

UNCLASSIFIED

Project Paper

388-0042

RURAL INDUSTRIES

ASEP

Rural Industries I

PROJECT ASSISTANCE COMPLETION DATE (PACD)

ESTIMATED DATE OF OBLIGATION  
(Under "E" below, enter 1, 2, 3, or 4)

MM DD YY  
11 23 1986

A. Initial FY 81

B. Quarter 4

C. Final FY 82

8. COSTS (\$000 OR EQUIVALENT \$1 = Taka 16)

A. FUNDING SOURCE	FIRST FY 81			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AD Appropriated Total						
(Grant)	( 1380 )	( 620 )	( 2000 )	( 3000 )	( 2000 )	( 5000 )
(Loan)	( )	( )	( )	( )	( )	( )
Other: 1.						
U.S. 2.						
Host Country		318	318		318	318
Other:					151	151
<b>TOTALS</b>	<b>1380</b>	<b>938</b>	<b>2318</b>	<b>3000</b>	<b>2469</b>	<b>5469</b>

9. SCHEDULE OF AID FUNDING (\$000)

4. APPROPRIATION PURPOSE	5. PRIMARY TECH CODE	D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
1) FN	2	10		5000		5000	
2)							
3)							
4)							
<b>TOTALS</b>				<b>5000</b>		<b>5000</b>	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

150 190 710 810 840 874

11. SECONDARY PURPOSE CODE

260

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code BR DEL EQTY LAB PVOU PVON TECH

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

The project purpose is to develop mechanisms for promoting rural industries in Bangladesh.

14. SCHEDULED EVALUATIONS

Interim MM YY Final MM YY  
0 9 86

15. SOURCE/ORIGIN OF GOODS AND SERVICES

00U  94  Local  Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a page PP Amendment)

*Frank B. Kimball*

Signature  
Frank B. Kimball  
Title  
Director  
USAID/Bangladesh

Date Signed  
MM DD YY  
10 19 81

17. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY  
10 19 81

17. APPROVED BY

BANGLADESH  
RURAL INDUSTRIES I  
PROJECT PAPER

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July 1981

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\*Bound separately - available in USAID/Dacca, Rural Development and Engineering (RDE) and AID/W, ASIA/PD.

ABBREVIATIONS AND DEFINITIONS

Small Scale Industry

A factory or undertaking having investment in fixed assets in plant and machinery not exceeding 2.5 million taka (\$156,000). This definition has been used to accommodate most of the industries located in the government run industrial estates.

Cottage Industry

One which is wholly or mainly carried on by family members, either as a full-time or as a part-time occupation; it is also sometimes defined as any industry using family or hired labor with no motive power and which employs fewer than 20 hired workers, or any industry which may use power but employs fewer than 10 hired workers.

Micro Industry

All cottage industries plus the smallest of those included in the small scale category. The cut-off point has been left subjective to allow for flexibility in dealing with different product types and intermediary agency target groups.

ADAB	Agricultural Development Agencies in Bangladesh
APAC	Asia (Bureau) Project Advisory Committee
BCSIR	Bangladesh Council of Scientific and Industrial Research
BDG	Government of Bangladesh
BDG FY	BDG Fiscal Year from July 1 through June 30
BHB	Bangladesh Handloom Board
BIDS	Bangladesh Institute of Development Studies
BRAC	Bangladesh Rural Advancement Committee
BSCIC	Bangladesh Small and Cottage Industries Corporation
CDSS	Country Development Strategy Statement
DS/UD	AID Development Support Bureau - Urban Development Division
ERD	External Resources Division (of BDG Ministry of Finance)

GDP	Gross Domestic Product
LDC	Less Developed Country
MIDAS	Micro Industries Development Assistance Society
PID	Project Identification Document
PP	Project Paper
PSC	Personal Services Contract
RIDAB	Rural Industries Development Agencies in Bangladesh
RISP	Rural Industries Study Project
SCI	Small and Cottage Industries
TAF	The Asia Foundation
Thana	Bangladesh county sized administrative unit = 470 total
Union	Township = 4,350 total

## INTRODUCTION

In recognition of the critical role of small rural industries for Bangladesh's development, USAID in its FY 83 CDSS has emphasized rural industries as one of four major sectors for AID support. The CDSS stresses that development of private sector rural industries as a means of generating off-farm employment and supporting the agricultural sector is vital for reducing widespread underemployment and improving income distribution and overall country stability and development.

Although increased use of HYV cultivation has contributed in recent years to an annual growth in agricultural employment of 1.5 percent, the rural labor force has increased by 2.4 percent annually. Thus, rural unemployment and underemployment will grow unless off-farm job opportunities are developed rapidly. In addition, evidence to date indicates that rural industries hold much more potential for female employment than agriculture. Female employment outside the home has a strong direct correlation with lower fertility, and fertility reduction is AID's number one priority in Bangladesh. Promotion of certain rural industries, therefore, will have a significant impact on fertility reduction and will contribute to a range of USAID's overall development goals.

The BDG has only recently recognized the importance of this sector and has not developed a well-defined strategy or altered its policy structure for dealing with rural industries' needs. As evidenced in its Draft Second Five Year Plan, the Government has set very modest goals for small industries development, with recommendations centering on improved coordination among BDG agencies involved in this sector. No clear guidelines on the relative importance of small rural industries as compared with larger and/or urban industries have been established, nor is there an appropriate climate for stimulating private sector growth.

The USAID financed Rural Industries Study Project (RISP) is an important first step in identifying the extent of rural industries in Bangladesh and the major constraints to their growth. It provides detailed information on industries which have potential for expansion, and makes recommendations for future actions. The Mission now plans to address these constraints by following some of the RISP recommendations and other conclusions drawn from a three year involvement in the field of rural industries. The program, begun in FY 1980 and to be continued via this project, will lay the ground work for a long term, joint AID/BDG involvement in sector development.

## RISP Results

The RISP indicates that rural industrial activity is a far more important source of employment than official statistics estimated. Since most rural industries require only traditional skills, mainly lower income rural people with a surprisingly high percentage of all workers being women (34%) are employed.

The study also points out the great diversity of manufacturing and processing industries existing in rural Bangladesh. Among them are handloom cloth, jute products, grain processing, cane, bamboo and mat products, carpentry, tobacco processing, tailoring, pottery and leather work. These industries are classified into two basic categories. The "static" industries are traditional industries which may have great employment potential but which have limited scope for dramatically increasing incomes to workers. The handloom industry is an example of such an industry. The "growth" industries are somewhat more capital and skill-intensive than the traditional static industries, and have more potential for increasing returns to labor and for reinvestment of profits. However, they have proportionally less employment generation potential. Industries in this category include metal working, agricultural implements and transportation. The RISP concluded that both static and growth industries should be promoted in Bangladesh, the former because of their potential for large scale employment creation, the latter because they lead to increased income, productivity, modernization, and growth.

An equally important finding of the RISP is the wide variety of constraints effectively preventing the expansion of the rural industries sector:

1. Entrepreneurial Ability: Entrepreneurship is a skill normally passed down from one generation to another. Little of this tradition of entrepreneurship exists in Bangladesh in the sense of established families who value this ability to identify and grasp business opportunities or possess managerial skill. Proprietors of small rural enterprises are often former peasants, although many artisans belong to Hindu artisan castes.

2. Credit: Deficiencies in credit systems and limited funds have made access to credit through formal institutions difficult for rural small industries. In most cases, small enterprises have been established from personal savings or high cost non-institutional loans. The demand for credit is extensive, and is as important for working capital as for start-up capital. Among the micro industries needing only small amounts of capital, the problem may be as much lack of knowledge about credit availability and procedural difficulties as it is actual credit unavailability.

