to compete” and include “the wide array of non-financial services critical to the entry, survival, productivity, competitiveness, and growth of [small enterprises].”² BSS provide assistance in the maintenance of normal company operations.

1.3.2 Target Audience

This study was undertaken for the USAID/Bangladesh, Office of Enterprise Development and the report is directed to the same office.

1.3.3 Team Composition

The assessment team consisted of seven senior consultants, a project administrator, a research assistant, and a secretary. The senior consultants performed a combined total of 215 person-days of work. Profiles of the consultants appear in Annex E.

1.3.3 Study approach

Chemonics began by classifying the questions raised in the SOW into major question groups, and then divided the work into three major phases: document review and action planning; interviews and field visits; and report finalization. Responsibilities were assigned to the team members in terms of the collection, synthesis and analysis of data. The initial technical approach -- described in Annex E with an implementation timeline -- was then refined into a detailed work plan. The team’s economist formulated a field survey questionnaire (Annex F). The survey included 178 businesses based in Dhaka, Chittagong, Bogra, Rangpur, Comilla, and Khulna. In addition to the

¹ Committee of Donor Agencies for Small Enterprise Development, Washington DC, February 2001.

² Idem. P. iii

survey, two focus groups (Annex H) were also convened to further analyze business development services supply and demand. The two focus groups sessions were attended by businesses and BDS providers, with the first group attended by small enterprises (10 to 49 employees), and the second group attended by medium and large enterprises (50 or more employees). Tabulation and analysis of results was then conducted by the team leader and economist (Annex P), and sub-reports and the main report were completed based on study findings.

1.4 Background and Context

1.4.1 Slow overall growth

Bangladesh experienced steady economic growth, (4.9 % average growth rate) and less than ten percent inflation rates throughout the 1990s. While official unemployment rate statistics are unreliable, it is clear that high levels of underemployment and poverty are widespread. Economists argue that an accelerated growth rate of at least eight percent is essential to improve employment opportunities and alleviate poverty. This rate of growth will require private sector leadership, with solid government support of the enabling environment through better infrastructure and telecommunications, good governance, policy reform and improvements in the regulatory framework. Economic experts widely acknowledge that export diversification and increased industrial competitiveness will also be required to accelerate growth. Bangladesh's export base continues to be small, and may suffer further deterioration based on impending withdrawal by the U.S. of its preferential treatment under the Generalized System of Preferences (GSP) for ready-made garments, the dominant export sector.

The government's performance in promoting growth has been inconsistent. While some fiscal measures have been taken, they are significantly compromised by the small tax base and ineffective tax collection. This has led to the need for relatively high levels of government borrowing which has crowded out lending to the private sector. Continued financial losses by state-owned enterprises (SOE) add to the government's fiscal woes. Despite efforts of the World Bank, USAID, and other donors to promote reform in the financial sector, the banking sector remains weak, characterized by poor loan recovery rates, a lack of transparency and accountability, and political patronage. Parliamentary elections held in October 2001, resulting in overwhelming support of the Bangladesh Nationalist Party (BNP) and its alliance, reflected voter frustration at the government's inability to protect citizens' rights and to alleviate poverty. The success of the BNP in promoting economic growth remains to be seen.

1.4.2 Stalled Liberalization Plans

The Bangladeshi government has developed reform policies embodied in successive Industrial Policies and Five-Year Plans. Bangladesh has liberalized its economy at a faster rate than its South Asian neighbors, and policies have promoted private sector leadership in the production of goods and services. However, implementation of these plans has been very weak, due in varying degrees to institutional weakness, lack of political will and the stalling of the liberalization process in the late 1990s. The planned reduction in the role of the government has not occurred, SOE privatization has not moved forward, and important trade policy decisions have more often been made on political rather than rational economic grounds. In response, multilateral donors, including the World Bank, the International Finance Corporation (IFC), and the Asian

Development Bank (ADB), have attempted to induce structural reforms through conditions associated with their assistance. Bilateral donors, including USAID and the Department for International Development (DFID) in the United Kingdom, have likewise supported economic reform with varying degrees of success.

1.4.3 Moderate Private Sector Growth

Despite structural and policy constraints, private sector development has been significant in selected sectors. Microenterprises are a major source of non-farm employment, and NGOs have made important contributions toward increasing the availability and accessibility of credit, marketing support and other assistance. A significant remaining challenge to the microenterprise sector is to develop strong linkages to larger firms, thereby contributing to increased overall employment and growth. Small and medium enterprises (SMEs) appear to have received relatively less external assistance than their smaller and larger counterparts in terms of access to credit and business development services. Large enterprises (employing between 100 and 250 workers) have demonstrated the greatest growth potential. The best performing subsectors in recent years have included readymade garments and knitwear, agribusiness, leather products, and certain services subsectors, including private cellular telephone services. Despite diverse internal and exogenous constraints, industrial growth has averaged 7.1% per annum over the decade 1991-2000. A lack of reliable and timely industrial statistics precludes more accurate monitoring and reporting on the growth and performance of individual subsectors.

1.5 USAID Projects

USAID has been a pioneer in industrial and agribusiness SME development in Bangladesh starting with the Micro Industries Development Advisory Society (MIDAS) in 1980, when Bangladesh was emerging from a command-economy structure. USAID has continued this support in ten successive SME projects and sub-projects. In a two-pronged approach to poverty alleviation through job growth, USAID has also supported agricultural enterprise development through ATDP-I (Agro-based Industries and Technology Development Project Phase I), 1995-2000. Fifteen USAID projects are briefly reviewed in Annex K.

The belief that the private sector (primarily through SMEs) must be the engine of job creation and economic expansion remains strong. USAID's two current SME projects are JOBS (Job Opportunities and Business Support, 8/97-9/02, \$11 million) and ATDP-II (2001-2004, \$10 million plus approximately \$4 million GOB counterpart funds).

JOBS is an \$11 million project, running from 1997 to 2002, and is managed by the IRIS Center for Policy Studies at the University of Maryland. JOBS has worked to develop SMEs in selected subsectors, and microenterprises in selected regions, while simultaneously working to improve the enabling environment through policy reform. The general JOBS approach has been:

- to work on increasing access to regional, national and international markets;
- to improve access to credit through lender (bank and MFI) and borrower capacity-building and building linkages;
- to promote policy reform through the development of a secured lending law for small businesses, the promotion of electronic governance, and other efforts;

- to develop the management and production skills of microenterprises in selected regions through NGO capacity-building; and
- to develop skills of small and medium enterprises (SMEs) in selected sectors through training and direct technical assistance.

JOBS was conceived as an industrial subsector project; however, it has tended to work only with the final SME producers in selected subsectors and to do ME and policy work in separate or cross-cutting interventions.

On the other hand, ATDP-II employs a classic agribusiness subsector approach, identifying and working with the whole range of subsector constraints and opportunities. ATDP-II is a \$10 million project running from 2000 to 2005 managed by the Louis Berger Group. ATDP-II is the follow-on project to ATDP-I, which ran from 1993 to 2000 under USAID contract with IFDC. ATDP-II focuses on growing the value-added agribusiness base and improving export and other distribution capacities through information dissemination and other innovations.

1.6. Other Donors' Projects

Seven relevant SME projects of other donors and the World Bank are reviewed in Annex L. Several of these projects — Business Development Services Project-Bangladesh (BDSP-B) funded by the Swiss Agency for Development and Cooperation; Design & Technology Centre (DTC) funded by GTZ; Matching Grant Facility (MGF) funded by the World Bank; and DFID's upcoming BDS project — are of direct interest to USAID in considering its own next initiatives. The BDSP-B is an experimental BDS-market paradigm project that may yield some lessons at a time when donors are moving away from direct technical assistance (TA) to SMEs. DTC offers a supply-led demand model that USAID may wish to mimic. The MGF lesson is that BDS demand by users will only come when the user receives considerable planning guidance. DFID's planned launch of an approximately \$15 million BDS-stimulating SME project bears watching and may provide an opportunity for donor collaboration.

1.7 Major Findings and Recommendations

Major findings and recommendations of the study are summarized below.

1.7.1 Legal and Regulatory Findings and Recommendations

The GOB has failed to create a favorable enabling environment for SMEs. This is manifested in the ineffective implementation of laws, a bureaucracy that prefers to serve as a regulator and not a facilitator, inability of the government to maintain satisfactory conditions of law and order, and a lack of political will to reform non-performing publicly owned enterprises.

There is a lack of reliable, timely, and comprehensive data on the industrial sector. Compiling and maintaining a comprehensive, accessible database is imperative for a better understanding of the sector and appropriate intervention plans to assist it.

An efficient service sector can complement the manufacturing and agriculture sectors. Utilities, telecommunication, and transportation are support services on which the manufacturing sector

depends. Enhanced productivity, innovations, competitiveness leading to lower costs, improved quality, and enhanced accessibility of services would reduce the cost of doing business for the manufacturing sector.

Recommendations:

- USAID should identify and assist institutions that can facilitate reform and implementation of policies. Governmental institutions that have demonstrated interest in reform include: The Privatization Commission, The Board of Investment, and The Securities Exchange Commission. USAID should also assist business and trade associations understand and articulate the policy issues that constitute sectoral constraints.
- To improve the availability of industrial statistics, USAID should provide institutional and technical support to the Bangladesh Bureau of Statistics. Nationwide surveys of the industrial sector should also be undertaken via the private sector to provide alternate and more timely data. Surveys specifically aimed at SMEs could be supported by USAID.
- Most studies and analyses conducted in Bangladesh are focused on the manufacturing sector. Greater understanding and information on issues affecting the service sector is essential to address constraints and potential in service sector industries. USAID should support studies and analyses of service-oriented sectors including commercial and trading activities. Subsequently, technical assistance to subsectors within the service sector should be considered.

1.7.2 BDS Supply Findings and Recommendations

No exhaustive qualitative and quantitative inventory of BDS providers in Dhaka, let alone nationwide, is available. The BDS market has not developed to the point where private providers dominate. Given the strong position of GOB and donor-dominated, subsidized BDS, price distortions are present and for-profit companies have a difficult time surviving on users' fees alone. BDS clients and providers both receive confusing signals regarding market prices, quality, and availability of services. Policies to recover costs range from zero to greater than 100%. Without doubt, subsidized pricing of services will either crowd private BDS providers out of some markets (e.g., Rapport) or cause them to see the donor projects (e.g., BAS, JOBS) as their market rather than enterprises. Given the current climate in the market for BDS in Bangladesh, few people predict that BDS to MEs will be on a self-sustaining, cost recovery basis anytime soon. Some cases cited as such (computer training, skills for overseas contracts) are actually personal investments to get wage-paying jobs, not BDS to MEs.

Outside of the major metropolis, there is an irregular supply of BDS. In some cases, supply may be greater than demand due to donor-provided supply-side stimuli. In the cases where unsubsidized demand is totally relied on, supply shrinks. It also appears that the types of BDS offered by providers are not those most desired by enterprises. But the availability of highly subsidized services keeps demand at unsustainably high levels. Left to its own devices, the market would certainly offer a different mix of services.

Recommendations:

- USAID should prepare a SOW to do an inventory of BDS in Dhaka. Comparison should be made to such studies of other cities in SE Asia, such as Mumbai or Bangkok, which may provide insight concerning how BDS markets grow and become sustainable.
- A study of business culture in promising small and medium sized companies should be undertaken to identify their constraints and the BDS most needed. This should be used to formulate curriculums for top owner-managers and middle managers. An American business school could develop the courses and administer them through a corresponding Bangladeshi university. Such a component should encourage the local university to act as the “BDS provider.”
- Donors and NGOs acting as facilitators to BDS market development should encourage competition in the markets by working with providers to charge the maxim price for BDS that the end user is willing to pay and ensure that clients make payments to providers, not facilitators.
- USAID should continue to assist in developing the supply of BDS in the following ways: (1) cluster training for the subsectors in which skilled labor is required, and (2) supporting organizations that will increase training of semi-skilled labor for entry-level work in a broad range of trades. An example of the latter is the Bangladesh Rural Advancement Committee (BRAC)-planned Vocational Training Program initiative.

1.7.3 BDS Demand Findings and Recommendations

The main areas of concern among respondents to Chemonics’ enterprise survey after inadequate access to finance, were lack of knowledge in marketing, technical know-how, and quality control. Marketing assistance was the greatest need expressed by all the sizes of enterprises surveyed and by those who received JOBS-sponsored training. Although a majority of respondents expressed a need for technical training, only one-quarter had accessed it. Nor does the share of training courses on marketing attended reflect the fact that it was ranked as the greatest need by enterprises, since only 7% of the courses attended were in marketing. This finding reiterates concerns raised by earlier studies which suggest there is a mismatch in the courses most desired and those most supplied by providers.

Demand for unsubsidized BDS by SMEs is generally weak, because they undervalue the services and do not know how to evaluate or consume them. However, ninety-seven percent of the surveyed BDS users and 89% of non-users expressed a willingness to pay “something” toward the cost of business development assistance.

A 1995 Swiss Development Corporation survey indicates that while BDS is highly demanded by individual companies, their associations put more importance on membership unity and promotion of certain policy agendas.

Recommendations:

- To accurately anticipate demand for BDS, an intensive needs assessment should be done on types of BDS that are in demand, where firms are more closely monitored and information collected over a longer time period than under the rapid appraisals done to date.
- To move toward better functioning BDS markets, subsidies must be reduced and not paid directly by the facilitator. As private sector BDS providers multiply in a better functioning market, users will become more aware of the services available.
- USAID projects should work with associations to redirect their efforts to better address the real needs expressed by their members.

1.7.4 BDS Market Paradigm Projects Findings and Recommendations

The BDS market paradigm is supported by enough positive preliminary evidence as a potentially superior methodology that USAID should employ it in the context of its BDS and MSME development activities in Bangladesh. This paradigm differs from older and many current models in that its focus rests on the development of the market for BDS. Simply stated, the facilitator (often a donor, NGO or project) works with a number of BDS providers found in the market rather than selecting one or several providers, thus minimizing market distortions and creating a “level playing field” for all potential providers. Facilitators generally do not provide services directly to BDS clients, but work through local providers so as not to crowd out other providers.

The World Bank’s Matching Grant Facility (MGF) provides a demand-side model, as the BDS buyers are meant to draw up their own plans and procure their own BDS. The same is true of BDS providers that wish to upgrade their services. Both buyers and providers are given a 50% reimbursement of costs through this facility. There has been low demand for cost-sharing, believed to be in great part due to poor business planning habits of BDS users. The underutilization of the MGF program suggests that this particular cost-sharing approach to develop BDS markets may not work in Bangladesh.

GTZ’s new Design Technology Centre (DTC) offers a potential model of supply-led demand. This service will sell cutting edge product design and technology services to fiber and leather products companies and train new entrants to become BDS providers in the sector. At the end of the project, the Centre will likely belong to the Dhaka Chamber of Commerce and Industries (DCCI), whereas selling it to an entrepreneur would be more supportive of private sector BDS market growth.

The Danish International Development Agency (DANIDA) offers a supply-side product, namely highly subsidized BDS to local firms that partner Bangladeshi firms with Danish firms. While this is somewhat indicative of the general donor approach to providing subsidized BDS, this embedded form of BDS may offer an opportunity for further research.

Recommendations:

- To better identify potentially sustainable BDS markets to support, it is recommended to plan a comprehensive BDS inventory for Dhaka, Mumbai, and Bangkok, tied to comparable industrial and GDP indexes to chart sustainable BDS market growth in markets more advanced than Dhaka.
- Business planning and regular follow-up by firms are at the heart of specifying and successfully using BDS. Bangladesh SMEs and even large firms are generally poor planners. Therefore, it is highly recommended that USAID employ a methodology whereby independent management consultants assist BDS users with their business planning and identification of BDS needs. These consultants will act as intermediaries, and could receive payment from both the facilitator project and BDS client.

1.7.5 JOBS Project - Findings and Recommendations

JOBS focused on improving production and marketing systems for core enterprises within chosen subsectors, and targeted system-wide rather than sector-specific improvements in infrastructure and the policy environment. JOBS did not implement an integrated subsector approach in that it did not deal with the entire vertical market chain in selected subsectors, nor did it deal in a systematic way with factors relevant to *specific* subsectors, including financing, technology infrastructure, and the policy environment. While the JOBS approach has produced positive results (JOBS trainings between 1998 and 2001 reached over 30,000 recipients and contributed to \$33.8 million in sales growth and almost 40,000 new jobs, including over 15,000 jobs for women), it is likely that leveraged interventions based on an analysis of opportunities and constraints in specific subsectors would have produced even better results.