3. Infrastructure: Lack of an adequate system of transportation, communications and marketing hampers the flow of goods and information.

4. Diffusion of Ideas and Technology: The RISP noted that specialized technologies and industries seem to be localized, with little diffusion beyond the localized area even though the requisite inputs for these industries and technologies may be much more widely scattered.

5. Raw Materials Availability: This may be the single most important constraint to expansion of rural industries, particularly for the modern, growth industries. Bangladesh is almost totally bereft of adequate supplies of natural resources, including metals, chemicals, construction materials, fuels (except gas), textiles, and even stone, while the availability of wood is also decreasing. Consequently, most enterprises, particularly the growth industries, are largely dependent upon imports. Imported raw materials available locally are expensive; some are unavailable at any price. Considering the BDG's severe foreign exchange constraints, import of raw materials for rural industries will require either reduced allocation to other high priority sectors or increased foreign assistance. In the long term, Bangladesh desires to become self sufficient in foreign exchange by developing export-oriented industries. But until improvements have been made in the quality and distribution systems of goods produced, the best Bangladesh can hope for is to limit the overall foreign exchange drain through production of products for import-substitution.

6. Extension: Extension services for rural industries promotion are virtually non existent. The RISP concludes that extension is particularly important in Bangladesh because the poor communications system and absence of entrepreneurial tradition prevent the flow of ideas and technology necessary for rural industries expansion.

7. Quality: Most of the products produced by rural industries are traditional goods oriented towards meeting survival needs in agricultural areas. The quality of many of these products is so low that as cheap imports appear or rural incomes rise, the indigenous goods are viewed as inferior. The quality of export-potential goods such as handloom cloth and handicrafts is frequently too poor to compete with similar goods produced elsewhere in Asia. Increased demand for these products can only be ensured if quality improves.

8. Government Policy: The RISP noted that BDG policies towards imports of raw materials and finished products, large industry promotion, and investment incentives all affect the rural industries sector.

Promotion of medium and larger scale industries is being undertaken with financing from the World Bank and other donors (Appendix J). Current BDG policies set no clear priorities towards development of small, medium and large industries.

9. Research and Development: Scattered research and development activities are underway in Bangladesh for development of new technologies, improved inputs, or new designs for specific products by Bangladeshi organizations. But these efforts are not coordinated, lack an institutional base through which the technologies can be diffused, and leave many needed areas for R and D neglected.

10. Institutions for Rural Industries Promotion: The problems of providing extension, credit, information and marketing facilities to rural industries are compounded by the lack of an institution capable of performing these functions for rural based industries. The Bangladesh Small and Cottage Industries Corporation (BSCIC), the BDG agency charged with responsibility for promotion and small industries extension services, has concentrated mainly on small scale industries located in 20 industrial estates. BSCIC's field offices go only to the district level, and cottage industries have remained for the most part untouched by BSCIC operations. There are myriad other private and public organizations, serving a specific industry, performing a limited function or working only in a small project area.

USAID Sector Strategy Development: The above constraints can be condensed into four main areas which must be addressed by a comprehensive rural industries strategy: policy formulation; commodity imports; service institutions (information, marketing, credit, etc.); and technology transfer (development and diffusion of improved technologies and products).

Over the next 12 months, USAID will prepare a sector assessment and planning document for rural industries, to be completed prior to submission of the FY 84 ABS. This document will thoroughly examine these four areas and refine the Mission's sector development program. Accurate sector analysis and planning is, however, a process that should be based on experience, so USAID's approach will be revised periodically as more information is gathered on project activities. The program described in the following sections besides directly contributing to the attainment of Bangladesh development goals, will provide important input in developing this long term sectoral strategy. On-the-ground approaches to rural industries promotion will provide the Mission with needed experience, stimulate thinking, provide workable examples, and act as a catalyst for the building of the sector strategy. Two sector studies planned for the near future will complement the activities of the Rural Industries I Project. Overall, plans are to address the four sector needs identified above in the following way:

1. Policy Development

- a) The RISP Final Report was distributed in the third quarter of FY 1981. It contained a section dealing with BDG policy and its effect on rural industrial promotion.
- b) The Mission, intends to undertake an initial study of BDG industrial policy, particularly as it relates to small industries. This study may be funded through the Technical Resources Project (388-0027). It will examine the RISP policy section and other data and may lead to recommendations to the Government of Bangladesh for policy changes.

2. Commodity Needs for Rural Industries Production: Because promotion of almost any modern type rural industry (as well as some important traditional industries) requires additional imported raw materials, modern sector small industry projects must strive to generate foreign exchange by reaching export markets. As this is a long range goal, commodity imports funded by the BDG or the donor community will for the near term be essential in supplying needed raw materials. AID, through its FY 1980 PL-480 cotton program, is already playing a role in supplying these needs, and recognizes the potential to increase assistance in this area through a possible PL-480 Program in FY 82 and or a non-PL-480 financed Commodity Import Program in FY 83. An important first step for a full scale CIP, however, is more experience in the rural industries sector and close examination of Bangladesh's overall commodity needs for small industry and the consequent foreign exchange burden. USAID will undertake a macro analysis of this question with its own staff during the next year. The Mission will probably request AID/W and perhaps outside assistance in establishing the financial and administrative mechanisms for developing a CIP.

3. Service Institution Development and Technology Transfer: Both through the RISP and through the project development process, USAID has already learned a great deal about the existing institutions involved in rural industries promotion and about products and production techniques with potential for improvements and widespread diffusion. The Rural Industries I Project emphasizes institution building and the transfer of technology. It will provide assistance to a variety of organizations, testing different approaches to institutional development and technology transfer. Considerable project experience will be available by the time the sector assessment is drafted and analyzed, making the approaches tested in the project valuable inputs to subsequent sector and project planning.

Project Components as they Relate to Sector Strategy Development:  
Component I, MIDAS, described in Section II.A., is an innovative approach to both institutional development and technology transfer. It is based on the premise that in many cases private sector organizations

can provide outreach services more effectively than government, particularly in a production sector where the profit motive operates. MIDAS will assist an estimated 30 to 50 organizations which will in turn provide services to thousands of small industrial producers.

An issue raised in the PID review questioned the appropriateness of concentrating on traditional or cottage industries as opposed to modern industries. The Mission recognizes that much potential to increase GDP and employment exists in promotion of modern type small to medium scale industries. Component 2, Development Funds, Section II.B, will promote these modern industries as well as cottage industries. Priority will go to sub-projects aimed at products or industries that are potentially profitable, labor intensive and energy efficient. Sub-projects under Component 2 may emphasize institution and product development. The proposed venture capital activity, Section II.B.2, in particular, addresses the questions of linkages between micro and medium scale industries and the need for modernization of small industries to increase productivity. This activity starts from the premise that medium sized industries, the industries most receptive to new technologies, should produce equipment that can be used to start new types of micro-industries or improve existing micro industry production processes. As such, this sub-project should have direct beneficial impact on both medium and small scale industries.

Links with other Sectors: The Mission's new Sector Approach is based on "integration" of projects so that they interrelate with each other. The Rural Industries I Project promotes this "integration". For example, by the time this project is undergoing full implementation, USAID's Rural Finance Project will be ongoing (FY 82). Under Rural Finance, credit will be widely available. Credit under this project could be made available for micro industries and linked up directly with the venture capital and MIDAS programs. While independent in terms of viability, such linkages as these are planned and should be important factors in attaining the high impact desired.

## I. SUMMARY AND RECOMMENDATIONS

### A. Goal

To reduce under and unemployment and increase productivity and real incomes of the rural poor.

### B. Purpose

To develop mechanisms for promoting rural industries in Bangladesh. Two principal approaches will be undertaken:

- The establishment of an organization to facilitate and enhance the involvement of primarily non-governmental organizations in rural industries development and related employment generation.
- The provision of funds for developing and undertaking feasibility studies and pilot projects that may lead to widely replicable follow-on activities aimed at rural industries sector promotion.

### C. Descriptions

The two components of the project are non-overlapping approaches to the attainment of the project goal, consistent with the Mission's sector development strategy. Neither component will rely on the success or failure of the other, both being an essential element in developing the experience and laying the groundwork necessary for a long range AID program in rural industries in Bangladesh. The project paper analyses conclude that the components are technically, financially, administratively, and socially feasible and that planning is sufficiently developed for implementation to begin.

### D. Implementation

A cooperative agreement will be signed with an intermediary, non-governmental implementing agency (The Asia Foundation -TAF), for the first component described below (MIDAS). A Grant Agreement with the External Resources Division (ERD) of the BDG Ministry of Finance will finance the second component of the project described herein.

### E. Waivers

The need for exceptions to determination PD-68 is expected for the contracting of short term technical assistance under one or more project components (see Section IX).

F. Statutory Requirements

All requirements have been met as detailed in Appendix M.

G. Issues

All issues highlighted in the PID for this project or contained in the AID/W APAC approval cable (Appendix A) have been considered and resolved (see particularly Introduction).

H. Recommendations and Fiscal Summary

It is recommended that the project paper be approved for LOP funding of \$5,000,000. The basic fiscal breakdown is shown in Table 1 below. Note that the MIDAS activity has been initiated through another funding source.

TABLE 1  
BASIC FISCAL BREAKDOWN  
Non-Counterpart Cost

	<u>PVO Co-Financing</u> 388-0045-2	<u>Rural Industries</u> I Project 388-0042
<u>Component 1 (MIDAS)</u>		
Maximum 12 month start-up phase under TAF/AID Grant Agreement	(FY 80) \$158,000	
Year 1 operations under TAF/AID Cooperative Agreement		\$ 455,000
Year 2-5 operations under MIDAS/AID Coopera- tive Agreement		3,000,000
<u>Component 2 (Development Funds)</u>		
Various sub-projects		1,270,000
<u>PSC Project Support</u>		275,000
TOTALS	\$158,000	\$5,000,000

## II. DETAILED DESCRIPTION

The Rural Industries I Project will provide \$5,000,000 in grant funds for two separate components and long term Personal Service Contract (PSC) support as follows:

I. Micro Industries Development Assistance Society (MIDAS)	\$3,455,000
II. Development Funds	1,270,000
Project Support	275,000

Inputs and expected outputs for both components are described below. The PSC Project Support function is described in Section V. For an overview of total project inputs and outputs, see the project logframe (Appendix L), and Budget Tables of the Financial Analysis, Tables 4-8.

### A. Component 1 - Micro Industries Development Assistance Society (MIDAS) (1)

#### 1. MIDAS Background

In 1979, approximately forty non-governmental organizations involved in micro industry development met several times in Dacca to discuss their common interest in setting up a viable mechanism to assist them in their individual development efforts. (2)

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(1) MIDAS reflects a USAID initiative with private development agencies. Project development, however, was provided assistance by Mr. Jason Brown whose services were paid for under a centrally funded AID project entitled Program for Investment in the Small Capital Enterprise Sector (PISCES) of the Office of Urban Development, Development Support Bureau. Part of the substance of this project paper dealing with MIDAS, including annexes, reflects material developed by Mr. Brown.

(2) This mechanism was originally known as Rural Industries Development Agencies in Bangladesh (RIDAB). A detailed discussion of the evolution of RIDAB/MIDAS, the needs of potential clients, and reasoning which has justified the creation of MIDAS in its present form appear in Appendix C.

A questionnaire circulated at one meeting indicated that 100 percent of the respondents needed information services, 82 percent needed technical assistance, and 64 percent needed small grants and/or loans. A consensus among those individuals and agencies has led to creation of MIDAS. MIDAS is a private sector initiative to assist primarily non-governmental organizations to promote micro industries or to remove constraints to their development. Success will be indicated by a significant increase in the number and productivity of micro industries and increased incomes of the people engaged in micro industries in the areas served by the project.

## 2. MIDAS Outputs(1)

To achieve the project purpose, MIDAS will provide a variety of services to primarily non-governmental organizations involved in promoting rural based, micro industries. The agencies served will include private and voluntary organizations, cooperatives, trade groups and associations, traditional cultural organizations, business groups, and related BDG organizations. Special efforts will be made to provide services to the various women's organizations working with micro industries.

Implementation of MIDAS will be time phased. Initially, a few key industries will be identified and MIDAS will concentrate on providing services to client agencies involved in their development. As experience is gained and client demands and MIDAS staff capacities become known, the mix will be clarified. Thus, while MIDAS is expected to be capable of offering the following services by the end of year three, client demands, staff limitations, and project implementation constraints will determine the scope of services to be offered and the fund generating programs undertaken.

### 1. Technical Services to Assist Client Agencies in

- Project identification, feasibility studies and evaluation
- Overcoming raw materials and production process constraints
- Development of marketing strategies
- Identification of needs for technical services and the provision of experts with the requisite technical skills

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(1) A more detailed description of the activities below is given in Appendix D.

- Organization of seminars, short-term study tours, apprenticeships, and on-the-job training opportunities

2. Information Services

- Maintenance of a technical library on micro industries
- Generation of newsletters and other formats designed to share information on such matters as raw materials and equipment, technical processes, and marketing for particular industries.

3. Financial Services

- Small grants to client organizations for experimentation
- Small loans to assist meeting start-up or working capital needs of clients' profit making ventures
- Assistance to obtain loans and grants from other sources

4. Fund Generating Enterprises

- Establishment of profit making entities, some of which may serve the dual purpose of removing constraints to micro industry development and generating income to support MIDAS operations.

5. Ties with the Government and Business Sector

- Development of links between development agencies, government agencies, and the business sector, and active involvement of business people in MIDAS activities and clients' operations.

(a) Five Year Service Implementation Estimates

Considering MIDAS' manpower, budget, and Bangladesh project implementation constraints, the following chart (Table 2) quantifies the range of involvements MIDAS may attain in each service area for Years 1 through 5. As noted, the degree of involvement in each service area will be determined by MIDAS client agency's demand for services.

TABLE 2

PROJECTION OF MIDAS SERVICE DELIVERY  
GROWTH AND INCOME  
(Maximum/Minimum)

<u>Services</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Clients assisted in project feasibility studies and evaluations	-	10/5	30/20	70/30	100/30
Clients project receiving consultancy assistance	10/5	30/20	100/60	200/120	300/150
Clients assisted in marketing strategy and procurement	10/10	10/10	50/25	100/50	200/75
Clients receiving project proposal preparation and financial/funding referral service	2/2	10/6	50/20	70/25	100/40
No. of projects given small grants and/or loans	5/3	10/5	15/7	20/10	20/10
No. of persons receiving on-the-job training, attending workshops, sent on field trips, etc. through client agencies under small grants program	-	-	200/100	500/200	1000/500
Target distribution of newsletter (Bengali and English versions)	-	-	5000/1000	25000/10000	50000/20000



(b) MIDAS/Client Agency Interaction Examples

The following examples illustrate how MIDAS will participate with client agencies:

Example 1

The village Education Resource Center (VERC), an indigenous PVO, intends to undertake a project aimed at rehabilitating a traditional artisan community. The community was once a renowned center of ceramic handicrafts and architectural beauty. Presently, because of disruptions caused by partition, the struggle for Bangladeshi independence, and the dislocation of a portion of the indigenous artisan population, the area has fallen into productive and aesthetic decay. MIDAS may work with VERC through a \$30,000 grant and technical assistance program to revitalize the artisan community. The grant funds would be utilized to bring back skilled artisans as trainers, set up a VERC field office to assist cooperative formation and village structure renovation, and equip the artisans with appropriate tools. MIDAS will act as liaison with other MIDAS client agencies in the areas of marketing and technology. The project is expected to help create not only a productive and once more attractive community but also to help realize the BDG's desire to transform the area into a center of tourism.