Subsector assistance works optimally for widespread, sustainable results when the whole subsector system of supply, demand, constraints, and opportunities is considered and interventions are prioritized. However, JOBS has worked narrowly on product-development, production, labor and market access and only with the companies turning out the final product (such as leather shoes).

Recommendations:

- JOBS activities that should be continued include:
 - Subsector work in shoes/leather products, hand looming/home textiles, electronic/electrical, and EC/ICT/IT
 - MFI/NGO/ME “forums” to develop better access to market and credit and to support entrepreneurial development
 - Passage of secured transactions law and subsequent registry establishment.
 - USAID should re-analyze the entire subsector for shoes and leather products, hand looming/home textiles, electronic/electrical, and EC/ICT/IT (i.e. the entire chain of inputs and service suppliers, markets, the dynamics between players, the policy and regulatory issues up and down the chain). These studies should be done by consultants versed in subsector survey techniques. USAID should make this information available to the follow-on project, where interventions can be planned and continued.

- Building on the approach used in JOBS, USAID should consider centering its next SME effort on an integrated subsector approach.

1.7.6 Agro-based Industries and Technology Development Project – II - Findings and Recommendations

The ATDP-II project is off to a strong start with a well-conceived, subsectoral focus methodology. ATDP-II is using an integrated subsector approach to address constraints and opportunities revealed through analysis of the whole market chain and the institutional and policy environment surrounding each subsector. The project has investigated several core subsectors (fisheries, poultry, horticulture/dairy/livestock, and grains/oil seeds) to develop interventions. ATDP-II has contributed to domestic sales increases of \$154 million and exports worth \$59 million, along with the creation of 85,000 new jobs.

Recommendations:

- To foster service provider upgrading and BDS market sustainability and to collaborate with other donor projects that bolster BDS markets, ATDP-II should conscientiously promote local service provider growth by, for example:
 - 1) involving local BDS in cutting edge technology transfer that the project arranges from abroad
 - 2) establishing the highest level possible of cost recovery from services facilitated to end users
 - 3) evolving from a methodology that works with the end user of services to one that works more with the provider of services, which would include intermediary management advice to BDS users, and
 - 4) projecting an exit strategy that will leave healthy service provider markets in place.
- With relation to the GOB/ACF-DC fund and related project components, USAID should shelter ATDP-II if it appears that the project may become slowed by bureaucratic delays.
- We recommend that USAID use the subsector approach in any future project in combination with a market BDS approach.

1.8 Recommended Future ME and SME Approaches for USAID to Consider

Since 1980, USAID has been in the vanguard of SME development in Bangladesh. It founded MIDAS and BASC, important NGO BDS providers, at a time when no substantive business development support for SMEs existed. These experiences have positioned USAID to continue as the leading innovator in microenterprise development in Bangladesh. As the next phase of projects and interventions is entered, it is recommended that USAID pursue a market oriented approach to BDS and SME development.

The advantages of the BDS market paradigm, the agreement of donors to act in ways that stimulate sustainable BDS providers and markets, and the fact that DFID will be launching a project adhering to its tenets are forceful arguments for USAID to take on an active role in the promotion

of the paradigm in its SME development initiatives. Specifically, the following recommendations are made:

1.8.1. Subsectoral SME Development

- The study team recommends that USAID have as its top priority an SME initiative subsector approach designed to utilize current best practices of subsector growth interventions and be BDS market oriented. An initiative centered on certain subsectors which JOBS has researched and worked with, namely, shoes/leather products, hand looming/home textiles, electronic/electrical, and EC/ICT/IT, would be appropriate and advantageous.

We suggest that the initiatives in these subsectors share the following characteristics:

- Treat subsectors systemically, following the ATDP-II rather than the JOBS approach
- Assist with the startup of one or more BDS providers within this framework
- Practice BDS market facilitation, such as helping the leading production firms in the sector identify and plan for their BDS needs through management advisory firms and individuals
- Consider a partnering component between Bangladeshi and US women-owned firms
- Address cross-cutting issues, such as secured transaction loans
- Include a research component that can address critical enterprise development issues.

1.8.2. Other Recommendations

- We recommend identifying and exploring the potential for collaboration with other donors on MSME subsector and cross-cutting interventions (especially with DFID as it is making the strongest entry after USAID into SME). USAID and DFID could consider “sharing” one or more subsectors, agreeing to coordinate efforts on policy research and advocacy, and information sharing.
- USAID should develop a “policy niche” in consultation with the World Bank and the Asian Development Bank.
- Access to credit continues to be the greatest need revealed by SMEs. USAID should continue efforts to identify and develop approaches to increase access to credit — whether by guarantee, plan preparation assistance, secured transaction law passage or other means.
- Potential need for management programs for senior managers (owner-managers) and mid-level management of SMEs may exist, particularly with regard to cultural change to enable owner-managers to delegate and thus dynamize company potential. A study should be undertaken to determine the needs and level of interest among top and middle management, the course offerings now on the market, and best potential U.S. and Bangladeshi universities as partners.
- A successful feature of JOBS within its subsector approach has been the training of skilled workers in the neighborhoods around factories. This type of activity should be continued in

the future by USAID within the context of a subsector support project component. There may also be an opportunity to support good non-governmental vocational training alternatives, as there continues to be a large shortfall in skilled and semi-skilled labor. USAID should undertake a study of trades training needs. This may be a study that various donors would co-fund and share.

- Following the lead of GTZ's DTC, the founding of BDS firms in such business concentrations as advertising and packaging design, IT product development, fairs and events management, and the like, to create supply-led demand, is a potentially effective way of achieving stronger, modernized BDS markets. But there is a risk of being seen to compete with BDS markets; if USAID uses this mechanism, it must be clear that the role is to lead markets forward in quality and demand by interacting with and supporting private providers. When the mission is accomplished, the BDS firm(s) should be sold out by private tender as part of the exit strategy.
- To facilitate making a transition to a BDS market-focused methodology, USAID should be open to redefining its impact indicators from the current statements of numbers of jobs created and millions of dollars sold/exported by the final producers to indicators that relate to BDS facilitator activities.
- USAID should consider BRAC's proposal for a new vocational training project. Other alternatives, such as Caritas, may also be available.
- Opportunities to promote real economic progress in gender equality become rarer as demand-side projects displace supply-side ones. USAID may wish to consider a pilot initiative along the lines of the DANIDA partnering one, but restrict it to Bangladeshi and U.S. women partners. By working with no more than one or two firms per subsector, this will not impact negatively on BDS markets, yet could create a positive demonstration effect.
- USAID should consider funding studies on critical SME enterprise development issues. These might include such issues as market and financial access, technical/production, the BDS market, skills market, and management training. The follow-on project should include a general line item, sufficiently flexible, to carry out relevant critical studies, when needed.

1.8.3. Ongoing ME Project Potential

While ME development would be subsumed into an integrated subsector approach (such as ATDP-II and as advocated herein as a follow-on to JOBS), USAID may wish to back separate ME projects to have greater IGA/ME exposure. The NGO Gardening Project, which has only 15 months to run, is a particularly appealing vehicle for ME and even some SME growth. It is now preparing to promote health and economic welfare through Village Farms. This will add a sphere of increased economic potential to the successful Village Gardens approach, and merits close consideration for continuing support. While the JOBS ME/MFI/NGO forum initiative is innovative and promising, USAID will probably want to monitor its development over the next six months before deciding if it warrants support in a future initiative.

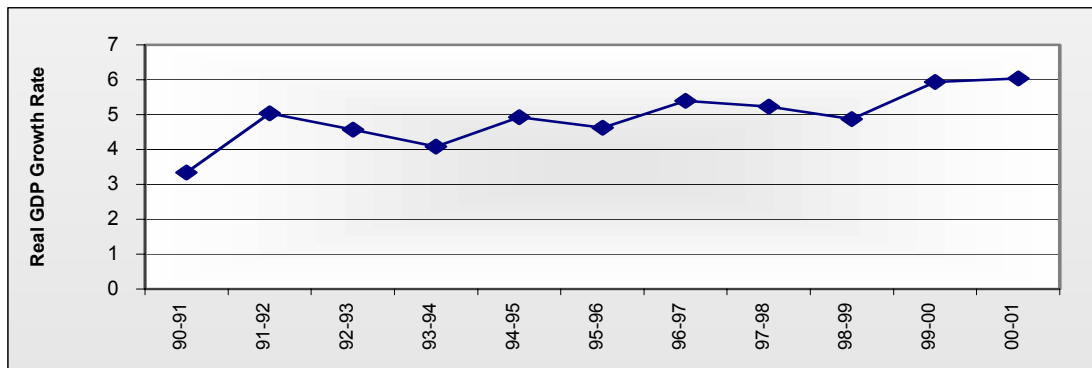
2.0 Background and Context

2.1 Macroeconomic and Policy Environments

2.1.1 GDP Growth and Inflation

Bangladesh has experienced moderate economic growth between 1990 and 2001, as represented in Figure 1, below. Real GDP growth increased to 6% in 2001 from 3.3% in 1991. On average, real GDP grew at 4.9% per year during the decade. In a regional context, Bangladesh grew at about the same pace as the Nepalese economy while growth rates in India and Sri Lanka averaged 6.1% and 5.3%, respectively.

Figure 1: Real GDP Growth Rate



Sources: National Accounts Statistics of Bangladesh (Revised Estimates, 1989-90 to 1998-99), BBS 2000, Bangladesh Economic Review 2001, MOF

The economy of Bangladesh experienced considerable variation in the inflation rate during the last decade. Inflation rates dropped to 3.4 % in FY 2000 from 8.9 % recorded in FY 1999. Inflation dropped under 3 % twice during the decade, in 1993 and 1997. For a more detailed review of the economic and infrastructural context, please refer to Annex M.

Dominant sectors. The agriculture sector peaked at 6.9 % growth in FY2000 due to the bumper crop. The sector's share of GDP dropped from 24 % in FY1992 to 19 % in FY2001. The agriculture sector labor force currently represents almost two-thirds of total employed labor and, according to Bangladesh Bureau of Statistics (BBS) 2001 estimates; the active agricultural labor force constitutes about 51 % of the active civilian labor force.

The manufacturing sector grew at 7.1 % annually during the period of 1991-2001. For large and small industry, the average annual growth rates were 7.2% and 6.8% respectively. (Note that it is unclear whether this statistic incorporates the GOB's usual categorization of large industries as those industries with more than 99 employees.) The growth rate of micro and small enterprises reached a peak in 1995-96 and since then has continued to decline. Dismal growth in that sector during FY 1998-99 might have been the result of a devastating flood. Industry share of total employment has declined since 1990. Information regarding labor force skills is not available, although GOB industrial policies have consistently emphasized labor force skills development.

2.1.2 Policy Environment

GOB policy has focused on the development of a trade and investment environment conducive to growth, as documented in successive Five-Year Plans and Industrial Policies, with the greatest emphasis on export promotion reflected in the Third and Fourth Five-Year Plans of the 1980s. However, the actual implementation of reforms outlined in those plans has been significantly limited by the contradictory, yet simultaneous, pursuit of protectionist policies. As opposed to the import-substitution policies of the previous Five-Year Plans, the current Fifth Five-Year Plan calls for accelerated trade reform through import liberalization—including reduction of tariff rates and rationalization of the tariff structure, direct export promotion measures, removal of quantitative restrictions on imports, and a flexible exchange rate policy.

Private sector growth was encouraged by the industrial policies of the 1980s through such measures as the simplification of the tax structure and procedures for foreign investment. However, the industrial sector did not succeed in achieving the envisioned targets. In the 1990s, government policy called for greater emphasis on privatization and foreign direct investment (FDI) and a corresponding reduction of the government's role in business. For a detailed review of the policy environment, refer to Annex N.

The SME policy environment. Government policies have failed to create an enabling environment for SMEs. Major regulations related to the manufacturing sector including tax regulations described in the box to the right, do not distinguish between large-scale and small-scale industries. In addition, out-of-date and vague regulations make business management a complicated and time-consuming process, and make the environment ripe for corruption. Simple processes such as company registration or electrical connections often become opportunities for graft by public officials. Poor governance is also evident in ineffective judicial and legislative bodies, a lack of a system of checks and balances, and a lack of accountability and transparency. Laws and regulations tailored specifically for the SME sector need to be designed.

Taxes. Taxes on raw materials and intermediate inputs disproportionately increase the cost of production to SMEs. While SMEs with annual turnovers of less than US\$ 30,000 must pay a 4% Turnover Tax, the Value Added Tax (VAT) places SMEs at a particular disadvantage. The VAT does not distinguish among SMEs and larger firms. SMEs in neighboring countries pay VAT at a lower rate, allowing them to produce goods at cheaper prices, and making it much harder for SMEs to price competitively against illegal imports. In addition, the informal procurement process followed by SMEs for raw materials and other inputs makes it difficult for them to determine the appropriate level of tax. Similarly, the wealth tax, paid by an individual whose net wealth exceeds approximately US\$50,000, also does not make an effective distinction between SMEs and large industries. SMEs are usually registered as sole proprietors and therefore must pay wealth taxes on their capital, while larger firms, registered as "companies," are exempt. (Bakht 1998)

The major chambers of commerce and industry are dominated by owners of large industries. Associations of large firms are comparatively successful in advocating for their members, while associations representing SMEs have little or no role in shaping policy. That said, SME associations have the potential to organize and voice SME interests, and USAID and other donors should consider ways to support these organizations as platforms for the adoption of policies and practices that better enable SME development.

2.1.3 Industrial Statistics Databases

The Bangladesh Bureau of Statistics (BBS), housed under the Ministry of Planning, is the principal source of national data on demography, health, education, as well as on various economic sectors including agriculture, industry and service. The BBS conducts large-scale surveys and also collates secondary information from various government departments; however, its efforts have been severely undermined by extensive delays in the publication of findings and the logistical difficulty of accessing raw data in Bangladesh. This section provides an overview of the usefulness of five major industrial databases and recommends interventions to improve GOB performance in providing reliable and timely industrial survey data.

2.1.3.1 The Economic Census, 1986 and 2001

The first ever economic census in Bangladesh was conducted by BBS in 1986. With assistance from USAID, BBS prepared a listing of 2.2 million non-farm business establishments categorized by sector. Annex Z provides a breakdown. The census provided a basis for subsequent industrial surveys conducted by BBS and the private sector. The census provides the only comprehensive database of business establishments available, but it is now 16 years out-of-date. Though it provided useful employment data, it did not contain financial or economic data on production, sales, or firm growth. Further, it took two years to publish the Economic Census, and was out-of-date upon publication. The next economic census is currently underway and, though it should be completed in 2002, it will not be published until 2003. This census will include data on production, sales, and raw materials, but the delay in publishing precludes timely use of the information.

2.1.3.2 The Bangladesh Census of Manufacturing Industries 1991-92

The Census of Manufacturing Industries (CMI) 1991-92 was conducted by BBS with the objective of estimating the volume of industrial production, fixed capital formation, employment, and gross value-added in manufacturing industries based on a survey of over 5,000 establishments. However, the CMI was also plagued by long publication delays, and unreliable and inconsistent data.

2.1.3.3 The National Account Statistics of Bangladesh, (revised estimates, 1989-90 to 1998-99)

The national account statistics of Bangladesh are the result of an estimation and revision exercise based on secondary data sources. National account statistics for the 1989 to 1999 period, published in December 2000, estimate gross value added by major industrial sectors. GDP estimates by expenditure components in current and constant market prices are made for such basic aggregates as private and public consumption, gross fixed capital formation by public and private sectors, and exports and imports.

2.1.3.4 Industrial Survey and Studies (ISS), 1992-93

Commissioned by USAID and the World Bank, a local private consulting firm collected data from approximately 1,300 private and public enterprises between 1992 and 1993, with the objective of estimating key economic data for the private manufacturing sector. Unlike the CMI, a structured

questionnaire was completed primarily through personal interviews. The study identifies growth trends, structural attributes, and supply side determinants of private manufacturing. The ISS, 1992-93, attempted to derive national estimates for 14 industrial subsectors. Due to the small sample size, the results of the survey precluded subsector level comparisons with the BBS-produced estimates. ISS 1992-93 did not cover the service sector or manufacturing units with fewer than ten employees. Nonetheless, because of very few alternatives, the database has been one of the most useful for enterprise development practitioners.