Example 2

The Metropolitan Chamber of Commerce and Industry, Dacca, (MCCI, D) has expressed a desire to associate with AID in the fields of 1) managerial and technical training and, 2) rural small scale industry (RSSI) promotion. The MCCI, D could draw on the expertise of the MIDAS Consultant Group, disseminate information concerning its "opportunities for RSSI" awareness campaign through MIDAS client agencies and newsletters, and arrange the minimal funding required through the MIDAS small grants program. In turn MIDAS client agencies would obtain access to superior training programs organized by members of the private sector business community and establish closer ties with the Chamber and its member organizations.

As part of its RSSI promotion program, the MCCI, D will prepare and update profiles for high potential industries. These profiles are expected to describe the step-by-step process of starting a new venture. Many of the case studies and profiles presently available through the AID funded RISP and MIDAS client agencies can be made available for modification into hard, business oriented "how to" guides, and agencies linked through MIDAS may profitably undertake entrepreneur identification and implementation programs.

Example 3

Ten client agencies have already asked assistance of MIDAS in obtaining adequate supplies of yarn for their handloom weaving projects. These PVO's have had difficulties as individual groups in obtaining yarn on the open market where adequate quantities of specific count yarn at fair prices are not always available. MIDAS has contacted the Bangladesh Handloom Board which has implemented a system of direct allocation of yarn from the Textile Mills Corporation to these PVO's. When MIDAS assumes the seat to which it has been nominated on the National Council for Small and Cottage Industries (established by Presidential order and included in the BDG Second Five Year Plan) more of this liaison service and BDG policy modifications favorable to private sector organizations working to promote micro industries is expected.

3. MIDAS Inputs

USAID proposes to provide \$3,455,000 to finance all MIDAS operating expenses for the first five years. During this time, fees generated through services to clients and creation of profit making enterprises will gradually increase so that by Year 5 these fees should cover 25 percent or more of MIDAS costs. The detailed MIDAS budget is shown in Appendix G.

(a) Pre-Project Activities

A Grant Agreement (AID No. 388-0045-2) with the Asia Foundation (TAF) for \$158,000 was signed September 1980, under the USAID PVO Co-Financing Project to fund the initial 12 month start-up phase of MIDAS. The funds are being used to establish and staff the office, support research efforts, and develop management systems for the eventual independent operation of the MIDAS organization. TAF has principal responsibility for fund use during this preliminary phase.

An Advisory Board consisting of representatives of private and voluntary organizations and private sector business persons has been formalized to assist TAF. (1) The Board is responsible for the preparation of policy and operational guidelines, and is assisting TAF in 1) the establishment of MIDAS as a private non-profit entity under the Societies Act (2) and 2) registration and clearance with all BDG entities as required by law.

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(1) Attachment A to the TAF/AID Grant Agreement shows the original composition of the Advisory Board.

(2) As of August 1, 1981, incorporation documents have been submitted but not finalized.

(b) Rural Industries Project - Year 1

At the beginning of Year 1, MIDAS, through TAF, will receive \$455,000 of FY 1981 Rural Industry I Project funding. TAF will continue to provide shelter to the young organization as it begins program implementation. In preparation for direct funding without TAF as intermediary, MIDAS should reach an acceptable level of operational competence by no later than the end of this year.

With refinements and modifications resulting from activities to be undertaken during the preliminary phase, the basic program of action shown in Appendix F will be undertaken consistent with the Financial Analysis given in Section VI below. MIDAS Year 1 costs shown in Appendix G include TAF overhead expenses.

(c) Rural Industries I Project - Year 2

At the beginning of Year 2 MIDAS should become independent of TAF(1), and receive \$3,000,000 to carry on its next four years of operation. An expatriate consultant will be contracted to provide guidance to MIDAS in the development of profit making corporations in which MIDAS will take an equity position. Besides equity or working capital, MIDAS will provide administrative, financial and technical assistance to these ventures, acting in a fashion similar to a small business investment corporation (SBIC). These ventures may be spun off at a later date. The detailed program of action provisionally planned for Year 2 (with modifications based on start-up phase and Year 1 experiences) is shown in Appendix F.

(d) Rural Industries I Project - Years 3-5(2)

At the beginning of Year 3, MIDAS will be in the process of completing the hiring of its full planned complement of personnel and the organization will be undertaking all of its designed service delivery and profit generating functions. Details of the program to be repeated for Years 3, 4 and 5 are also shown in Appendix F.

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(1) See Appendix E for description of legal structure and by-laws.

(2) Post year 5 AID or other donor funding has been dealt with in Section VII.

(e) MIDAS Organization Structure and Staffing

In order to provide the services listed above, MIDAS may be staffed as follows. Timing of new hirings and flexibility in modifying staff requirements will be necessary however, as staffing will be determined by MIDAS client demand for specific services and the MIDAS Board and Administrator's perceptions of personnel requirements:

Start-up Phase:

(up to 12 months) Administrator, Office Manager and 6 support staff

Year 1 (add):

Long term Expatriate Consultant (2 year term), Chief Accounting and Finance, Information Specialist, Coordinator of Technical Services, Business Manager and 1 support staff.

Year 2 (add):

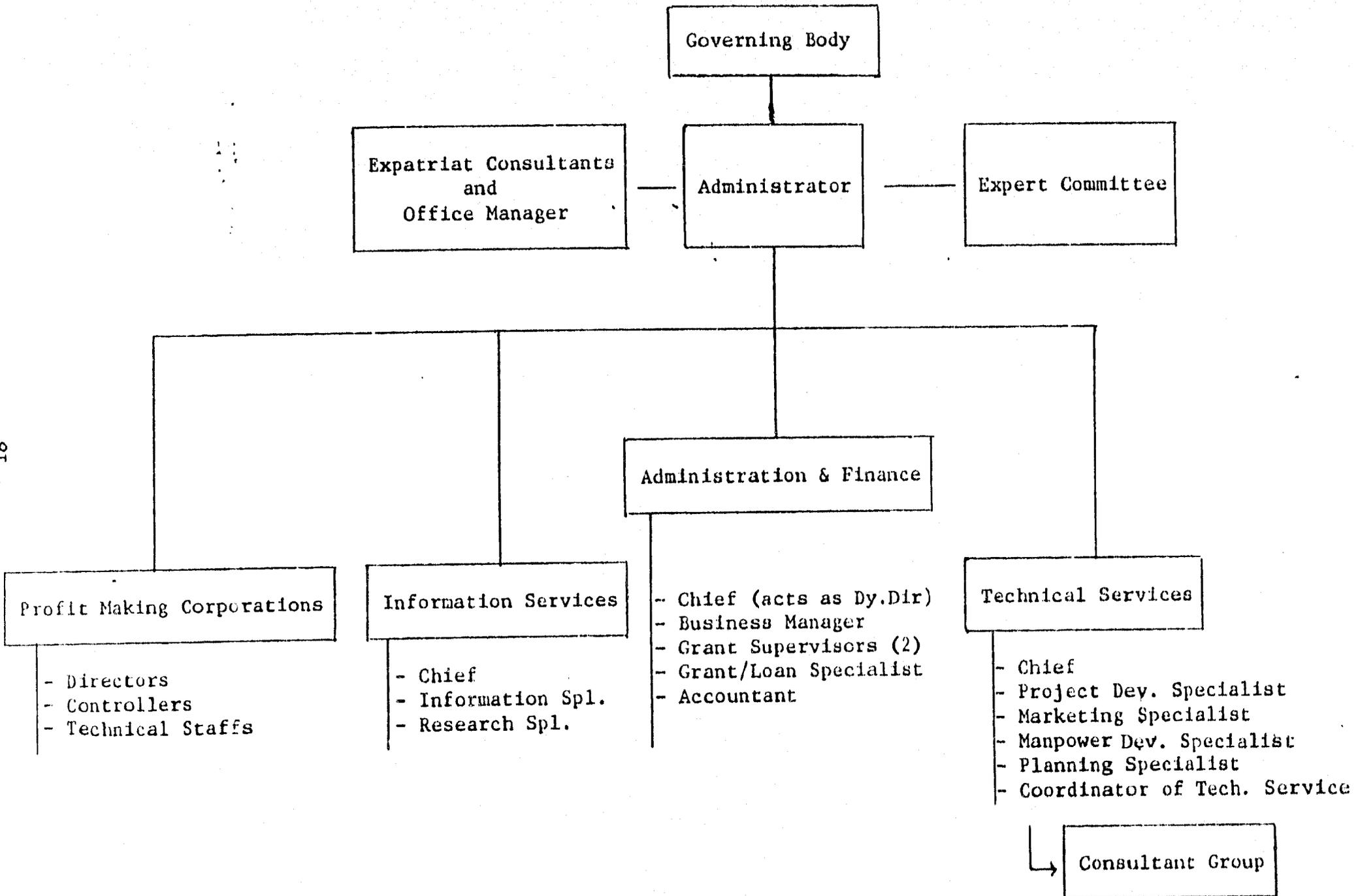
Second Expatriate Consultant, Research Specialist, Project Development Specialist, Marketing Specialist, Grant Supervisor, Grant/Loan Supervisor, Chief Information Unit, Chief Technical Unit, Manpower Development Specialist, Planning Specialist, and 4 support staff.

Years 3 thru 5:

Second Grant Supervisor and 2 support staff.  
(No other new additions are anticipated; however, the MIDAS budget will contain sufficient flexibility to permit meeting unforeseen personnel needs such as design specialist, specific industry type experts, export promotion specialist, or others.)

Special recruitment efforts will be made for hiring competent women for the above positions. In Year 3, MIDAS will have assumed the form represented by the following organization chart.

MIDAS ORGANIZATION CHART - YEAR 3\*



\* See above comments on staffing pattern flexibility.

B. Component 2 - Development Funds

This component will set aside a pool of funds for developing and undertaking feasibility studies and pilot programs in high potential approaches to sector development(1). These funds would be utilized in a similar manner to those which have been made available to the BDG through the AID Technical Resources Project (388-0027). They would not, however, be limited to technical services, but could be utilized for all of a pilot or experimental project's needs, such as raw materials and other commodities.

Each program considered would be individually examined by the BDG and AID before the activity would be approved for funding. The Rural Industries Grant Agreement would specify the procedure to be followed including the issuance of Project Implementation Letters (PIL's) for any activity selected for funding. The BDG Ministry of Industries would be the intermediary in charge of allocation of all Component II funds.

There are five criteria by which proposed activities will be evaluated. These will provide the basis for rejecting unsuitable proposals and for setting priorities for funding acceptable options. The criteria are as follows:

1) The activity directly addresses one or more of the major constraints to rural industries development.

2) Pilot programs demonstrating new technologies or industrial processes must be implemented through sub-contracts to private individuals or firms and designed for wide scale replication through the private sector or to promote private sector growth.

3) When an activity is aimed at a product or industry type, there should be evidence that widespread and profitable production is possible (i.e. demand exists and marketing systems are identified; sophistication in managerial or technical skills is not required at the level of the SCI entrepreneur; raw material, credit and other inputs are available and affordable to the enterprises).

4) The BDG agency responsible for services under criterion 2 above or undertaking any other activity hereunder, must demonstrate that it can and will provide adequate technical and/or administrative support for the activity and follow-on design and implementation.

5) Priority will be given to activities which employ labor intensive, energy efficient modes of operation, employ women as entrepreneurs or at other income generating levels, use indigenous natural resources, and/or are agro-industry or export oriented.

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(1) See Appendix H for official BDG/AID communications.

The Development Funds pool will contain \$1,270,000 categorized as follows:

1) Assistance to BSCIC to establish a wide and truly responsive system for promotion of village industries, possibly supported by credit, training, and women's industries and entrepreneurship development.

2) Determination of feasibility and designing of a plan for capitalization of small scale industries through one or more private sector financial institutions.

3) Assistance for specific product development, with research and pilot production.

4) Development of experimental approaches to rural industries promotion.

It is anticipated that efforts undertaken under Component 2 may lead to one or more additional projects, for which a follow-on to the Rural Industries I Project may be written. However, the activities in their own right will have a positive effect on SCI productivity and employment in Bangladesh.

The four above mentioned categories are illustratively described below. The examples, however, should not be taken as a final definition of funds utilization. If, for example, it is determined that the roofing tiles project outlined below is not feasible, funds made available through the pool would be utilized in another fashion agreed upon by AID and the BDG. Funds, for example, might be reallocated to compensate for underestimation of the budgetary needs of any of the below mentioned sub-projects. They may also be utilized in unmentioned but related activities, such as the development of a commodity import program (CIP), sector studies, or export, joint venture and private sector investment promotion.

## 1. BSCIC

### a) Responsibility and Capacity

BSCIC is the premier agency appointed by the BDG for providing extension and promotion services to most parts of the SCI sector. It is an autonomous agency under the Ministry of Industries. It was formed in 1957 and has undergone several stages of reorganization, but at present it is responsible for both small scale and cottage industries.

BSCIC has a wide range of ongoing activities. It manages 20 industrial estates, the Bangladesh Handicraft Marketing Corporation, a design center, a Rural Industries Service, and various projects to promote specific industries (see Appendix I).

Nevertheless, BSCIC does not have much extension capacity, and primarily for this reason has not been effective in promoting growth in the SCI sector. Its effect on small scale industries has mostly been on those industries located in its own industrial estates. Its effect on cottage industries has been only in a few geographically limited areas and in a few specific product types in those areas.

There is 1) no micro industries credit system, 2) no general extension network for promoting micro industries, 3) no organized hierarchy of training, nor a central training facility, and 4) no system within BSCIC to promote women's industries and entrepreneurship.

The aim of USAID activities with BSCIC is to promote project development and implementation in these four areas.

In September 1980, a new Chairman was appointed to BSCIC. He has outlined plans for decentralization, with BSCIC reaching out to the village artisan as well as wider promotion of modern small scale industries. As he took over leadership in BSCIC, the BDG announced that an "Industrial Revolution" would be one of four major revolutions<sup>(1)</sup> in the country, and gave BSCIC a major role in planning and implementing this.

#### b) USAID Relations with BSCIC

The Rural Industries Study Project (RISP) funded by USAID was conducted by the Bangladesh Institute of Development Studies under contract with BSCIC.