2.1.3.5 The Bangladesh Manufacturing Industries Survey, 1990

The Dhaka Metropolitan Chamber of Commerce and Industry (MCCI), a premier business association, conducted the Bangladesh Manufacturing Industry Survey 1990. This study used the Economic Census for developing the sampling frame, and collected data from 1,200 private and public enterprises employing 10 or more workers. Unlike the ISS 1992-93, the study did estimate national statistics for the entire manufacturing sector.

2.1.3.6 Recommendation for improved information collection and sharing

BBS' inability to collect, collate, process and print large-scale surveys on a timely basis clearly hampers economic and development planning. The donor consultative group working on enterprise development should develop a strategy for improving BBS performance. USAID and World Bank supported the ISS 1992-93 study, whose findings continue to be used extensively due to the absence of better and more recent data. A similar study with wider coverage and scope should be undertaken by USAID under an enterprise development technical assistance project.

Most of the surveys to date have focused on formal manufacturing enterprises employing 10 or more workers. Consequently, microenterprises and the service and construction sectors have been largely overlooked. Once information on Economic Census 2001 is available, a sample of enterprises with fewer than ten workers should be derived as a basis for a new survey of smaller businesses. Such an endeavor could either be launched as a discrete activity within a larger enterprise development project, or supported by USAID in collaboration with another donor agency, such as DFID.

In addition to generating these new databases, USAID should consider housing them within an independent research institution that could guarantee easy access.

2.2 Characteristics of the MSME Sector

2.2.1 Microenterprises

In Bangladesh, some interventions, such as Grameen and BRAC, have proven so successful that they have attracted practitioners who aspire to study and replicate them in other parts of the world. Though these interventions do not generally result in overcoming poverty per se, they do generally serve to assist in relieving poverty's worst "side-effects," (i.e., lack of basic nutrition and healthcare). Further, when provided such non-financial support as skills training, microenterprises have demonstrated a greater likelihood of graduating to the formal sector.

The Fifth Five-Year Plan (FFYP) 1997-2002 describes microenterprises as “a major means of financing private sector investments in rural Bangladesh” and commends the roles of micro financing institutions such as Grameen Bank, Proshika, BRAC, ASA, and MIDAS. The Plan outlines the development of a productive ME sub-sector by providing support services for its development. Among other measures, the Plan proposes to establish separate lines of credit in banks and financial institutions to facilitate ME access to formal credit, provide business advisory services through public sector institutions, and undertake skills and technology development programs. Despite these measures, the GOB does acknowledge in the Plan that “the impact of these institutions on the economy as a whole is still limited.”

Microenterprise activities in Bangladesh

Microenterprises cover Bangladesh’s industry and service sectors, with traditional links to agriculture and primary processing activities, including:

- Agriculture
- Fruit and vegetable produce
- Poultry, fish and livestock rearing
- Weaving
- Rice husking
- Petty trade/shops
- Tailoring/purchase of sewing machine
- Handicrafts/bamboos
- Cane and jute products making
- Carpentry/ plumbing/ mechanic/barber/ washing
- Puffed and fried rice, and
- Rickshaw/van.

For more detailed information on regarding Bangladesh’s microenterprise sector, please see related reports in annexes T and W.

2.2.2 Small and Medium Enterprises (SMEs)

The role of SMEs in poverty alleviation has long been recognized, especially in developing countries where the performance of large-scale, state-owned enterprises in generating employment and income has been disappointing. SMEs act as backward and forward linkages to the larger firms, and play an important role in satisfying the needs of local consumers through a wide range of services and products. Despite a severe lack of comprehensive data regarding SMEs, recent studies suggest the SME sector is composed of approximately 20,000 manufacturing firms and 10,000 service firms. In addition to Bangladesh’s traditional manufacturing sectors (*e.g.*, food and dairy, engineering, textile, leather and knitwear), the services sector has diversified and now includes, among others, security services, cyber cafés, telecenters, and computer repair firms. Service-providing SMEs, especially in the technology-based sectors, cater increasingly to the urban middle and upper-middle classes.

Employment generation and growth

In Bangladesh, SMEs have acted as support structures for firms in high growth export-oriented sectors – especially the Ready Made Garments (RMG) sector. In addition to providing inputs, SMEs also provide employment to microenterprises by outsourcing services and input deliveries. SMEs account for about 98 percent of industrial units, almost 80 percent of industrial employment and 46 percent of the industrial sector share of GDP (Sarder 2000).

Although recent experience suggests that loan recovery rates for SMEs are better than those for large enterprises, access to formal credit is a major constraint to SME development. Commercial banks and other formal financial institutions, including development financial institutions, generally prefer the low transaction costs and loan security associated with larger clients. In addition, the collateral demanded by banks tends to be out of reach of SMEs. The government has attempted to mitigate this constraint by ensuring targeted lending to SMEs, including offering more desirable loan periods and lower interest rates. The government has also issued a directive requiring that at least 5% of loan portfolios of banks target SMEs (Bakht, 1999). In 1998, the Bank

of Small Industries and Commerce (BASIC) was established to finance and provide commercial banking services to private sector small and cottage industries (SCIs). According to its charter, at least 50% of BASIC loans must go to SCIs.

The Bangladesh Bank issued directives to public and private commercial banks to issue working capital loans and standardize procedures (Bakht, 1999). The Bank established mandatory loan interest rates based on sectors, under the Financial Sector Reform Program. For instance, in 1998, the interest rate band for SMEs ranged from 8 to 13%. The Bank also promised subsidized credit rates for SME loans, but long delays in subsidy reimbursement have made the commercial banks less than enthusiastic about the program. In addition, excess demand for subsidized credit rates, as more and more borrowers enter the market, has led to credit rationing as a means of reducing demand. SMEs can take advantage of short-term (three months) loans at market rates offered by commercial banks, but these loan periods are too short for most manufacturing SMEs.

In addition to credit interventions, the GOB has offered developed industrial plots to entrepreneurs at subsidized rates. These plots are allocated to SMEs at the district level under the Industrial Estate Program of the Bangladesh Small and Cottage Industries Corporation (BSCIC). The demand for developed plots exceeds the supply in industrialized areas, while the supply exceeds the demand in more rural settings.

2.2.3 Gender Considerations in MSME Development

Although the SOW does not include specific questions related to gender, we believe that the issue should at least be noted in the context of an enterprise assessment. Equality and opportunity gaps clearly exist between men and women and statistics tell some of the story: women have a 43% literacy rate vs. men at 55%; females represent 20% of university enrollment and only 5% at vocational schools. Constraints related to their negligible decision-making roles, limited property rights, and lack of access to work and productive resources also stand in the way of opportunities for women.

Nonetheless, opportunities do exist within the MSME sector to promote the economic position of women in Bangladesh. Although this study does not recommend the design of any particular interventions, we do recommend that USAID and other donors give priority to the socioeconomic and professional growth of women in any intervention. While gender promotion has been undertaken at the microenterprise level, similar activities within the formal enterprise sector have not been undertaken. In 2001, a group of businesswomen founded the Business Women Trade Association (BWTA). It should be noted that in pursuing demand-driven interventions, implementing agencies risk losing some control over the promotion of women's and other special interests. Therefore, more innovative approaches will be needed to realize gender promotion objectives.

2.3 The BDS Market Paradigm and Enterprise Development in Bangladesh

A new market-based paradigm for the provision of business development services has emerged in recent years. The paradigm removes development agents from the transactions between BDS providers and their clients and instead focuses on working with BDS providers to improve their performance and services and expand their market. The assumption is that if services are

improved and markets are stimulated, then when the donor exits, the BDS provider will continue to operate and the businesses will continue to buy upgraded services. Therefore, desired long-term results (i.e., increased sales and jobs) will eventually follow without donor or other “outsider” interventions with the BDS end users. This approach minimizes market distortions otherwise caused by direct interventions, yet stimulates the BDS market.

The BDS market paradigm has been subject to development and experimentation since the mid-1990s and is endorsed by the Committee of Donor Agencies for Small Enterprise Development. The only current SME project operating within this paradigm in Bangladesh is Swiss Contact’s Business Development Services Programme (BDSP), funded by the Swiss Development Corporation (SDC). This project, which has shown promise in its initial three years of operation, is further reviewed in section 3.4.2.2. DFID has decided to fund a major BDS market-based project, expected to start in mid-2002, possibly in collaboration with Swiss Contact.

3.0 Enterprise Development Initiatives in Bangladesh

3.1 USAID Enterprise Development Initiatives

USAID has been a pioneering donor of agribusiness and small business development assistance in Bangladesh, with interventions beginning in 1980, as Bangladesh began to emerge from a command-economy. USAID has continued this support in ten successive projects and sub-projects. Currently, USAID assists small businesses and agribusinesses under Strategic Objective 5 (SO5) of the Mission Results Framework (revised in November 2001), through the Job Opportunities and Business Support (JOBS) program and the Agro-based Industries and Technology Development Project (ATDP-II). Under the revised SO5, JOBS and ATDP-II aim for the following intermediate results (IRs): more market-oriented policies, laws and regulations adopted (IR 5.1); stronger business support institutions established (IR 5.2) and improved performance of USAID-assisted enterprises in target sectors (IR 5.3). A number of other projects, including MACH, ICLARM and NGO Gardening, also provide support to agribusiness and small business development, though their primary focus is to promote environmental and nutritional objectives.

In this section, we note results and lessons learned from these projects, and give specific recommendations for the future. Refer to Annex K for a detailed listing of related USAID projects beginning in 1988.

3.2 JOBS: Lessons Learned and Recommendations

JOBS is an \$11 million project, running from 1997 to 2002, and is managed by the IRIS Center for Policy Studies at the University of Maryland. With a staff of approximately 45 local employees, three expatriate staff, and a number of short-term trainers and consultants, JOBS has worked to develop SMEs in selected subsectors, and microenterprises in selected regions, while simultaneously working to improve the enabling environment through policy reform. The general JOBS approach has been:

- to work on increasing access to regional, national and international markets
- to improve access to credit through lender (bank and MFI) and borrower capacity-building and building linkages

- to promote policy reform through the development of a secured lending law for small businesses, the promotion of electronic governance, and other efforts
- to develop the management and production skills of microenterprises in selected regions through NGO capacity-building
- To develop skills of small and medium enterprises (SMEs) in selected sectors through training and direct technical assistance.

JOBS training activities between 1998 and 2001 reached over 30,000 recipients and contributed to \$33.8 million in sales growth and almost 40,000 new jobs, including over 15,000 jobs for women. Results are summarized in Annex I. Lessons learned from JOBS and corresponding recommendations are discussed below.

3.2.1 Use an Integrated Subsector Approach

JOBS targeted improved production and marketing systems for core enterprises within chosen subsectors, and targeted system-wide - instead of sector-specific - improvements in infrastructure and the policy environment. While this approach appears to have produced positive results (measured by reported increases in sales, exports and jobs in target subsectors), it is likely that leveraged interventions based on an analysis of opportunities and constraints in specific subsectors would have produced even better ones. In “A Sector Approach to Enterprise Development” (Action for Enterprise 1999), Frank Lusby explains -- and a number of studies have revealed -- that this is because enterprises operating in different industries tend to vary significantly in their specific constraints and needs. (The paper offers the example of a poultry farmer who must compete against subsidized imports from Europe, while a clothing manufacturer faces the very different constraint of middlemen who use political connections to win major government contracts and then subcontract for low wages.)

JOBS did not implement an integrated subsector approach in that it did not deal with the entire vertical market chain in targeted subsectors, nor did it deal in a systematic way with factors relevant to *specific* targeted subsectors, including financing, technology infrastructure, and the policy environment. The basic structure of JOBS, it appears, would have lent itself to such an approach. Building on this approach, USAID should consider centering its next SME effort on an integrated subsector approach. DFID is planning a major (\$10-\$16 million) SME project focused on BDS market development (discussed below) combined with a subsector approach. This fortuitous timing will be particularly conducive to donor collaboration and coordination, and USAID should take advantage of the opportunity.

3.2.2 Combine the Subsector Approach with the BDS Market Paradigm for Maximum Sustainability

For much of the life of the JOBS project, no payment for BDS services by the ultimate beneficiaries, or even by NGO partners, was required. In the past year, however, JOBS has started to collect fees and now claims to be covering 30% of direct costs for BDS delivery. The current chief of party states that all training programs now have increasing cost recovery elements built in. In addition, as part of its final “exit strategy,” JOBS is producing new business training on CD-ROMS to be passed on to NGO clients and other interested NGOs and donors. While these are commendable steps toward sustainability and a market approach to BDS, we recommend that

USAID - in any follow-on project - implement a systematic market-based approach, to ensure that BDS supply and demand is sustainable and that donors minimize the market distortions that might otherwise result from their interventions. Such a system promotes subsector increases in sales and jobs while simultaneously strengthening markets for BDS and the quality of BDS providers.

We recommend that USAID integrate the BDS market approach with the subsector approach described above. In a presentation at the 2001 BDS Seminar in Turin, Italy, entitled “The AFE Experience in Mali: Combining Subsector Analysis and BDS Market Development,” Frank Lusby provides a summary of the basic steps in the design of a program combining the two approaches:

1. Analyze subsector constraints and opportunities (i.e., perform subsector analysis)
2. Identify BDS that respond to these constraints and opportunities
3. Assess the market for these targeted BDS
4. Select an intervention strategy to develop the market for the targeted BDS.

The importance of the final three steps is underscored by the experience of the World Bank’s Matching Grant Facility (MGF), wherein beneficiary firms were left to their own devices in identifying BDS needs and accessing services. This pure market approach, without subsidization of market development activities or of BDS capacity-building activities, resulted in extremely weak market demand for BDS, and in the end, MGF decided to provide market development assistance.

3.2.3 Choose Subsectors Based on Prospects for Sales, Export, Employment and Value Added

We recommend that a follow-on initiative -- using the subsector approach described above -- focus on the leather products, home textiles, electrical/electronics and EC/ICT subsectors. These sectors have high potential for growth in sales, employment, export and value added. Rationale for these specific subsector choices is presented below, along with a recommendation concerning additional subsector analyses to be carried out.

3.2.3.1 Leather Products

While JOBS has treated leather shoes as a separate subsector from other leather products, we recommend uniting them under the same subsector, based on the raw material, as opposed to the end product. This is because the majority of opportunities and constraints of firms producing these products are shared and, therefore, interventions that apply to the range of firms working with leather will have the greatest and most cost-effective impact. This subsector already represents the fourth largest export category in Bangladesh and also has good domestic sales potential. We also recommend support of this subsector because of its growth potential based on an abundance of relatively high quality raw material. The subsector requires skilled labor and therefore also offers the opportunity for relatively good wages. For further details on the subsector and its constraints and potential, see the related sub-report in Annex V.

With respect to USAID’s and others’ concerns about the pollution created by tanneries, specifically the disposal of toxic effluents into the Buriganga River at Hazaribagh, Dhaka, we recommend that, if USAID continues work in this subsector, it work toward creative and practical solutions to this problem. These may include facilitation of the movement of these tanneries to a

dedicated industrial area to allow for the requisite leeching and aeration ponds and processes. USAID should consider facilitating access to soft credit for this relocation.

3.2.3.2 Home Textiles/Hand-Looming

Although JOBS originally chose to work in the hand-loomed subsector, its work has concentrated on home textiles. We recommend that these two areas be united into one subsector, using the same rationale for leather products. Home textiles and hand-loomed offer great potential for domestic sales, value added production, and skilled employment for women. There are an estimated 8,962 handloom establishments³ with 10 or more employees. See Annex U for a sub-report on the Textiles and Handicrafts subsectors.

3.2.3.3 Electric/Electronics

JOBS conducted a subsector analysis of the electric/electronics subsector in 2001. Though it was by then too late in the life of JOBS for a systematic treatment of the subsector, JOBS had already done some work in the sector through the training of skilled workers in winding transformers. USAID should build on this start. Although the subsector has little to offer in terms of potential value added, it does have the potential of replicating the successful ready-made garments sector model by providing huge levels of semi-skilled employment in the mass assembly of predominantly imported parts – in this case, plastic and metal. The domestic market would be the first target for sales and, as quality improved, there would be a strong potential for export to foreign markets. While this subsector is attractive in terms of gross employment potential, USAID should bear in mind that interventions will require the development of a more technology-oriented labor culture.

3.2.3.4 EC/ICT

The EC/ICT subsector includes electronic commerce (“e-commerce”), database, software and other information technology services. While the GOB has identified EC/ICT as a “thrust sector,” it is unclear what, if anything, such identification will mean in terms of tangible government support of the subsector. JOBS has already produced positive results in the EC/ICT subsector through the sponsorship of an internet portal offering access to GOB forms and other export information. This subsector offers the opportunity for export diversification through growth of a non-traditional export with a growing international market. In addition, the sector offers high value-added potential and the prospect of employment of skilled labor -- including women -- at high wages. In addition, the sector offers some potential in terms of growth in domestic sales.

3.2.3.5 Conduct New Sub-Sector Analyses to Confirm Choices

We recommend that USAID conduct subsector analyses of the leather and home textiles/hand-loomed sectors prior to start-up of its follow-on project. Both sectors have undergone changes since last studied in 1998, so such a study would confirm the choice of the two sub-sectors while also preventing delays in implementation of the larger follow-on project. Since the electrical/electronics subsector is in its infancy and, therefore, carries greater risk than other subsectors, the study carried out by JOBS in early 2001 bears updating. For the EC/ICT

³ BBS, CMI for 1992-93, 3/97, p. 8.

subsector, USAID/Bangladesh’s upcoming work on identifying “Elements of a national strategy for development of an IT-enabled services sector in Bangladesh” could form the basis for the needed subsector analysis and planning.

3.2.4 Maintain High Quality Standards of JOBS Training and Market and Product Development Activities

We found that JOBS-assisted training has been of high quality and has responded well to client-identified needs. The training has included: entrepreneurship and management training; training of trainers (ToT) provided to regional NGO and MFI partners; skills training for footwear, leather products, and home textiles sectors; and technical training for milk producers. We recommend that any follow-on project maintain the high quality standards set by JOBS-sponsored training. In addition, JOBS’ leadership in rationalization of production processes, particularly in the cane furniture and milk subsectors, has led to positive results in terms of market strengthening and net increases in sales. For example, JOBS reports that milk producers have enjoyed up to 30% increases in income due to the practical, value-adding innovation of skimming cream for separate sale. USAID should maintain the same high-quality training and market development activities, building on elements of the subsector approach already apparent in JOBS.

3.2.5 Maintain High Quality Standards of JOBS Capacity-Building Activities

While JOBS’ efforts to collaborate with various regional chambers of commerce has so far been disappointing, an apparent success has been its work with NGOs and MFIs to increase their capacity to provide value-adding support to enterprises in Bogra, Rangpur, and Chittagong. Partner MFIs and NGOs have included Buro Tangail, TMSS, Shakti, Action Aid, and Helen Keller/NGNESP. In addition, JOBS has conducted applied field research to develop a strategy for organizing NGOs and MFIs and their constituents into associations to address constraints in productivity, marketing, and finance. In its final year, JOBS has set the ambitious goal of contributing to the creation of 89 such associations. These innovative and dynamic efforts should be continued in any future USAID interventions as important potential vehicles for enterprise development and the development of BDS supply and demand.

3.2.6 Build on JOBS’ Work in Creating Credit Linkages

JOBS has undertaken several initiatives to increase access to credit. For example, a “bring SMEs to the bank” campaign was initiated whereby the project “packaged” its clients’ loan applications and introduced them to lenders. This approach did not succeed in general because most clients introduced were not “credit-ready.” However, through USAID’s Loan Guarantee Portfolio project, JOBS has recently linked clients to credit at Prime Bank. In addition, JOBS has had some success in persuading commercial banks to consider microenterprises in rural markets and to make loans through subsidiary MFIs. USAID should continue to build on these efforts, while continuously addressing the need to build the creditworthiness of potential borrowers.

3.2.7 Build on JOBS Policy Reform Initiatives in IT and Secured Lending -- and Set Practical Goals

It is significant that JOBS did not build on its involvement in the shoe, leather products, home textiles, handicrafts, electrical, and other subsectors to identify related policy, legal and regulatory constraints. For example, JOBS might have looked at the possibility of reducing punitive local sales taxes in the leather subsector. (See Annex V, “A Report on Leather Footwear and Products Sub-sector” for more details on this subsector.) JOBS has taken on an important role in research, networking with stakeholders, and developing e-commerce (EC) and Information and Communications Technology (ICT) infrastructure, through the placement of GOB forms on the Internet, dissemination of EC/ICT policy-making information, and the establishment of an E-Commerce Internet Pavilion. In short order, JOBS has distinguished itself as a major provider of IT assistance to promote commerce. USAID should support future initiatives that build on these efforts.

In addition to its IT activities, JOBS has concentrated resources to research, draft and promote enactment of a new secured lending law. With an ultimately unsuccessful campaign to get the draft law passed between January and August 2001, efforts to gain support for the law must begin again within the framework of the new government that took office in October. In addition to gaining government support, support from the commercial banking sector is essential. With JOBS now nearing its end, the future of the law is uncertain. At this point, there are indications that the Asian Development Bank may be ready to “carry the torch.” Passage of the secured lending law has enormous potential value in expanding the loan market for small businesses. USAID, in collaboration with other donors and stakeholders, should see this effort through. In addition, we recommend that USAID ensure it has critical support from key stakeholders in the government and in the private sector prior to engaging in any other major policy reform efforts. This will prevent waste of valuable resources and efforts.

3.3 ATDP II – Lessons Learned and Recommendations

The Agro-based Industries and Technology Development Project-II (ATDP-II) is a \$10 million project running from 2000 to 2005 managed by the Louis Berger Group. ATDP-II is the follow-on project to ATDP-I, which ran from 1993 to 2000 under USAID contract with IFDC. ATDP-II focuses on growing the value-added agribusiness base and improving export and other distribution capacities through information dissemination and other innovations. This section looks at lessons learned from ATDP-II and offers corresponding recommendations.

3.3.1 Incorporate ATDP-II SubSector Approach Model

ATDP-II is using an integrated subsector approach to address constraints and opportunities revealed through analysis of the whole market chain and the institutional and policy environment surrounding each subsector. The project has investigated five core subsectors (fisheries, poultry,

The Shrimp Sector -- A few years ago, Bangladeshi shrimp producers rushed to become certified for Hazardous Analysis at Critical Control Points (HACCP) after their product was banned for import to the European Union. Since then, HACCP compliance has been tenuous, and left the sector in danger. ATDP-II has begun working with shrimp producers to re-establish HACCP procedures, working up and down the vertical supply chain to the raw product supplier and the fry supplier, in order to establish Bangladesh as a supplier of high quality shrimp. ATDP-II is now working with the Bangladesh Frozen Foods Exporters Associations to establish a “Quality Seal” program for shrimp.

horticulture/dairy/livestock, and grains/oil seeds) to develop interventions. ATDP-II has contributed to domestic sales increases of \$154 million and exports worth \$59 million, along with the creation of 85,000 new jobs. We recommend that USAID use this subsector approach in any future project in combination with a market BDS approach, as set forth above in Section 3.1.

3.3.2 Follow ATDP-II Model for Rapid Start-up

ATDP-II began in late February 2001. By November 2001, the project had already completed subsectoral surveys and identified important policy issues, carried out detailed technical studies, opened branch offices, accessed GOB funding, and initiated work with a number of client entrepreneurs and associations. We recommend that any future USAID project implement a similar work plan in order to ensure rapid achievement of project results.

3.3.3 “Work with Winners” Under Cost-Sharing Contracts

ATDP-II has entered into innovative cost-sharing contracts with its clients. These contracts ensure a serious and fruitful relationship in which the project’s and its clients’ mutual obligations are clear. This unique approach serves to “weed out” clients that are not serious about creating growth, and allows the project to concentrate on working with winners. In addition, contracts call for monitoring of results in order to share success stories and capitalize on “the demonstration effect.”

3.3.4 Develop Sustainable BDS Market

Development of a financially viable local BDS market does not appear to be a primary concern to ATDP-II at this time. A first step to achieve this is for the project to make a review of the providers and to bring them into learning contact with the international experts that the project brings into the country.

3.4 Other Current USAID Projects – Lessons Learned

The USAID-funded \$2 million Loan Portfolio Guarantee Project, running from 2000 to 2005, currently operates through three commercial banks and is in the early stages of loan disbursement. By September 2001, two of the three participating banks had made 21 loans totaling nearly \$500,000. This activity responds to enterprise complaints that access to credit is the number one constraint to business growth. USAID should continue to seek out practical approaches to increase access to credit through loan guarantees, guaranteed transaction laws that make loaning less risky for banks, and soft loan funds for target sectors.

The \$6.3 million NGO Gardening Project, running from 1997 through 2003, addresses nutritional short-falls through the development of village nurseries, and reports having positively affected nutrition levels of 900,000 families in Bangladesh. The project is now also beginning to promote village farming activities. USAID should continue to look for creative ways to support projects that address health and enterprise development goals. For a detailed listing of other USAID projects and results, please see Annex K.

3.5 Other Enterprise Development Initiatives

3.5.1 GOB Institutionalized Support

Various ministries, government departments, and government organizations provide support to SMEs. The sector receives support directly or indirectly from the following ministries: Ministry of Women & Children Affairs, the Ministry of Youth, the Ministry of Industries, and the Ministry of Local Government, Rural Development and Co-operatives. In addition, several public sector agencies are also actively involved in SME development. They include the Bangladesh Small & Cottage Industries Corporation (BSCIC), the Bangladesh Management Development Center (BMDC), the Bangladesh Rural Development Board (BRDB), the Bureau of Manpower, Employment & Training (BMET) and the Department of Youth Development (DYD).

3.5.1.1 Bangladesh Small and Cottage Industries Corporation (BSCIC) offers a number of facilities to entrepreneurs including credit (under its WEDP department), training, raw materials supply, design development and marketing facilities to its clientele. Its training facilities for SMEs are offered largely through the Bangladesh Small and Cottage Industries Training Institute (SCITI), established in 1984. It also undertakes a number of development projects in collaboration with donor agencies such as USAID and the ILO. BSCIC creates SME establishment opportunities at the district level through its Industrial Estate Program (IEP). Under the project, developed industrial plots are allotted to entrepreneurs at subsidized rates, through a district-level Land Allotment Committee, or through the Head Office (for larger industrial plots). Entrepreneurs are also given access to sales centers. There were 62 Industrial Estates in Bangladesh in September 2000.

3.5.1.2 Bangladesh Institute of Management (BIM) is an autonomous organization under the Ministry of Industries. Its main objective is to develop and improve the managerial skill of entrepreneurs.

3.5.1.3 The Bangladesh Rural Development Board (BRDB) is committed to entrepreneurship development in the rural sector. It specializes in the provision of needs-based training on skill development and credit.

3.5.1.4 The Bureau of Manpower, Employment and Training (BMET), in association with the Agrani Bank, runs a microenterprise development scheme. In addition, BMET, in association with Sonali Bank, has a credit program for landless people. BMET also has programs for identifying potential entrepreneurs, providing assistance and training in the formation of entrepreneurial groups.

3.5.1.5 The Department of Youth Development (DYD) is aimed largely at poor unemployed youth in both rural and urban areas. DYD provides training, technical assistance, continuous counseling and guidance, business information, infrastructural support and credit. Training is provided in various trades and Income Generating Activities (IGA), such as livestock, poultry, pisciculture, IT-related training, and repair of electrical equipment, electrical and house-wiring, refrigeration and air-conditioning.

3.5.2 SME Projects financed by Other Donors

The intention of this section is to briefly review other ongoing SME projects and to provide findings that may prove valuable to USAID in considering its next enterprise development initiatives.

For condensed information, please refer to table of Non-USAID SME Projects, Annex L.

3.5.2.1 GTZ (BAS and DTC)

Description. GTZ has two SME projects and an ME non-financial support project currently underway.

BAS (Business Advisory Service) is a 6-year export-promotion project that has less than a year to run. It operates from within the DCCI (Dhaka Chamber of Commerce and Industry, the principal chamber of commerce for SMEs) and has several components: 1) Information (publications, procurement enquiries, matchmaking with German companies, etc.); 2) training (about 40 short courses p.a. with 1,000 participants); and 3) direct technical assistance.

Design and Technology Centre (DTC) is a recently (5/01) launched service in the Dhaka suburb of Banani. It is also affiliated with the DCCI. Its aim is to provide design and production services to SMEs in fiber and leather, and at the same time bolstering the quality, competitiveness and the market for local service providers.

Observations. BAS has certain similarities to JOBS in that it has supported some SME development (including the shoe sector) through TA and has concentrated on training. Unlike JOBS, it has operated within the DCCI. Like JOBS, BAS is a supply-side project. In its training program, it has attempted to build up its cost recovery so that when the project ends in January 2002, the new entity formed within the DCCI, the Dhaka Business Institute (DBI), will be self-sustaining.

BAS predated JOBS' start-up by two years, and its cost recovery from training has been somewhat negatively impacted by JOBS' free course offerings. Nonetheless, the courses offered have not greatly overlapped, so the impact has been negligible.

The Design and Technology Centre (DTC) has the potential of being an important facilitator in BDS if it nurtures market and provider growth and eventually sells itself to the private sector.

Lessons Learned/Implications for USAID. Even though the DCCI is the premier SME chamber in Dhaka, it is still subject to the internal politics common to chambers around the world. Thus projects located there may be somewhat impeded in their growth and achievement of their mandate. It may be difficult for the BAS-founded DBI to become financially self-sustaining by the time GTZ support ends.

Development of the DTC bears following closely by USAID. Application of its concepts in BDS facilitation may provide some lessons for ATPD-II and/or a new USAID SME development project. USAID may want to support a pilot project in, for instance, providing services to

aquaculture, agriculture, and/or advertising and packaging design. A project (or projects) might be established to support industry by providing high-quality technologies to local private service providers. At the end of, say, a five-year period it could be sold to a private sector buyer via tender. This would help guarantee its sustainability.

3.5.2.2 Swiss Development Corporation (SDC)

Description. SwissContact operates the SDC-financed BDSP-B (Business Services Programme, Bangladesh), 1998-2002, the only BDS market paradigm project on the ground in Bangladesh. Its total annual budget is around \$1 million.

Observations. This is an innovative, experimental project of applied research, pushing BDS market paradigm theory into practice. It works with an evolving and revolving portfolio of up to 24 business service providers, in legal, e-commerce, software, advertising, and the like. Though early on they limited their support activities to product development and marketing, experience has shown that they must assist in the organizational development of some clients. The BDSP does not work with business training providers, as most training providers are heavily supported by donors.

Lessons learned/Implications for USAID. While this project is adding to the understanding of how to best operate BDS projects and analyze their success, it may be premature to reliably predict success of the model for a large, multi-sector initiative. However, its logic and its possible payoff in creating long-term support service sustainability suggest that this type of project should be supported and expanded. DFID believes that it can be up-scaled successfully, and is in discussions with SDC to determine whether BDSP-B can be the project management unit for a large (\$12-\$15 million) DFID-led, possibly multi-donor, BDS project currently under planning. In the interest of supporting this experiment and assisting it to have the best possible chance of success, USAID should also work in the development of BDS markets.

3.5.2.3 World Bank / Matching Grant Facility (MGF)

Description. The Bangladesh Export Diversification Project (BDXDP) is a 3-year, \$25 million, 4-component project running from mid-1999 to mid-2002. It is financed by the IDA facility of the World Bank, through the Ministry of Commerce. The first three components are the Project Coordinating Unit, which both coordinates and commissions studies on constraints and opportunities for exports; the Tariff component; and the Customs Modernization component. The fourth component is the Matching Grant Facility (MGF). The MGF has \$12 million to provide 50% reimbursement to export-oriented firms, their associations and service providers for a wide range of BDS plus travel costs. The BDS can be in company/institutional development, product development, production efficiency and market access. The client makes his own selection of service provider and, thus, MGF is a demand-side mechanism that even-handedly encourages eligible businesses and institutions to increase their use of BDS.