Subsequently, BSCIC informally asked USAID for assistance in project development in three areas: 1) cottage industries credit and extension, 2) consolidation of BSCIC training, and 3) women's industries. In response, three committees of local experts were established to develop data and plans to go into BSCIC project pro formas for these three areas. The work of the credit and women's entrepreneurship committees was completed in July 1981, and yielded plans for BSCIC to phase in an integrated micro industries extension system supported by credit and including women's industrial activities, beginning in the ten RISP thanas.

#### c) USAID/BSCIC Proposed Component 2 Activities

BSCIC has submitted a request which asks for long term assistance from AID over the next five years for an "Integrated Program for Credit Supply to Rural Industries" and for a "Women's Entrepreneurship Development Program". Both programs have been designed with phased implementation plans and propose that PL-480 Title III counterpart funds be employed to cover the majority of program costs.

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(1) The other three are population control, mass literacy and agricultural development (canal digging).

Before considering assisting BSCIC on full implementation, AID has proposed a pilot phase. The BSCIC proposal on credit is well worked out as regards mechanisms for credit delivery and recovery, but success will depend on BSCIC development of an effective extension capacity to go with it. The women's entrepreneurship program likewise addresses a difficult area in which experimentation and slow beginnings are necessary to refine the operational system to be employed.

The pilot phase would be funded by \$670,000 from Component 2. For credit delivery, system testing would take place in four thanas of four separate districts and experimentally operate from two bank branches in each of the thanas for one year. BSCIC will provide the administrative structure through its headquarters and the proposed District Industries Centers and maintain links with the proposed 4 thanas. It will also place extension officers in each of the 4 thanas. These officers will provide technical and managerial advice to the proprietors, and jointly evaluate credit requests with bank agents. The concerned banks will provide the administrative structure and training for this new program. Design documents show that operations should be marginally profitable for the banks. The average loan size will be 6000 taka (less than \$400) with a maximum of 25,000 taka (less than \$1600). The proposed fund provided by USAID for this pilot phase will include the loan amount and a guarantee of 90 percent of defaults (with an estimated default rate of 30 percent). There will also be some funds for training bank agents and incentives to bank agents and BSCIC extension workers for recommending clients who repay their loans on time. Mechanisms for credit delivery have been adequately worked out and provisions for evaluation included in the design.

The pilot project on women's entrepreneurship and employment should begin in the same 4 thanas so that the same credit mechanism may be used and BSCIC overhead may be minimized. It is proposed to reserve 30 percent of the credit for women's industries. The experimental project on women's entrepreneurship will also have some modest funds for seed money for women's new industries, special training and personnel costs, and project operation costs. The BSCIC design document mentions various mechanisms by which women may be encouraged to go into entrepreneurship for industries suitable for them in the culture of Bangladesh, and also to assist poor women in gaining employment in village or cottage industries. BSCIC is to assist women already trained by other public and private organizations to develop production of commercially viable products and market them locally in bazars and through a special agency to be set up for the purpose.

The proposed budget for these pilot efforts in the 4 thanas is as follows:

-	Loan fund, through commercial banks (30 percent reserved for Women's Entrepreneurship Program credit)	\$450,000
-	Guarantee fund for credit	128,000
-	Incentives, training, and consultancy for micro-industry credit project	20,000
-	Women's industries seed money	30,000
-	Incentives, training, and consultancy for women's industries project	20,000
-	Transportation, miscellaneous project expenses	<u>22,000</u>
	Total for AID:	\$670,000

-	BDG contribution to the two projects: BSCIC headquarters and overhead, divi- sional offices District Industries Centers to be set up, placing and supporting extension officers in the thanas for assistance, loan applica- tion appraisal, aid in collection, setting up a new administrative unit for women's industries, travel, per diem, publicity, etc.	(taka equivalent) <u>\$230,000</u> \$900,000
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If this pilot phase is successful for either or both of these projects, consideration will be given to large scale implementation as outlined in BSCIC's design documents through Title III counterpart funds and a Rural Industries I Project follow-on program.

## 2. Venture Capital

Funds from this sub-project may be used to design a mechanism which would stimulate growth in the micro industry level through a strategy of providing equity to medium scale and larger small industries. The equity would not be directed at small businesses themselves. Equity participation would provide additional capitalization for those businesses where new technology "turnkey" packages produced for use by SCI's would provide the SCI's the means of production to

increase "value added" of rural raw materials and supporting mechanisms to ensure SCI success. By applying these products to the SCI sector on a technology transfer, turnkey basis, an increase in SCI activity and associated rural employment would be expected. An example of how this mechanism might work follows:

The venture capital company would identify a process suitable for SCI's such as small scale soap manufacture, making cement from rice husk ash, or production of handloom spare parts. It would design a turnkey package for the process. The venture capital company would participate with a medium or larger small scale industry in the manufacturing of a number of machinery units for the process. Perhaps 50, 500 or 5000 of these turnkey packages would be produced and marketed to SCI entrepreneurs who would initiate new small scale manufacturing entities. Marketing research, quality control and other support mechanisms would be included in the package. Financing of the SCI entrepreneurs would be through a commercial bank associated with the venture capital company.

a) Supply and Demand Factors

Rural industries are typically labor intensive and deal almost exclusively with raw materials available locally. To generate their income (cash flow), they must somehow add value to the "inputs". Once the product(s) is produced, they must be sold for at least the amount needed to meet expenses and pay the owner some income. One problem, however, is that many similar small and cottage industries deal with the same raw materials and there are more products produced than can be absorbed with present marketing and distribution systems. This condition (over competition in local areas) is further aggravated by attempts to engage more entrepreneurs in similar enterprises. In short, production increases without corresponding increase in product types and/or the market size can hurt the micro industry sector. Not only do small businesses fail, but efforts to generate additional employment also fail and development resources are wasted.

On the supply side, the level of marketing of products available is rudimentary. Artisans and small industry people generally sell their wares in a limited area or they sell to itinerant wholesalers who then resell. As a result, selling areas are restricted or the producer loses the bulk of the profit to the wholesaler. The SCI producers involved do not know how to extend their reach into other areas. As a result, market share is low and employment suffers.

On the demand side, products available are aimed at subsistence needs. The shops and bazaars contain cloth, shoes, food, nails, pails, furniture, medicines, building materials and other items dealing with survival needs. However, those products evolved have to deal in new ways with existing raw materials or deal in some way with raw materials that are discarded, through the introduction of new operating methods into the area. These changes can only come about through the transfer of technology and means of production to the rural sector.

b) An Organization Proposal

The venture capital organization might have government participation in both capitalization and on its Board of Directors, but would be controlled by private sector interests. It would have to serve several functions including marketing sales promotion, field support and new venture development. The organization would create and fund the above described private sector technology linkages to SCI. Such organizations in Bangladesh which might participate in the equity mechanism include the Investment Corporation of Bangladesh (ICB) and the International Finance and Investment Corporation (IFIC), to name but two. Also, implementing organizations exist to carry out the mandate of affecting change through support in implementation at the small and cottage levels. MIDAS could participate in this field support through its client agencies, since it will operate in the private sector and would be motivated to implement a program at that level.

Various components are already in place to effect such a mechanism for Bangladesh. The Division of Science and Technology of the BDG has already identified over 180 technologies, some of which might be developed into turnkey packages. In addition, the National Small Industries Corporation of India has developed and markets approximately 75 small industries, new technology turnkey packages. The equity program could be the vehicle to establish those which are appropriate in the small and cottage industry sector.