Observations. The MGF, now 27 months into a 3-year project, has not generated much demand. Disbursements at the end of year two were only \$1.5 million, reflecting a serious lack of demand. This is partly due to poor company planning which, if employed, can generate a more intensive use of business development services. It is possible that the project may be extended at least 6

additional months to allow it to increase disbursements. DFID and the ADB may be interested in supporting a further extension of the MGF.

Lessons learned / implications for USAID. A matching grant facility is a demand-side mechanism that leaves the choice of service supplier to the client. In this respect, it is an extremely attractive development approach. In practice, a matching grant facility manager must exercise careful due diligence in approving service agreements and in accepting proof of compliance and payments. In the final analysis, it is impossible to guarantee fully honest reimbursement transactions, particularly due to possible user-service provider collusion. The inevitable result is “leakage.” In a well-administered facility such leakage should not be more than 5% or so on the average and, therefore, is not a major cost factor. However, USAID typically cannot tolerate such levels of “leakage” and this approach is not, therefore, recommended for USAID use.

The lack of demand for this program is highly significant to USAID or a donor contemplating a BDS-focused SME development project in Bangladesh. The lack of demand reflects a lack of strategic planning skills and low value placed on business development services by companies in Bangladesh. It is also significant that the MGF deals with large as well as SME firms, as the large firms consume more outsourced business development services. The poor performance may indicate the difficulty in trying to grow BDS markets with a “hands-off” methodology.

3.5.2.4 DANIDA

Description. The DANIDA “Business Cooperation with Danish Companies” project is operated in Bangladesh and 10 other countries in Asia, Africa and Latin America. This is a business linkage project that encourages partnering of Danish firms with local host country companies. At this time the project has created 10 matches between Danish and Bangladeshi companies. This project covers some costs at a 90% level and others at 100%, and in some cases makes loans on equipment and set-up. (Please refer to Annex S for a full description of the DANIDA private sector development program.)

Observations. This is strictly a supply-side methodology that works on the basis of the demonstration effects, which encourage Bangladesh companies to use this form of BDS. Companies entering these relationships will be subjected to an environmental agenda.

Lessons learned / implications for USAID. This methodology might be considered by USAID where supply-side incentives will work to advance certain agendas, e.g. women in SMEs, environmental protection, development of new subsectors (e.g. software), and the like.

3.5.2.5 EC

Description. The TIPS project (\$2.7 million, 1998-2002), is housed at the DCCI as is the GTZ-funded BAS project. Its focus is directed at giving women entrepreneurs training and access to the markets of the EU.

Observations. This project has reportedly not achieved much impact in fulfilling its objectives.

Lessons learned / implications for USAID. Like the DANIDA supply-side model, this one also has promise for use by USAID, if directed primarily at something like woman entrepreneurship training and market access, rather than establishing what turns out to be a complex relationship with a foreign (Danish, U.S.) company.

3.5.2.6 CIDA/DFID

Description. CIDA (commitment \$C5 million) and DFID (commitment \$C10 million) in collaboration with the World Bank have been co-funding the Infrastructure Investment Facilitation Centre (IIFC), each with a portfolio of infrastructure projects (e.g. CIDA: oil, gas, telecoms; DFID: transport, power). CIDA/DFID pay the costs of studies done to encourage investment in a privatized industry or service. The objective is that feasibility studies that go on to a financing stage will receive soft loans from the World Bank.

Observations. A number of studies have been done, and the donors pay 100% of the costs through their respective contracted consulting firms (CBIC and KPMG). No project, however, has yet been successful, primarily due to the GOB's resistance to the privatization of state-owned enterprises.

Lessons learned / implications for USAID. If this government relents on the long-held GOB stance and seriously supports the privatization of SOEs, such a project could be very attractive for USAID, possibly with the added benefit of favorable contract consequences for American companies. Unfortunately, GOB's recent public pronouncements do not bode well.⁴ Further, such activities are usually undertaken by the U.S. Trade and Development Administration, rather than USAID.

3.5.3 Projects Planned by Other Donors

3.5.3.1 DFID

Description. As mentioned, DFID has prepared a substantial new SME BDS project valued at \$12-\$15 million. The SME BDS project will have a subsectoral orientation, and the designers are tentatively looking at leather products/ footwear, plastics, specialized garments, electrical products, light engineering, and agro-processing. The project will adhere to the BDS paradigm and will address policy, technology and other sector-wide issues through trade associations.

Observations. DFID intends to initiate the project around May 2002, with the SDC/SwissContact's BDSP-B as the project management unit. DFID will make a major contribution in promoting SME growth through the BDS paradigm.

Implications for USAID. USAID is involved in some five subsectors each in the JOBS and ATDP-II projects (see 3.1 and 3.2). USAID and DFID will need to collaborate and share information to avoid duplication of effort, as DFID is interested in some of the same subsectors in which USAID is operating.

⁴ Daily Star, 29 November 2001. Declaration at an ADB workshop in which the need for privatisation of SOEs was raised. The Commerce Minister advocated selling SOEs and the Minister of Industry declared "... it is not easy to sell SOEs at throwaway prices and put the workers on the streets."

As USAID progresses with ATDP-II and also toward a post-JOBS non-agribusiness subsector development project, the DFID experience in using a strictly BDS-paradigm approach bears watching. USAID projects should be based on an approach working with BDS providers within selected subsectors to demonstrate invigorated performance and attract new clients. Depending on the agreement for collaboration, the USAID project in a given subsector could be involved in helping end users to plan, scope their BDS needs and improve the BDS market while the DFID project might handle the BDS interface. The objective of the interface with the BDS providers would be to both improve service offerings and market demand for them. Subsidies would likely be required to encourage demand growth.

3.5.3.2 CIDA

Description. CIDA's new private sector stimulation project is PRISM, which will fund studies on technological and policy impediments of up to C\$100,000 each, totally at CIDA's cost. The study contractor is TECSULT International Ltd together with the Canadian Manufacturers Association and has a total funding of \$C2 million.

Implications for USAID. This project may provide a model for the allocation of funds within a future USAID initiative. It could provide a defined yet flexible vehicle to address enterprise development constraints at opportune moments.

4.0 Analysis of BDS Supply

4.1 Overview of the Supply of BDS

The terms BSS and BDS supply imply a wide range of technical, managerial and strategic non-financial services that help companies operate and grow. Sometimes these services are provided as part of the purchase of equipment (e.g. training on machinery or computers). As established above (See Definitions 1.3.1), BSS encompasses operational support (e.g. machinery repair, bookkeeping) for the everyday activities of a firm, while BDS must contain an element that will help the firm advance to a higher level of operations (e.g. strategic planning or product development). In general, BSS purveyors recognize demand and provide their services, with little or no support. Notable examples in Dhaka are courier services, ISPs, and computer training and repair. On the other hand, BDS providers have required financial or other incentives to have their services perceived as valuable and acceptable to SMEs. This may stem from BSS being perceived as necessary for survival, while BDS appear optional. While some services are difficult to define as to whether they are BSS or BDS in a given context, for the central purposes of this study, which is to advise USAID on appropriate SME development initiatives to consider, the services described below are exclusively BDS.

One obstacle to understanding the supply of BDS is that no exhaustive listing of BDS providers in Bangladesh, or even Dhaka, has been made. Different SME projects (e.g. MGF, BAS, and JOBS) have developed partial lists for their purposes; however, every time a new study is done considerable time and effort go into compiling such a new list. The SwissContact project has made a survey of both BSS and BDS in Dhaka, Bogra and Mirpur. Annex R, assembled by our

training consultant B. Nath, with assistance from the ME consultant, S.M. Rahman provides an updated version.

Because this information is fundamental to improve support to SMEs, USAID should consider supporting a nationwide study of BDS. A possible collaborator might be DFID. It would be particularly useful if this were done so as to provide comparative analysis from other countries on similar development paths, e.g. India, Thailand or Malaysia. Common cross-indexes (e.g. GDP, industrial product) would allow the SME development practitioner to determine the status of BDS growth in economies one or two steps ahead of Bangladesh. This information could be used to identify BDS candidates most likely to grow and become sustainable. Such BDS analyses may already exist within DFID or USAID in other countries and could be obtained.

Regarding the development of BDS supply, the services have been offered either for free or on a highly subsidized basis for a long time. As a supply-side instrument to assist the growth of SMEs, there have been many versions and many applications over the years, as documented in several team consultant sub-reports (Annex T by B. Nath, Annex W by S.M. Rahman, Annex U by M.R. Chowdhury and Annex V by Azim Syed and G. Kabir). This presents a complex development challenge.

JOBS' previously free to highly subsidized courses and workshops may have impeded the development of a market for these services. Subsequent changes have been implemented. For example, in its training of shoe factory workers, JOBS received cost contributions from the shoe companies, a positive step toward establishing a value for the training. Previously, due to the lack of willingness and ability to pay for such services, the needed training would not have been provided. However, given the manner in which JOBS has adjusted its program, both the supply and demand for on-the-job training at various shoe factories was generated.

Every year there is a major shortfall in skilled and unskilled labor ready for the job market, as noted in section 2.1. For shoe production alone, JOBS has estimated that 90,000 new skilled workers will be required over the next 10 years. This is an activity that could be served by unsubsidized, private sector trainers for many years to come. So far, however, the companies have been unwilling to pay to have these workers trained. Donors can make effective supply-side contributions that will help Bangladesh SMEs be more competitive at home and in global markets. MF: There are two options for USAID to continue assisting in this area: (1) cluster training for the subsectors in which skilled labor is required, (2) supporting an NGO that will increase training of semi-skilled labor for entry-level work in a broad range of trades. An example of the latter is the BRAC-planned Vocational Training Program initiative, which is described in Annex J.

At the high end of training for middle and top business management, we find a much improved supply with the founding of new academic business institutions since the mid-90s, notably the Independent University of Bangladesh (IUB) and North-South University. Within the time limits of this study, the team has not been able to establish if this improved supply has yet begun to impact on the quality of management practices in the country. North-South University did have a program with the University of Pennsylvania in the recent past. More of this needs to be done.

Owner-managers in Bangladesh tend to be highly authoritarian, which may limit a company's expansion. Further, it is also noted that middle-upper management tends to be limited technically. A study of business culture among small and medium sized companies should be undertaken to identify such constraints and the interventions needed. This could result in, for instance, the formulation of precise, short curriculums for top owner-managers and technical management curriculums for new middle management hires. An American business school should be encouraged to develop the courses and administer them through a corresponding Bangladeshi university. A visit to the U.S. for the owner-managers could be part of the course. Such a component should aim to entice demand more by the attraction of the product than by price, and encourage the local university to act as the "BDS provider," with the ultimate aim of leaving the materials entirely in the hands of the local partner university.

As might be expected, the supply of BDS of all types is greatest in Dhaka, followed by Chittagong and then Khulna and other regional cities. It is important to note here that upcountry lack of BDS may not be as acute a problem as the lack of basic business support services (BSS) and utilities for everyday operation and production; e.g. telephones, electricity, transport, machinery repairmen, overdraft facilities, dependable supply of raw materials and inputs, and so forth. These services are needed to encourage SMEs to locate away from the principal cities.

The supply of BDS directed to specific subsectors varies from one subsector to another. The supply also varies according to the specific trade association providers and among the more generic providers such as government institutions, donor-assisted projects, and chambers. For those subsectors closely examined in this study, namely handicrafts, home textiles, shoes, and leather products, this was certainly the case. We include tables of subsector-specific BDS providers for leather/shoes, handicrafts and textiles under Annex BB, as follows:

- (1) Handicrafts. Consultant Masuda M. Rashid Chowdhury has identified some 10 BDS agencies in her study (Annex U), while other agencies and institutions appearing in our poll supply more generic business development assistance to the same businesses. These agencies provide a wide range of BDS, covering assistance in design, information, skills, production, marketing and financial access. In handicrafts there is a notable development service that is "included in the cost" of dealing with materials suppliers and, particularly, buyer organizations.
- (2) Textiles. Professor Chowdhury has identified thirteen BDS providers for the special textiles and hand loom sector. In home textiles, there is also a great deal of "no cost" BDS provided by buyers to producers in the areas of design, production, and materials. She has also contributed a review of JOBS specific training of 260 people in events over the course of the project's life within her report (Annex U).
- (3) Leather footwear and products. Consultants Azim Syed and Golam Kabir supplied a table of ten BDS suppliers for the footwear and leather products subsectors. This is a subsector in which JOBS claims significant success in promoting sales (exports) and job growth. For further information, please refer to section 3.1.

4.2 Private Sector BDS and Cost Recovery

Reviewing the roster of BDS suppliers in training (Annex R1) and technical assistance, the continuing supply-side dominance of non-private providers is evident. Our poll of 50 leading Dhaka and regional training entities resulted in the following break-down:

	Number	Percentage
Foreign donor projects	7	14%
NGOs/Chambers/associations*	26	52%
GOB	9	18%
Private	8	16%

*most with an element of donor funding

Among these are some good potential partners for a next USAID initiative and these will be discussed in this section.

4.2.1. The Current Status of for-profit BDS

A number of private firms (16% of our sample) and private consultants do training work for donor-financed projects. The source of their service fees can almost invariably be traced back to a donor rather than to an end user. These small firms generally cannot afford to maintain a fulltime staff to handle this training. There is a nucleus of local experts in economics, subsectors and cross-cutting disciplines who work through these firms or market their services to donors. Few for-profit firms are able to earn all or even most of their income from unsubsidized sources. To further confirm this observation, on the demand side only one percent of the survey sample of 178 respondent companies procured technical assistance at full price.

4.2.2. Relative Cost-Recovery of Training

Cost recovery levels vary among training providers. We have attempted to examine the relationship between fees charged for training and the corresponding costs. Among a small sample of providers the level of cost recovery ranged from more than full cost recovery to highly subsidized fees, as shown below.

Relationship between Training Costs and Fees Charged

Item	BAS/DCCI	BIM	CARE/Income	MIDAS	BASC
Tk cost per hr per student	200	229	88	83	109
Tk fee per hr per student	90	69	138	52	120
Cost: Fee ratio	2:1	3:1	1:1.5	1.6:1	1:1.1

GTZ's BAS and the GOB's BIM are highly subsidized, whereas CARE/Income and BASC appear to cover their costs.

4.3 Sustainability of Donor-Created BDS Providers

Self-sustainability has proven elusive for BDS providers. Two training and TA providers created by USAID in the 1980s and 1990s, MIDAS and BASC, are invariably referred to as leading national agencies in ME and SME development. They were created early on to fill a void in SE training and TA support. They have made great strides in cost recovery, but continue to subsist partially on direct and indirect donor funding. At this point, BASC's course fees cover a large part of direct costs; however, its shortfall has been met through DFID support. In the case of MIDAS, shortfalls in cost recovery are compensated with donor support and positive cash flows from its micro-lending arm. It depends on donor projects (like JOBS) for much of its income. MIDAS has already made significant strides in that it was only 60% self-sufficient three years ago; now fees for services cover between 80% and 90% of costs. Both institutions still face great challenges to make the transition to sustainability based on serving unsubsidized or less subsidized participants in the future. USAID should consider supporting both MIDAS and BASC in that transition. One or both of these institutions might function as planning and implementation coordinators with targeted subsector BDS users in connection with ATDP-II activities or any eventual post-JOBS SME support project.

In today's context, with the aim to encourage for-profit providers to fill the BDS breach, a quite different institutional approach might be more appropriate. A USAID project should work to establish one or more BDS facilitators that could provide good quality advisory services and impetus to markets. These newly formed facilitators might work in post-harvest technologies, aquaculture, product development, packaging design and advertising, and fairs and events management. The aim would be to advance BDS markets by selling cutting edge services at market or above market prices (to avoid crowding out of competitors and at the same time lift the industry standards). They would upgrade private BDS competitors, and at the end of the project be sold to the private sector through a tender. The activities would be similar to GTZ's new Design & Technology Centre, but rather than being reverted to a chamber (DCCI, in that case) at the end of the project, the entity providing the activities would be sold. With regards to the JOBS follow-on project, this mechanism could work quite well with a subsector approach. (See Section 3.1).

Consulting agencies might be perfect candidates to take on the role of planning advisor to key BDS user clients. This role, which may be seen as a transitional one but which may continue a good many years while the BDS market matures along with subsectoral growth. Such a role will be pivotal in encouraging end-user relationships with BDS suppliers, while the facilitator provides needed subsidies to encourage the demand for such services.

4.4 Packaging and Success of MFI-supplied BDS

NGOs, MFIs and GOB agencies or programs that provide training to SMEs normally also provide training to MEs. While there is considerable overlap, some agencies, e.g. BRAC or GTZ, have separate programs for each. Likewise, training is more often fully subsidized for MEs and not so for SMEs. MFIs, whether they are large NGOs such as BRAC/MELA or regionals such as Buro Tangail, sometimes offer such non-financial training as marketing and production advisory assistance, as can be appreciated on the table appearing as Annex AA. (Also please refer to pages 2-4 of consultant Rahman's sub-report on MEs, Annex W for more detail.)

Some MFIs that previously offered non-financial training to MEs have now discontinued these services. One of these is WEDP, which received considerable assistance from USAID in the 1990s (See Annex K). In the mid-1990s, under USAID influence, it converted from being a minimalist (“borrower knows best”) lender of micro-loans to very poor women to one that provided business guidance. Likewise, the regional NGOs that have received Train the Trainers courses in general business from JOBS and were “facilitated” to provide free courses to their clients are likely to stop such non-financial training once a donor is no longer in the picture.

Another consideration for MFIs is that those who depend solely on making the client pay for training costs that increase the size of the loan run the risk of clients abandoning them for a minimalist NGO/MFI lender.

4.5 Market Distortions and Supply-Rationing

SME training is usually provided without charge because of the widespread belief that Bangladeshi companies will not invest in skills training for fear that the labor, once trained, will abandon them to work for competitors that bid up the wages for trained workers. The other phenomenon is that the suppliers that provide training without charge must “ration the supply” due to the excess demand of their clients. In the case of JOBS, affiliated NGOs and MFIs have had to ration their outreach. In the cluster training for specific trades, rationing has been undertaken, but primarily along the lines of the specific needs for skilled labor by client firms.

One illuminating case was cited. Anecdotally, in interviews in Khulna and Chittagong, members of the assessment team learned that some MEs had forgone training offered by JOBS’ partners because they recognized their opportunity costs as expressed in time being more valuable than the training offered free. This may point to the poor quality of some training.

BDS end users must be trained to recognize that they will lose some employees because of attrition; they must reward their better workers to retain them; and they must consider costs related to training simply as a cost of doing business. Higher productivity and better quality through trained labor can be created but there are costs. Perhaps business owners can recognize the effects upon their own business by relating the situation to trainees who pay for practical training and education “at cost” because it will result in a better paying job. Examples of this are the computer training given by such agencies at Aptech and NIIT, and skills training for jobs overseas as provided by the recruiting agencies. They might also relate to families that make great financial sacrifices to put children (usually sons) through university so that a professional career may follow.

Training by BDS providers is not yet a field that attracts many for-profit entrants, although there are many freelance consultants in the field. At this assessment’s focus group session in early November, the managing director of for-profit TRIN stated that he had tried to market courses based purely on private sector SME demand. In the end, however, he had to recognize the donor community as his real market. Also, the project director of the SwissContact’s BDSP-Bangladesh project, which is the only program experimenting with the BDS paradigm methodology, stated that the program will not consider working with private SE training outfits because their markets are simply too distorted by donor patronage.

One BDS provider, Briddhi Industrial and Marketing Consultants, asserts that his firm depends completely on unsubsidized fees from industrial firms. Their clients are all medium and large firms, predominantly in the ready-made garments (RMG) sector. This firm works with clients on an integrated management, production, and marketing basis. The training enables the clients to achieve productivity increases, making them willing and able to pay Briddhi's full fees.

4.6 Policy Reform and Trade Fairs: Outcomes

The SOW for this assessment asks about relative attribution of impact success to diverse types of BDS or advisory services, e.g. trade fair facilitation compared to business-enabling reforms (such as the secured transaction law and registry developed under JOBS). In the abstract, a successful legal reform may create ten, twenty or one hundred times the benefit of the participation of a group of clients in a trade fair. However, in practical terms, we specifically noted that the secured transaction legislation promoted by JOBS is still not on its way through parliament, so to date considerable investment has been incurred without creating much impact.

On the other hand, "sending producers to trade fairs" is often part of an integrated package of assistance, which cannot be accounted for in isolation. An outcome such as "x" million dollars in sales from a trade fair will be the result of improved product design, production, management, trade fair participation, advertising and packaging and other assistance provided. The value of working within an integrated subsector methodology as recommended in earlier sections will provide a more dependable pay-off than a project attacking only discrete constraints. This factor should be taken into consideration by USAID in forming its future programs in SME development.

4.7 Comparative Effectiveness of BDS Delivery Modes

It would be difficult to establish relative cost-effectiveness of BDS delivery. In the case of JOBS, we have been informed that cost-effectiveness was improved dramatically from an average of \$85 per ME participant trained via Proshika to \$35 through regional NGO/MFI partners. This improvement was due to internal cost-savings, which should make training more affordable and self-sustaining. The proof will be in whether JOBS' NGO partners can continue non-financial training to their affiliated MEs once funding is ended. To be sure, cost-effective delivery is not always effective delivery, due to differences in instructors' abilities and course offerings. At any given moment, different providers have a superior, average or inferior reputation in different types of training and/or TA delivery.

We recommend as good partners for a USAID subsectoral-focused project those private for-profit service providers that are operating fairly well despite difficult market conditions. As discussed above, support should be provided to management advisors that can work in planning, including on BDS requirements with SMEs. These would include Rapport, TRIN and Briddhi. It would be worthwhile to back new entrants to the field as well, in the sense that they can be trained by the USAID project and receive part of their contract costs from the project.

We also recommend such nonprofits as MIDAS and BASC be considered to teach good planning practices to SMEs in the subsectors selected. We would encourage an initiative to encourage new entrants into various management and technical areas of business development services, in order to grow the markets and make them more sustainable. We generally recommend not directing support

to public sector providers, although we would advise that the Footwear Institute be considered for assistance, due to its capabilities and the need for its services.

4.8 Quality of BDS

At focus group sessions on BDS supply and demand held in November, one of the most frequent complaints was about poor quality of business support services available in the country. These complaints covered both technological (aerosol technology, software programmers) and organizational development services (reengineering). Disdain of local business development providers was expressed various times by users in our focus groups. The larger firms can access foreign TA (often from India, where 1% of our 178 businesses surveyed procured assistance, as did two of our focus group participants).

While we are reluctant to set forth a “hearsay chart of relative effectiveness”, we can say that currently certain agencies/programs enjoy particularly good reputations. Twelve of them are listed in the table below, as well as in Annex X.

Twelve BDS Agencies of Current High Repute

Name of agency or institution	Category	Training and other BDS for which they are best known
Bangladesh Institute of Management (BIM)	GOB	<ul style="list-style-type: none"> • Business Management and HRD • Business management consultancy
Matching Grant Facility (MGF)	GOB/World Bank	<ul style="list-style-type: none"> • Market promotion, especially on export market linkages and development
Small and Cottage Industries Training Institute (SCITI) / Industrial Service Center (ISC): under Bangladesh Small and Cottage Industries Corporation (BSCIC)	Public	<ul style="list-style-type: none"> • Entrepreneurship Development (CEFE- NBC) • Industrial development • Feasibility study • Land allotment
IBCS- PRIMAX	Private: for-profit	<ul style="list-style-type: none"> • IT training • Software like "Oracle" database • Software production
RAPPORT (Bangladesh)	Private for-profit	<ul style="list-style-type: none"> • Business management (general) • Marketing management • Capacity building
Training, Research and Information Network (TRIN)	NGO	<ul style="list-style-type: none"> • Capacity building • Research on entrepreneurship development
Business Advisory Services Center (BASC)	Private: Not for profit	<ul style="list-style-type: none"> • Agro-based training • Business feasibility study
Micro Industries Development Assistance and Service (MIDAS)	Private: Not-for-profit	<ul style="list-style-type: none"> • Entrepreneurship Development (CEFE- NBC) • Micro-finance management • Small business planning
Job Opportunities and Business Support (JOBS)	Donor project	<ul style="list-style-type: none"> • Entrepreneurship Development • Export promotion for SMEs • Capacity building • Skills training
INCOME / Micro Finance Development Center (MFDC) : under CARE-Bangladesh	NGO	<ul style="list-style-type: none"> • Entrepreneurship Development (CEFE- NBC) • Micro-finance management • Small business planning
EKOTA Forum	NGO (donor supported)	<ul style="list-style-type: none"> • Textile and Handicrafts based training • Product and design development • Export assistance

Business Advisory Services (BAS) / DCCI Business Institute (DBI): under Dhaka Chamber of Commerce and Industries (DCCI)	Business Association	<ul style="list-style-type: none"> • Industry related management and financial training • Business counseling • Industrial advice (setting industries, expanding industries)
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5.0 Analysis of BDS Demand

5.1 Overview of Demand for BDS

The BDS market in Bangladesh is not yet dominated by private sector buyers and sellers. The buyers of BDS face a wide range of suppliers – private sector, government agencies, NGOs, and donor-assisted projects on enterprise development. In addition, price distortions abound, as development agencies often subsidize such activities. In the absence of a competitive BDS market, both buyers and sellers receive confusing signals regarding market prices, quality and availability of such services.

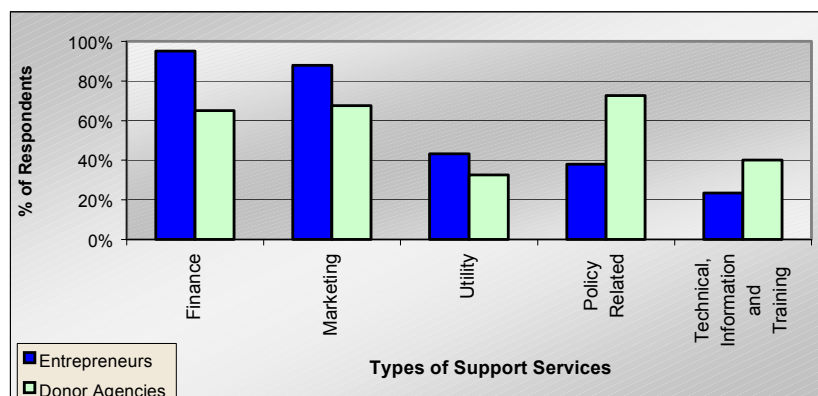
Estimating demand for BDS in this market is a difficult and challenging proposition. In this section of the report, we attempt to understand the demand for BDS by looking at it from three points of view: (a) identification of non-financial constraints that businesses encounter; (b) usage of BDS type services; (c) assessment of willingness by clients to pay for BDS. In addition to secondary sources, findings from a survey of over 178 business enterprises (Table 14) on these issues are presented. Of the 178 interviewed, 78 have used some type of BDS, of which 47% have benefited from JOBS support and the remaining 53% from other sources. In the remaining section of this report, for brevity, “Chemonics study” would imply information generated from this survey. In Annex P the results of the survey are presented.

Sarder (2000) found that the perceptions regarding the kind of business assistance services required by the enterprises differed among the various stakeholders. The chart below reflects the mismatch between the type and quality of BDS that buyers require and what BDS are offered by development agencies. Although financing problems topped the list for entrepreneurs (95 %) and were high on the list for the development agency personnel (65 %), the importance of this service as perceived by entrepreneurs and development agency personnel differ. The same holds true for marketing problems. A significant divergence occurs in the case of policy-related constraints, which came highest on the list for the development agency personnel (73 %) and was cited by a mere 38 % of the entrepreneurs. Furthermore, the development agency personnel underestimated marketing services and overestimated software services compared to the perceptions of the entrepreneurs.

A Swiss Agency for Development Cooperation (SDC) study (1995) revealed that business associations do consider providing BDS type assistance – marketing, business counseling, and technology information as important. However, the highest priorities for the chambers and associations are strengthening unity among its members and influencing government policy (see table below) The implication of this finding is that the business associations are willing to assist their members with BDS services, but they are not necessarily their top priority.

Perceived Needs of SMEs – Entrepreneurs and Development Agency Personnel

Source: Estimated from Sarder 2000



Major objectives of the Chamber and Associations by Area

Statement	Rank
Strengthening unity among entrepreneurs	1
Influencing Government in policy making	2
Providing marketing assistance	3
Providing business counseling	4
Providing technological assistance	5
Assisting entrepreneurs in receiving loans	6
Other	7

Source: Data International/Swiss Development Agency Study, 1995

5.1.1 Non-financial BDS Constraints to Enterprise Development

A recent World Bank study (Ahmed, Zia and Azim Syed 2000) found that access to financing was the severest constraint faced by SMEs. This was closely followed by infrastructural and policy related problems. The other major problems reported by entrepreneurs were poor government policy conditions and bureaucratic and corrupt activities of government officials.

Problems encountered by enterprises

Problems	Percentage of Respondents
Access to finance and high interest rate	18%
Infrastructure facilities (including power, gas and port facilities)	14%
Government policy (especially too much import and money devaluation)	14%
Bureaucracy, corruption and red tape	13%
Poor management (including lack of skilled human resources)	10%
Poor law and order and political instability	7%
High competition and saturation in industry	6%
Marketing and marketing services	5%
Production technology and technical know-how	5%
Lack of raw material	5%
Small market	3%

Inefficient stock market	1%
Poor economic conditions	1%

Source: Ahmed, Zia and Azim Syed 2000

Under an earlier World Bank study (1998), a listing of 18 commonly cited business constraints was ranked with regards to the responses from 137 manufacturing establishments. The major constraints identified in this study include: weak infrastructure, inadequate BDS, poor access to credit, foreign currency regulations, high utility prices, and regulations for starting a business.

The Chemonics survey repeated the questions posed in the 1998 World Bank study to obtain views on business constraints from the businesses themselves. Of the more than 18 listed constraints, dearth of business support services ranked second both by those who had received BDS as well as those who did not receive BDS support in the past three years. The table below compares the findings from both studies. The Chemonics study has further reinforced the World Bank 1998 survey findings that firms believe BDS improvements are essential for enterprise development in Bangladesh.

A Comparison of Perceived Major Obstacles to Doing Business in Bangladesh

Obstacle	Chemonics Study Ranking (2001)	World Bank Study Ranking (1998)
Ownership Regulations	16	16
Tax Regulations And/Or High Taxes	9	7
Labor Regulations	13	14
Foreign Currency Regulations	15	13
Lack of Business Support Services	2	2
Inadequate Supply Of Infrastructure	3	1
Utility Prices	4	13
Inadequate Access To Credit	1	3
High Interest Rates	5	8
Insufficient Demand For My Products	11	11
Competition From Imports	8	9
Crime And Theft	10	6
Official Corruption, "tolls"	6	5
Regulations For Starting A Business	13	15
Operations Or Expansion	12	4
Competition	7	10
Lack Of Skilled Labor	14	12

Source: Chemonics study 2001, World Bank study 1998

Ranking of constraints among the JOBS assisted enterprises and non-JOBS assisted enterprises also suggest inadequacy of BDS as a serious problem (*Annex Y, Table A6*). When classified by employment size, the conclusions are similar (*Annex Y, Table A7*). Other than BDS, inadequate access to credit, poor infrastructure, and too much competition are ranked high in the list of constraints. Regulatory and policy constraints appeared of lesser concern to this group of respondents as compared to those in earlier industrial sector studies (ISS 1994; FBCCI 1995).

On the issue of specific types of BDS constraints, the Chemonics survey reveals that lack of knowledge in marketing, technical know-how and quality control are concerns. However, inadequate knowledge in costing and accounting is not viewed as a serious constraint to the entrepreneurs.

Ranking of type of BDS constraints, assisted and unassisted firms

BDS constraints (Mean scores)	JOBS	Non JOBS	Unassisted	Group Mean	Rank
Maintaining quality	3.08	2.90	3.05	3.02	3
Lack of technical knowledge	2.84	2.78	2.80	2.80	2
Lack of information about production inputs	3.16	2.95	3.27	3.17	5
Marketing	2.62	2.22	2.34	2.37	1
Knowledge in costing and Accounting	3.30	3.24	3.37	3.33	6
Others	3.11	2.90	3.05	3.03	4

Source: Chemonics survey

Note: 1 = Serious Problem, 2 = Problem, 3 = Minor Problem, 4 = Not a Problem. Therefore, a lower mean implies a more serious problem.

When analyzed by enterprise size, importance of marketing is consistently of high importance regardless of their size. Lack of knowledge on accounting and costing is serious among the microenterprises, but such is not the case for their larger cohorts.