The Mission, ICB, IFIC, MIDAS, Ministry of Finance, the central and commercial banks, and others have developed the road outlines of such an equity mechanism as described above, with consultancy assistance from Practical Concepts, Inc., working under an AID funded IQC. A second stage design study is planned before a pilot or full implementation effort will be undertaken. Current thinking places the cost for this design study at about \$100,000.

The Mission has also been in contact with a Philippine small business investment corporation (SBIC) and is examining other equity capital/small business investment mechanisms.

3. Product Development

As proposed in the Rural Industries PID, USAID may fund one or more efforts for specific product development, through government agencies. These may involve products proposed for attention in the RISP, or proposed by implementing agencies. In regard to the first case, the RISP is producing case studies on pottery, coir, roofing tiles, agar (a scent), and silk.

The following examples are illustrative:

a) Roofing Tiles

A RISP study on roofing tiles showed considerable scope for promotion because the present industry is located in only part of the country but could be diffused to the whole country. It was also identified as an industry that can use exclusively local raw materials, and can at the same time cause improvement in the quality of people's housing and environment.

The Building and Housing Research Institute was appointed to develop and popularize improved low-cost rural housing, It is under the Ministry of Science and Technology. Based on the recommendations in the RISP study, this Institute would be assisted to design an experimental small scale gas-fired production unit. After publication of the details of the venture, an entrepreneur or private sector firm will be assisted to gain financing through a commercial bank and provided with managerial assistance so that he may set up and begin operation of the first roofing tile enterprise. Popularization of use of tiles in eastern Bangladesh and collaboration with entrepreneurs and MIDAS client agencies after the pilot plant has been bedugged, will be part of the pilot project design aimed at rapid diffusion through the private sector.

b) Essential Oils

Interest in this product area was generated by the Bangladesh Council of Scientific and Industrial Research (BCSIR), which has already begun work on extraction of several types of oils (lemon grass oil, eucalyptus oil). BCSIR can do the technical research, but needs funds for collaboration with private sector entrepreneurs for turning the laboratory extraction process into commercially productive enterprises. BCSIR and USAID have had discussions on a potential project in this area.

c) Lac(1)

RISP collected considerable information on the lac industry, while at the same time BCSIR has been conducting technical research. BCSIR has shown interest in a project to upgrade the lac produced in Bangladesh and save the industry from extinction by promoting new uses for lac in industry and handicrafts.

Funds needed for rural industries project definition and pilot development for this area of specific product development are based on a potential roofing tiles sub-project and initial exploratory work for a second product type. The sum of \$300,000 has been estimated to be sufficient to undertake these activities.

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(1) Lac is the base for lacquer. It is secreted by insects feeding off specific varieties of trees.

#### 4. Experimental Pilot Programs

Because the Mission's rural industries program is aimed at promoting all potentially viable approaches to sector development which staff time and funding will allow, it is desirable to have funds available for possible project development and experimentation with other government agencies. There are many BDG agencies or departments working in one way or another with rural industries. For example: Integrated Rural Development Program (IRDP), Ministry of Women's Affairs, Ministry of Youth Affairs, Sericulture Board, Chittagong Hill Tracts Development Board, Offshore Islands Development Board, Forest Department, Agricultural University of Mymensingh, Bangladesh Agricultural Research Council, National Foundation for Research on Human Resources, some universities, and others. Some of these agencies might pursue ideas arising from the RISP data or the case studies. All of them are being urged by the BDG to develop industries as part of the national "industrial revolution" and for income generation of needy people.

These sub-projects would be considered unsuitable for MIDAS if their costs are higher than allowed for in the MIDAS budget and if initial project design and pilot support efforts are to be carried out through governmental agencies. All designs, however, will be aimed at subsequent MIDAS or other private sector full scale implementation.

#### Illustrative Budget Summary

The following budget has not been incorporated into the financial analysis section of the PP as it is only illustrative in nature. Until final decisions are made as to which, and to what extent, the above sub-projects of Component 2 are to be undertaken, it is felt that the following, as only a "most likely" situation, should not, by being repeated and analyzed in other sections of this paper, be interpreted as a definitive plan of action.

TABLE 3  
COMPONENT 2 - POTENTIAL USES OF FUNDS

1. Assistance to BSCIC	\$ 670,000
2. Venture Capital	100,000
3. Special Product Development	300,000
4. Experimental Pilot Programs	200,000
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Total	1,270,000

### III. ECONOMIC ANALYSIS

#### A. Role of SCI in Economic Development

Growth of small scale and cottage industry (SCI) in Bangladesh can play an important role in promoting fuller utilization of available private sector capital and the country's abundant human resources. Besides the contribution to growth and employment, SCI can develop entrepreneurial skills, a prerequisite for future expansion of private sector economic activity. Also, growth of cottage and small scale industry may promote rural and regional development objectives.

The Rural Industries Study Project (RISP) shows SCI is a much more important source of rural employment than previously thought. In some areas surveyed, employment in this sector was as high as 25 percent of total employment(1), while a conservative estimate nationwide is about 14 percent(2).

Official statistics on the industrial sector show that over 80 percent of full and part time industrial jobs come from SCI(3). Statistics from the RISP suggest the percentage is probably even higher because official figures seriously undercount cottage industries.

Available evidence from Bangladesh's Census of Manufacturing Industries (1975-76) and Sample Survey of Unregistered Industries (1976-77) indicates that any expansion of SCI will be more labor intensive and have a higher rate of return on capital than medium and large scale industry. Average fixed assets per job, which provides an indication of direct employment to be expected from expenditure on plant and equipment was \$160 for cottage level informal industries, \$570 for registered small scale firms, and \$1,200 for larger firms. Excluding interest, profits per fixed assets for large, registered small, and cottage industry were 39 percent, 62 percent and 156 percent respectively: profits per sales were 17 percent, 20 percent and 29 percent. This data may be misleading for several reasons, e.g. a higher mortality rate for SCI, different accounting practices, etc. and, of course, variations by product line(4). Nevertheless, when one considers the conventional

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- (1) Bangladesh Institute of Development Studies, Rural Industry Project, Phase I Report, May 1979.
  - (2) R. Allen, Rural Industries Employment Findings of the RISP, Phase I Report, Memo, USAID/Dacca P.2 (undated 1980)
  - (3) World Bank, Issues and Prospects for Industrial Development, Vol 1, The Main Report, Report No. 1291-BD(Dec. 1978), P.7
  - (4) World Bank. Staff Appraisal Report on the Second Small Scale Industry Project, Bangladesh Report No. 1802-BD (May 1978), P.3

view in Bangladesh about the efficiency of medium and large scale enterprises, which are largely in the public sector, and further considers subsidies received by larger firms, a conclusion that investments in SCI are financially and economically at least as profitable as those in larger firms appears reasonable(1).

SCI's are an important source of entrepreneurial skills. The RISP found 28 percent of the workers in rural industry were proprietors and for 65 percent of them, rural industry was a full-time occupation. While the industries are not evenly dispersed, they are widespread in rural areas and can be a key component of an employment oriented development strategy .

#### B. Project Components

The Rural Industries I Project is essentially an institution building project. The majority of activities do not lend themselves to quantification of employment generation benefits or economic analysis. Various project activities are undertaken to improve project institutions, without which there will be no hope for successfully implementing more direct job creation and economically measurable approaches.

Various specific constraints to SCI growth are addressed besides limited capacity of development institutions. Some of these are insufficient market information, product design, and production techniques, lack of access to credit and raw materials, weaknesses in managerial and technical skills, and lack of access to modern technology.

Analysis of economic soundness of the MIDAS component of the project must rest primarily on qualitative information. In this case, an experimental project is proposed that by definition will entail a high level of uncertainty with respect to timing and degree of impact.