Ranking of type of BDS constraints by size of firm

	Micro (1-10)	Small (10-49)	Medium (50-99)	Large (100+)	Total	Rank
Maintaining quality	3.37	2.86	2.95	2.81	3.02	3
Lack of technical knowledge	3.51	2.43	2.40	2.58	2.80	2
Lack of information about production inputs	3.72	2.88	2.90	3.00	3.17	5
Marketing	2.93	2.25	2.05	1.89	2.37	1
Knowledge in costing and Accounting	3.07	3.23	3.50	3.81	3.33	6
Others	3.89	2.71	2.25	2.67	3.03	4

Source: Chemonics survey

Note: 1 = Serious Problem, 2 = Problem, 3 = Minor Problem, 4 = Not a Problem. Therefore, a lower mean implies a more serious problem.

A comparison of this study's findings on specific BDS needs with Sarder (2000) and World Bank (1998) suggests information on technology and productivity enhancement interventions are of high importance to Bangladeshi enterprises. On the other hand, accounting and costing knowledge are not seen as having high importance.

5.2 Demand for Types of BDS Based on Size of Firm

The Chemonics survey found that among the 178 enterprise respondents, 78 enterprises (44 %) had used BDS, of which about half of were JOBS-clients⁵. On the other hand, the World Bank study (1998), investigating business constraints as well as the use of BDS, reported that only 6 (4 %) of the 137 firms surveyed had used BDS. According to the Chemonics survey, financial assistance was perceived as an important service required by all enterprises. However, the smaller the firm, the more importance was given to financial services. Among the non-financial services, technical training related to production processes topped the list of BDS needed by enterprises of all size classes. While for micro and small enterprises, the need for managerial training followed technical training relating to production processes, export assistance was ranked second by the medium size enterprises.

⁵ The higher representation of BDS recipient firms under the Chemonics study is because the sampling was purposive. It includes adequate number of JOBS and other donor-assisted BDS enterprises. Hence, findings from this survey should be used with the understanding that the sample is not representative of the overall business sector.

BDS Needed by Enterprise Size

BDS Category	Micro (1-10)		Small (10-49)		Medium (50-99)		Large (100+)		Total	
Technical consulting	5	9%	19	29%	8	40%	20	56%	52	29%
Managerial consulting (except export)	5	9%	12	18%	4	20%	10	28%	31	17%
Export assistance	3	5%	26	40%	13	65%	15	42%	57	32%
Managerial training	23	40%	29	45%	6	30%	9	25%	67	38%
Financial assistance (including loan fee)	46	81%	47	72%	14	70%	18	50%	125	70%
Infrastructure facilities	14	25%	15	23%	3	15%	5	14%	37	21%
Technical Training on production processes	50	88%	88	135%	28	140%	48	133%	214	120%
Assistance for legal formalities	2	4%	2	3%	0	0%	0	0%	4	2%
Total Respondents	57	100%	65	100%	20	100%	36	100%	178	100%

Note: One firm can receive BDS in more than one category. Hence, percentage share comes to more than 100%.

5.3 Types of BDS Received by Firms

The Chemonics survey found that some of the entrepreneurs sought the services that they reported as requiring. However, while an overwhelming majority of the entrepreneurs had reported the need for technical training on production processes, only one fourth (45 of 178 respondents) of them had actually accessed these services.

The majority of JOBS clients concentrated on technical training (61%). They also accessed managerial consulting (18%), and export assistance (6%). Non-JOBS assisted firms are more diverse in terms of BDS assistance ranging from technical training (40%) and managerial training (20%) to financial assistance including loan facilitation support (13%).

The enterprises surveyed reported accessing BDS from a range of providers. Providers included public sector agencies, business associations and chambers of commerce, a number of donor-funded projects.

BDS provided by type of providers

Types of BDS	Public sector	Local NGO	Int'l NGO	Donor Project	Private (Local)	Chamber and Associations	USAID/ JOBS
Technical consulting	0%	0%	0%	0%	0%	3%	1%
Managerial consulting	0%	1%	0%	3%	6%	0%	18%
Export assistance	0%	0%	0%	10%	1%	5%	3%
Managerial training	3%	5%	3%	8%	8%	4%	5%
Financial assistance	4%	1%	0%	1%	6%	1%	1%
Technical training on production process	26%	3%	9%	17%	19%	24%	54%
Assistance for legal formalities	0%	1%	0%	0%	0%	1%	0%

Note: The percentages were calculated from the 78 enterprises that received BDS.

Among those who have received assistance from JOBS, a few sought support from other donor projects, business associations and local for-profit private providers. The non-JOBS recipients of

training are less dependent on a single source. They opted to use government facilities and local private sector associations, as portrayed in the table below.

Distribution of service providers used by businesses

Service Provider	JOBS	Non JOBS
Government	0%	24%
Local NGO	2%	17%
International NGO	0%	4%
Donor project	9%	20%
Private (local)	6%	19%
Chamber & Associations	6%	13%
USAID/JOBS	77%	0%
Private foreign company	0%	3%
Total	100%	100%

Source: Chemonics survey

Entrepreneurship development training courses were taken by 60 % of the JOBS clients. Non-JOBS clients also sought training in this area. Technical skill training courses are more popular among non-JOBS users than JOBS. Cross-tabulation of training received by different size firms appear in the table below.

Types of training courses attended by assisted firms

Training Category	JOBS	Non JOBS	Overall
Marketing	13%	4%	7%
Technical skill	9%	31%	23%
Entrepreneurship development	60%	39%	48%
International trade	2%	7%	5%
Financial	2%	4%	3%
Internal sector skill training	15%	13%	15%
Information Technology	0%	2%	1%
Total	100%	100%	100%

Source: Chemonics survey

Both the Chemonics study and earlier surveys have demonstrated that marketing is a major constraint to the entrepreneurs. Focus groups with BDS clients in which marketing training was cited as a priority, compared that to the small share of marketing training actually delivered. This disparity requires a remedy with future USAID programs.

5.4 Willingness to Pay for BDS

Those interviewed under the Chemonics survey feel positively about the impact of training on sales and profit. The findings suggest that increased experience with BDS services contributes toward appreciation of the merits of these interventions. An overwhelming 97 % of the BDS recipients and 89 % of the non-recipients are willing to share part of the cost of BDS support. The JOBS supported enterprises are also highly appreciative of the impact of training and sales. More

than 90 % of BDS assisted firms and 73 % of unassisted firms are willing to pay “something” toward the training of their workers.

Entrepreneurs who responded positively on the merits of training and cost sharing

Statement	Assistance received from:		Unassisted	Total	
	JOBS	Non JOBS		N	%
Business support produced positive impact on your sales or profits.	22	31	3	56	88%
Do you feel the services are valuable enough to pay for?	29	31	10	70	90%
Do you feel it necessary to train your workers also?	37	34	86	157	92%
Would you contribute to workers' training?	29	23	59	111	93%
Willing to pay if appropriate services are provided.	9	12	32	53	90%

Source: Chemonics survey

Regarding their willingness to pay for training either for themselves or their employees, the respondents were overwhelmingly positive (above). When queried how much they were willing to pay during the survey and during focus group discussions, the response was not adequately clear. One can deduce that those having been exposed to such services appreciated good quality training programs and were willing to pay a significant share in cost. Whether they would be willing and able to pay for full-cost training packages is unclear due to several factors: the history and culture of subsidized training programs, ability to pay in the case of micro or small enterprises, and an absence of a verifiable and strong causal relationship between training and the productivity/profitability of the firm.

Despite the enthusiasm shown by individual entrepreneurs for BDS, the past experience of donor projects presents a different picture. Efforts by various donor-supported projects to offer BDS through intermediaries (i.e. associations and chambers of commerce) have had mixed success. Often, these intermediaries expect total external support and very limited cost sharing requirements. GTZ's efforts to work with the Dhaka Chamber of Commerce and Industry (DCCI) on BDS have yielded positive results due to GTZ's strong commitment and focus on this activity. The challenge lies in whether DCCI will continue to offer such services to its members once external assistance ceases. JOBS attempted to work with various sector-based associations, and had very little success (e.g. with the electrical manufacturing association). Subsequently such endeavors by JOBS have been minimized.

The Chemonics survey, along with earlier studies, demonstrates that enterprises believe a lack of appropriate BDS is a constraint to enterprise development in Bangladesh. Enterprises, particularly those that have already been exposed to BDS assistance, are generally keen to access BDS. How much they are willing to pay for such services is contingent upon the quality and relevance of the training or other BDS, and their ability to pay for such services.

Estimating demand for BDS is difficult. An intensive needs assessment study, where firms are more closely monitored and information collected over a longer time period, comparing the types of BDS is recommended - not a rapid appraisal as has been in most studies. Over time, as the BDS market grows, market demand would be easier to assess.

For the BDS market to grow as a result of free market forces, some changes are required. First, projects and development programs supporting BDS should attempt to minimize the subsidies and distortions, thereby avoiding the “crowding out” or “crowding in” phenomena caused by the rationing of the subsidies. Presently the marketplace is characterized by “cheaper” training packages for buyers and subsidies for sellers of BDS. Price and quality bargaining is dominated by project intermediaries rather than between BDS suppliers and the targeted clients. Second, awareness of the benefits of training and other BDS must become more apparent to the entrepreneurs. The most effective means of creating awareness is when other firms are rewarded with qualitative and quantitative improvements in their business operations and profitability for accessing BDS.

5.5 Weakness of Demand

In the current BDS environment, there is inadequate demand for a vibrant BDS market. Because of the current supply-side nature of BDS, supply is greater than what it would be if there were no unassisted demand. The real challenge to facilitators is to structure an environment that will create more demand (as expressed in willingness to pay enough to make it profitable) and encourage private providers to sell the high quality services to the “demanders”, who want such services.

We believe it necessary to observe here that often it is not so much a question of quality of supply but of capacity of the end user to use and absorb developmental services. For example, the Independent University of Bangladesh may offer business seminars that fall on deaf ears (or no ears), a company owner may want ISO9000 but then not provide the corporate leadership required to see it through, etc. In such cases it may be the quality of the end user rather than the supplier that is missing. The Bangladeshi SME does not make it easy for a BDS provider to choose to make his living on the local market, as the SMEs generally undervalue the BDS product, push prices way down, and are often poor payers of their service bills. It is little wonder, then, that development consultants look more to donors as their markets than to the SMEs. Convincing providers to have faith in the BDS market will be nearly as much a conundrum as having BDS users willing to pay for quality BDS services. Until these actions become an everyday reality, BDS markets will not function in a healthy, vibrant manner.

6.0 Findings and Recommendations

This chapter is organized into five major sections and incorporates findings and recommendations in response to the major questions included in USAID’s statement of work for the study. These sections include: 1) Legal and Regulatory Findings and Recommendations, 2) BDS Supply Findings and Recommendations, 3) BDS Demand Findings and Recommendations, 4) Recent Projects – Findings and Recommendations, and 5) Recommended Future ME and SME Approaches for USAID to Consider. In considering how to advise USAID on the SME development approach to follow in the next five years or so, the assessment team was mindful of the following factors:

- The theory and applied research supporting the BDS market paradigm
- The fact that “the jury is still out” on the effectiveness of large-scale BDS in fostering SME projects

- USAID's performance indicators are predominantly sales and job growth numbers, and that the causal link is difficult to establish when using the BDS market paradigm.
- USAID has a newly-started project (ATDP-II) using a subsector-wide, direct-intervention approach
- DFID plans a major SME project based on the BDS market paradigm (and USAID may want to collaborate in a fashion supportive to it and to BDS)
- The disappointing uptake of service users through the Matching Grant Facility, in great part due to lack of a planning culture among Bangladeshi firms, foretells difficulties if the approach to development of BDS markets is a hands-off one on the part of facilitators.

6.1 Legal and Regulatory Findings and Recommendations

Findings:

- An overview of regulatory and policy documents demonstrate that successive governments in the 1990s took an official stand to liberalize the economy and bring private sector-led growth to the manufacturing and service sectors. The outcome has been mixed. Increasingly, as Bangladesh's GDP continues to grow, the private sector is producing a wider range of goods and services and becoming a larger employer. However, the government's responsibility to create an enabling environment to do business in Bangladesh has failed badly. This is manifested in the ineffective implementation of laws, a bureaucracy that prefers to serve as a regulator and not a facilitator, inability of the government to maintain satisfactory conditions of law and order, and a lack of political will to reform non-performing publicly owned enterprises.
- Emphasis was on export-led growth in the 1990s. The success of the ready-made garment and knitwear sector was felt to be replicable in sectors such as leather goods and footwear, fish and seafood. Accordingly, policy incentives and assistance were geared to remove the prevailing anti-export tariff bias. While efforts to streamline export activities continue to be an important policy agenda, a refocus on import substitutes are gaining serious consideration.
- Bangladesh is a signatory of WTO which implies that local products will face increased competition due to continued reduction in tariff and non-tariff barriers. Concurrently, exports will have to compete intensely in the global market given, for example, the removal of preferential quotas in the U.S. on readymade garments. The changing environment implies that Bangladesh's private sector will face greater challenges and opportunities in the coming decades.
- There is a lack of reliable, timely, and comprehensive data on the industrial sector. Compiling and maintaining a comprehensive accessible database is imperative for a better understanding of the sector and appropriate intervention plans to assist it.
- An efficient service sector can complement the manufacturing and agriculture sectors. The service sector has experienced significant growth in recent years, presently contributing to more than 50 % of the country's GNP. Within the service sector, utilities, telecommunication, and transportation are support services on which the manufacturing sector directly depends.

Enhanced productivity, innovations, competitiveness leading to lower costs, improved quality, and enhanced accessibility of services would reduce the cost of doing business for the manufacturing sector. Hence, in identification of sectors in which USAID may assist, service-providing institutions and activities should be considered.

Recommendations:

- USAID should identify and assist institutions that can facilitate better implementation of policies. Governmental institutions that have demonstrated interest in reforms include: The Privatization Commission, The Board of Investment, and The Securities Exchange Commission. USAID should also assist business and trade associations to understand and articulate the policy issues that constitute serious sectoral constraints.
- To improve the database of industrial statistics, USAID should provide institutional and technical support to the Bangladesh Bureau of Statistics, with the end goal of improving the quality of data collection/data management and increasing the timeliness of data release. For example, surveys specifically aimed at SMEs could be supported by USAID. In addition, the data collection and data dissemination activities should not be necessarily limited to governmental agencies but also be implemented through private consulting firms; the undertaking of nationwide surveys through the private sector may provide alternate and more timely estimates of the industrial sector.
- Most studies and analyses conducted in Bangladesh are focused on the manufacturing sector. Greater understanding and information on issues affecting the service sector is essential to address their constraints and potential. USAID should support studies and analyses of service-oriented sectors including commercial and trading activities. Subsequently, technical assistance to subsectors within the service sector should also be considered.

6.2 BDS Supply Findings and Recommendations

Findings:

- The composition of BDS supply is in constant evolution as new business development projects come on stream, others terminate, and the private sector responds to demand levels to sustain the offering of services (though the latter applies more to business support services than to business development services).
- The supply is often more prescribed by providers rather than offered as a response to client needs. A practice of providing high subsidies ensures uptake of the offerings. However, we do see recognition of their opportunity costs in clients who refuse training, though it might be free.
- While merely anecdotal, the table below shows that donor project service delivery and NGOs and associations are disproportionately perceived to be in the ranks of superior providers over for-profit providers and the GOB.

Selection	For-Profits	NGOs/Associations	Donor project	GOB
Poll of "Top 12 BDS" Entities	16.7%	33.3%	33.3%	16.7%
36 Poll of BDS Entities	5.6%	38.9	27.8	27.8

- BDS supply is greatest in training, particularly for groups (as opposed to individual TA due to cost considerations). Of 78 responses concerning provision of BDS in our survey of 178 respondents, 73% received training and 27% TA.
- The recognition that a global market dynamic requires high product, design, and packaging quality (even for domestic market sales) has led to the greater demand for international expertise and created opportunities to offer new local services (e.g. ISO 9000). Among SMEs, such services would only be purchased by the medium sized firms (50+ employees).
- Outside of the major metropolis, there is an irregular supply of BDS (and BSS). In some cases, supply may be greater due to supply-side stimuli, whereas when unsubsidized demand is totally relied on, supply shrinks with the market size.
- With regard to the spread of business services, supply is often sparse because expressed demand is weak. In some cases, judicious, well-planned, supply-led demand is an option to move toward BDS market development.
- No exhaustive qualitative, and quantitative inventory of BDS providers in Dhaka, let alone nationwide, is available. One has been compiled ad hoc for this study. (See Annex R).

Recommendations:

- USAID should prepare a SOW to do an inventory of BDS in Dhaka. Comparison should be made to such studies of other SE Asian cities to provide insight concerning how BDS markets grow and become sustainable. This will allow USAID to project which BDS markets will likely become sustainable as Dhaka approaches the levels of development comparable to Mumbai and Bangkok. If none is available, perhaps comparing, using the same parameters, BDS in Bangladesh, India, Thailand and/or Malaysia may be helpful. Establishing industrial and demographic indexes that will allow meaningful comparison of the urban development in the various categories of BDS in relation to their relative economic development. Other donors may want to collaborate on costs in this endeavor.
- USAID should continue to assist in the BDS market in these ways: (1) cluster training for the subsectors in which skilled labor is required, (2) supporting an NGO that will increase training of semi-skilled labor for entry-level work in a broad range of trades. An example of the latter is the BRAC-planned Vocational Training Program initiative, which is described in Annex J.

Findings:

- No information is available to indicate if MEs that take non-financial BDS guidance or training are more successful than those who do not.

- Two USAID-founded training and TA institutions (MIDAS founded in 1980 and BASC in 1993) have a continuing role to play in SME development, possibly with application of the BDS paradigm and the consequent need to have facilitators work with BDS users in planning. This could result in greater demand for BDS.
- Establishing BDS firms to upgrade selected sectoral or cross-sectoral BDS markets could be an effective SME support strategy for USAID. This is pursued in Section 6.5.
- Attribution of greater success to one sort or another of BDS is virtually impossible, as a successful company carries out an assortment of intertwined activities and is affected by a variety of constraints and opportunities. For instance, a firm does not only “go to a trade fair” but may also prepare samples and brochures, and success may also depend on exogenous factors such as exchange rates and tariffs.
- Subsector-specific BDS is available, but its effectiveness appears to depend on the provider, (e.g., EKOTA Forum, JOBS), where better services can be expected.
- Policies to recover costs range from zero to greater than 100%.
- Subsidized pricing of services will either crowd BDS providers out of the same markets (e.g., Rapport) or cause them to see the donor projects (e.g., BAS, JOBS) as their market rather than enterprises.
- Few people predict sustainable cost recovery in providing BDS to MEs. Some cases cited as such (computer training, skills for overseas contracts) are actually personal investments to get wage-paying jobs, not BDS to MEs.
- Profits from end users can, and will be, made more widely as BDS markets mature with donors entering more BDS facilitation rather than directly supporting service providers.
- Quality of supply needs to be upgraded in all BDS markets; however, the “quality” of demand by the SMEs is generally one that undervalues services and does not know how to evaluate or consume them.
- Cost-effectiveness on JOBS was improved from an average of \$85 per ME participant trained via Proshika to \$35 through regional NGO/MFI partners. However, this is principally a matter of internal cost-savings to JOBS rather than developing a long-term market where clients will pay market value for training. It is unclear whether NGO partners will be able to continue non-financial training of their affiliated MEs once JOBS funding is over.

Recommendations:

- To encourage competition in the markets and move away from being the actual market, donors and subsidized NGOs should charge the maximum price for BDS that the end user is willing to pay and ensure that service users make payments to providers, not facilitators.

- A study of business culture in promising small and medium sized companies should be undertaken to identify the constraints and the interventions needed. This should be used to formulate curriculum for top owner/managers and middle managers. An American business school could develop the courses and administer them through a corresponding Bangladeshi university. Such a component would encourage the local university to act as the “BDS provider.”

6.3 BDS Demand Findings and Recommendations

Findings:

- The BDS market has not developed to the point where private providers dominate. Users both receive confusing signals regarding market prices, quality, and availability of services. Given the strong position of GOB and donor-dominated, subsidized BDS, price distortions are present and for-profit companies have a difficult time depending on users’ fees alone.
- A 1995 Swiss Development Corporation survey indicates that while BDS is highly demanded by individual companies, their associations put more importance on membership unity and promotion of certain policy agendas.
- The Chemonics enterprise survey covered 178 respondents in Dhaka, Bogra, Rangpur, Khulna, Comilla, and Chittagong, of which 32% were microenterprises, 37% small, 11% medium, and 2% large. (Large is defined as 100+ employees.) Of the 178 respondents, 78 (44%) had used BDS at least once in the past year. Nearly half of those were JOBS-sponsored.
- After “inadequate access to finance,” the next most important obstacle expressed was “lack of business support services.” This coincided with a 1998 World Bank survey.
- The main areas of concern among respondents are lack of knowledge in marketing, technical know-how, and quality control. Marketing was the greatest need expressed by all the sizes of enterprises surveyed and by those who received JOBS-sponsored training. Although a majority of respondents expressed a need for technical training, only one-quarter had accessed it.
- Attendance in training courses on marketing does not reflect the fact that the marketing training was cited as the greatest training need by enterprises. Only 7% of the courses attended were in marketing. This finding reiterates concerns raised by earlier studies that suggest there is a mismatch between what is needed and what is provided.
- 97% of BDS users and 89% of non-users expressed a willingness to pay “something” toward the cost of business development assistance. It was not possible, however, to quantify or stratify this willingness further through this survey. To do this, precise BDS would have to be specified and market research done to establish willingness to pay levels and conditions.

Recommendations:

- To accurately anticipate demand for BDS, an intensive needs assessment should be done on types of BDS, where firms are more closely monitored and information collected over a longer time period than under the rapid appraisals done to date.
- To move toward better functioning BDS markets, subsidies must be reduced and not paid directly by the facilitator. As private purveyors multiply in a better functioning market, users will become more aware of the services available.
- USAID projects should work with associations to redirect their efforts to better address the real needs expressed by their members.

6.4 Recent Projects – Findings and Recommendations

6.4.1 The BDS Market Paradigm

Findings:

- The BDS market paradigm, in which the facilitator of enterprise growth works with BDS providers and market development rather than directly providing services, is supported by enough positive preliminary evidence as a potentially superior methodology for USAID to begin to employ it, to some degree, now.
- The only BDS paradigm focused project, BDSP-B of SwissContact, is in the pilot stage of gathering and recording experiences. It is too early to predict if self-sustaining BDS markets will emerge.
- DFID is planning to launch a large SME-support project that is consistent with the BDS market paradigm.
- The poor performance of the MGF program demonstrates that this cost-sharing approach to develop BDS markets may not work.

Recommendations:

- When adopting a BDS market approach, USAID should employ a methodology whereby independent management consultants assist BDS users with their business planning and identification of BDS needs. These consultants will act as intermediaries, and could receive payment from both facilitator project and BDS client.

6.4.2 JOBS (1997-2002)

Findings:

- Subsector assistance works optimally for widespread, sustainable results when the whole subsector system of supply, demand, constraints, and opportunities is considered and interventions prioritized. However, JOBS has worked narrowly on product-development,

production, labor and market access solely with the companies turning out the final product (such as leather shoes).

- JOBS activities that should be continued include:
 - Subsector work in shoes/leather products, hand looming/home textiles, electronic/electrical, and EC/ICT/IT.
 - MFI/NGO/ME “forums” to develop better access to market and credit and to support entrepreneurial development
 - Passage of secured transactions law and subsequent registry establishment.
- Potential impact from follow-on support to these subsectors by USAID is projected as follows:

Variable	Leather products(1)	Home textiles(2)	Electrical / electronics	IT
Value added	H	H	L (moving to M)	H
Skilled labor use	H	H	M	H
Gross use of labor	H	H	H	M
Percent of women labor	L	H	H	M
Domestic sales potential	M	H	H	M
Export sales potential	H	M	M	H

H = High, M = Medium, L = Low

(1) To include leather shoes, leather garments and leather products

(2) To include handloom

Recommendations:

- USAID should re-analyze the entire subsector for shoes and leather products (i.e. the entire chain of inputs and service suppliers, markets, the dynamics between players, the policy and regulatory issues up and down the chain). This study should be done by consultants versed in subsector survey techniques. USAID should make this information available to the follow-on project, where interventions can be planned and continued.
- JOBS should continue to concentrate on development of IT/EC/ICT initiatives in progress, consolidating USAID’s position.
- JOBS should continue as a catalyst for the promising ME/MFI/NGO “forum” development to address matters of product/process improvement and access to markets and financing.

6.4.3 ATDP-II (2001-2004)

Findings:

- The ATDP-II project is off to a strong start, with a well-conceived, subsectoral focus methodology. This approach should maximize cost recovery from clients under its contractual cost-sharing provisions.

Recommendations:

- With relation to the GOB/ACF-DC fund and related project components, USAID should shelter ATDP-II if it appears that the project may become bogged or slowed down by bureaucratic delays.
- To foster service provider upgrading and BDS market sustainability and to collaborate with other donor projects that bolster BDS markets, ATDP-II should conscientiously promote local service provider growth by: 1) involving local BDS technology transfer that the project arranges from abroad, 2) establishing the greatest possible cost recovery on services, 3) training the BDS providers, and 4) projecting an exit strategy that will leave healthy service provider markets in place.

6.4.4 Loan Portfolio Guarantee (LPG, 2000-2005)

Findings:

- Drawdowns under guarantee provisions of the \$2 million Loan Portfolio Guarantee have recently started, with approximately \$500,000 loaned from two banks.

6.4.5 Microenterprise (ME) Interventions

Findings:

- There is ample microenterprise support, predominantly through MFIs/NGOs; this support seems more successful in poverty reduction and nutrition/health care than complete poverty eradication.
- Non-financial support to MEs is largely channeled through dozens of NGOs. Definitive measurements of the impact of non-financial BDS, often delivered in conjunction with loans, are unavailable.
- USAID currently supports three projects (NGO Gardening, MACH, and Aquaculture II) that, while respectively having primary objectives in nutrition, environmental protection, and use of renewable resources, are intimately involved in IGA/ME. These projects provide a rich mosaic of socioeconomic and environmental support to hundreds of thousands of Bangladeshis around the country.
- NGO Gardening offers particularly interesting ME growth linkages though leveraging successful village garden concepts to village farms.
- In the 1990s, up to 1997, USAID supported the Women Entrepreneurship Development Programme (WEDP) with both revolving fund and core expenses. This government project (BSCIC) started to supply non-financial services but ceased when the funding stopped.

6.4.6 Other SME Interventions

Findings:

- Since 1980, USAID has been in the vanguard of SME development in Bangladesh. It founded MIDAS and BASC, important NGO BDS providers, at a time when no substantive business development support for SMEs existed. These NGOs continue among the most prestigious TA and training providers and have been the schools for many of today's most outstanding development consultants.
- GTZ's new Design Technology Centre (DTC) offers a potential model of supply-led demand. This service will sell cutting edge product design and technology services to fiber and leather products companies and train new entrants to the same BDS field. At the end of the project, the Centre will likely belong to the DCCI, whereas selling it to an entrepreneur would be more supportive of private sector BDS market growth.
- The Matching Grant Facility (MGF) provides a demand-side model, as the BDS buyers are meant to draw up their own plans and procure their own BDS. The same is true of BDS providers that wish to upgrade their services. Both buyers and providers are given a 50% reimbursement of costs through this facility. There had been low demand for cost-sharing, believed to be in great part related to poor business planning habits of BDS users.
- DANIDA offers a supply-side product, namely highly subsidized BDS to local firms that partner Bangladeshi firms with Danish firms.

6.5 Recommended Future ME and SME Approaches for USAID to Consider

Findings:

- The strength of the BDS paradigm (Section 6.3.1), the agreement of donors to act in ways that stimulate sustainable BDS providers and markets, and the fact that DFID will be launching a project adhering to those tenets are forceful arguments for USAID to take on an active role in the promotion of the paradigm as a central backdrop to its SE development initiatives.
- While ME development would be subsumed into an integrated subsector approach (such as ATDP-II and as advocated herein as a follow-on to JOBS), USAID may wish to back separate ME projects to have greater IGA/ME exposure.
- The NGO Gardening Project, which has only 15 months to run, is a particularly appealing vehicle for ME and even some SME growth. It is now preparing to promote health and economic welfare through Village Farms. This will add a sphere of increased economic potential to the successful Village Gardens approach, and merits close consideration for continuing support.
- While the JOBS ME/MFI/NGO forum initiative is innovative and promising, USAID would probably want to monitor its development over the next six months before deciding whether a future initiative is needed.

6.5.1 Subsectoral SME and ME

- To support private SMEs as a primary engine for job creation and sales increases, the study team recommends that USAID continue to develop the transformed products sector after JOBS finishes. The follow-on project would work in tandem with ATDP-II, which is dealing with the agribusiness sector.
- The study team recommends that USAID have as its top priority an SME initiative subsector approach designed to be both within current best practices of subsector growth interventions and be BDS-supportive. An initiative centered on particular subsectors which JOBS has researched and worked with, namely, shoes/leather products, hand looming/home textiles, electronic/electrical, and EC/ICT/IT, would be appropriate and advantageous.
- To facilitate making a transition to a BDS market paradigm-focused methodology, USAID should be open to redefining its impact indicators from the current statements of numbers of jobs created and millions of dollars sold/exported by the final producers to indicators that relate to BDS facilitator activities.
- Business planning and regular follow-up by firms are at the heart of specifying and successfully using BDS. Bangladesh SMEs and even large firms are generally poor planners. Therefore, it is highly recommended that a mechanism for direct strategy and planning coordination with key end-user clients be used. To avoid direct transaction subsidy by facilitator to user, this could center on strong business planning advisory relationships through private BDS consultancies.
- Following the lead of GTZ's DTC, the founding of BDS firms in such business concentrations as advertising and packaging design, IT product development, fairs and events management, and the like, to create supply-led demand, is a potentially effective way of achieving stronger, modernized BDS markets. There is a risk of being seen to compete with BDS markets; if USAID uses this mechanism, it must be clear that the role is to lead markets forward in quality and demand by interacting with it and by supporting private providers. When the mission is accomplished, the BDS firm(s) should be sold by private tender as part of the exit strategy.
- To better identify potentially sustainable BDS markets to support, it is recommended that the inventories and growth of BDS markets for Dhaka, Mumbai and Bangkok be compared, taking into account industrial GDP and other indices.
- Identifying and exploring points of convergence in private enterprise development collaboration (especially with DFID as it is making the strongest effort after USAID in SME development) on subsector and cross-cutting interventions is encouraged. For instance, USAID and DFID could consider "sharing" one or more subsectors. It may be agreed that that the two share and coordinate, for instance, on policy research and lobbying, and that their projects involve information sharing with one another.

6.5.2 Other Recommendations

- A study should be undertaken to determine the needs and level of interest among top and middle management, the course offerings now on the market, and best potential U.S. and Bangladeshi universities as partners.
- A successful feature of JOBS within its subsector approach has been the training of skilled workers in the neighborhoods around factories. This type of activity should be continued in the future by USAID within the context of a subsector support project component. There may also be an opportunity to support good non-governmental vocational training alternatives, as there continues to be a large shortfall in skilled and semi-skilled labor. As a result, USAID should undertake a study of trades training needs. This may be a study that various donors would co-fund and share. In addition, USAID should consider BRAC's proposal for a new vocational training project. Other alternatives, such as Caritas, may also be available.
- USAID should consider funding studies on critical SME enterprise development issues. These might include such issues as market and financial access, technical/production, and other content. Several studies have been suggested in this assessment: BDS market, skills market, and management training. The follow-on project should include a general line item, sufficiently flexible, to carry out relevant critical studies, when needed.
- Opportunities to promote real economic progress in gender equality become rarer as demand-side projects displace supply-side ones. As a result, USAID may wish to consider a pilot initiative along the lines of the DANIDA partnering one, but restrict it to Bangladeshi and U.S. women partners. By working with no more than one or two companies per subsector, this will not negatively impact on BDS markets, yet could create a positive demonstration effect.
- Access to finance continues to be the greatest needed revealed by SMEs. Consequently, identification and development of approaches by USAID and its projects to increase access to credit — by guarantee, plan preparation assistance, or secured transaction law passage — merit continuing study.