##### 1. MIDAS Component

The purpose of the MIDAS component of the project is to strengthen the capacity of private sector organizations to assist new and existing SCI. The main activity of this experimental project will be institution building - both of MIDAS and other local or expatriate private sector organizations that MIDAS will be servicing. Major assistance will be in information, technical assistance, and finance. The project's reach should be extensive. The order of magnitude will depend on the number and kind of organizations using MIDAS' services. Impact on employment and incomes will depend on the intermediaries' ability to translate MIDAS' services into direct assistance to SCI's.

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(1) World Bank, Staff Appraisal Report on the Second Small Scale Industry Project.

For MIDAS, direct grants and loans to client agencies may directly affect employment and incomes of from 35,000 to 70,000 persons over five years(1). An additional 800 to 1700 persons should receive training. Between 700 and 1450 other separately identifiable assistance activities in feasibility, evaluation, marketing, procurement and other consultancy areas should also result in significant numbers of new and improved income generating activities. The employment generation, productivity and profitability benefits of a widely circulated newsletter and other information dissemination activities should also impact significantly on the project goals.

The challenge this project component faces is finding more effective ways to reach proprietors of cottage and small scale industries. Incorporated into the MIDAS project will be an evaluation system to determine direct income and employment effects of MIDAS activity and thus provide information needed to evaluate economic soundness of the MIDAS component.

## 2. Development Funds Component

If a pilot project on credit such as that outlined in Section II.B is undertaken, approximately 9000 workers in 2400 industries should benefit by their enterprises increased working capital. This assumes an average loan size of \$310, the target of draft sub-project pro formas. This benefit would be in addition to improvement in job quality and earnings resulting from complementary extension services accompanying the loans.

If a pilot activity follows the feasibility/design activity and \$500,000 is invested through the venture capital program in two turnkey pilot activities such as micro industry semi-mechanized soap manufacture, about 400 jobs in one or two medium scale enterprises (see above Economic Analysis Capitalization Estimates) and approximately 6000 new jobs in 1000 new micro industries which have procured the packages, would be created. Jobs created per dollar invested would increase with program experience and spread of fixed overhead.

Insufficient definition exists in other potential Component 2 activities to estimate employment, productivity or profitability benefits. However, each activity undertaken will be judged on potential to provide these returns and its cost effectiveness before being funded (quantified, if applicable) and will include an evaluation component that will determine follow-on economic viability.

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(1) See Table 2, Section II.A - Each grant/loan is expected to create or improve returns to at least 300 small industries which will employ an average of slightly over three workers per enterprise.

#### IV SOCIAL SOUNDNESS

##### A. Introduction

The social soundness assessment of the Rural Industries I Project is based on examination of existing literature on employment and its sociocultural context, RISP data, and an understanding of changes occurring in rural Bangladesh because of demographic pressures, economic forces, and inequities between social classes.

Bangladesh is the eighth most populous country in the world. Its 90 million people are dependent upon an inefficient rice-growing agrarian system affected by a climate subject to extremes of weather. In an area approximately the size of the state of Iowa, nine out of ten Bengalis live in villages. Overall rural population density is the highest in the world - 1600 per square mile. Nearly half the population is under 15; only one in five is literate. Transport and communication, in the riverine delta of the Ganges-Brahmaputra rivers which compose the country, is extremely slow and difficult for most of the year. Rural infrastructure - roads, communication, electrification, etc. - is minimal.

With the exception of tribal minorities, the country is ethnically homogenous, 98 percent have Bangla as their mother tongue. Social organization differs only slightly from region to region. Eighty five percent of the population is Muslim, with the majority of the rest Hindu.

##### B. Social Organization

Bangladesh is founded on a rural, agrarian peasant social base. The primary social and cultural units are family and household based upon a man and his married sons, or upon a group of brothers with their wives and unmarried children. The division of labor in the household follows sex lines in both agricultural and non-agricultural families. Men do heavy work, especially outside the homestead. Women and children play important roles in the processing and storage of foods, tending livestock, and maintaining the operation of the homestead.

Homesteads cluster into hamlets (para), which may include some kinsmen. Artisan families tend to occupy individually named para within the wider village community.

Villages are, in most parts of the country, scattered hamlet clusters rather than cohesive agglomerations of dwellings. They are functionally amorphous as well, with relatively little community level activity.

Within communities, there are clearly marked social class divisions coinciding with economic and political power. Control of land and wealth provide a basis for authority; large landlords either manage farming through hired labor or put out land on shares to smaller farmers.

In the RISP study, rural artisans came almost entirely from the landless or from persons with uneconomically small holdings. Such persons are dependent economically and politically upon the goodwill of the wealthy and powerful.

Artisan households often engage in a wide variety of activities in order to assure income. In one study, (BRAC n.d.) three families of Muslims combined weaving with farming. In the same community, several landless persons combined casual agricultural labor with preparation and sale of snack foods, and four blacksmiths subsisted entirely by their traditional craft. As the products of traditional crafts are displaced by cheaper goods from the market, more artisans are forced to abandon their traditional work and find themselves involved in an increasingly crowded agricultural labor market.

The RISP examined a total of 2247 households in 18 communities selected to represent various regions of Bangladesh. The study found that nearly one quarter of the working population of these villages is engaged primarily in industries and a much smaller proportion than previously imagined was solely concerned with agriculture. The study also verified the extreme inequity of land control in Bangladesh villages found by the AID-sponsored Land Occupancy Surveys of 1977 and 1978; in the RISP study villages, 75 percent of the households owned one acre or less, a total of 13 percent of the total land. Those households with half an acre of cultivated land or less were farming as a subsidiary occupation. Their main sources of income were wage labor, trade or - for 23 percent - rural industries.

Sufficient evidence is in hand that the activities of this target group, which is for the most part composed of low income landless or marginal farming households, is an appropriate focus for USAID intervention.

### C. Entrepreneurship in Bangladesh

The RISP study examined aspects of entrepreneurial recruitment and operation in small rural industries in Bangladesh. Entrepreneurs, it was found, seem increasingly to come from non-traditional backgrounds. Nearly half those identified as entrepreneurs were engaged in enterprises which were different from their family traditions. However, they still tend to remain in their local areas rather than shift to new places, taking advantage of local knowledge and contacts in the operation of their enterprises.

Most enterprises are small and operated by the owner and his family. As other investigators have noted, the family centered nature of most enterprises constrains growth. The idea and tradition of entrepreneurial activity is not well established in Bangladesh as compared with other regions of South Asia, and the level of technical innovation - as measured in the RISP study by use of an innovativeness

index - is low. However, according to the same study, the level of initiative shown by the entrepreneurs in establishing activities is seen to be relatively high.

The study notes that increased pressure on the land, and limited opportunity for farm employment, is driving many people to look for alternatives. Although entrepreneurs tend to come from trading and other non-farming backgrounds rather than from agriculture, an increasing number of persons from lower levels of landholding, and from the landless may be expected to take up various non-agricultural enterprises in the future.

#### D. Sociocultural Compatibility

The Rural Industries Project is intended to reach a number of target beneficiary groups through institutionalized assistance. Immediate beneficiaries will be government agencies (BSCIC and perhaps others), individuals and private sector firms, and private voluntary organizations. Through their operations, however, large numbers of clients, including women and those from low income rural groups affiliated with these organizations, will receive assistance in the form of information, technical advice, marketing help, credit, commodities and other services.

The project is designed to use intermediary organizations, in both the private and public sectors, to reach widely dispersed, and diverse target groups in the country. By making use of established linkages between these intermediaries and their clients, difficulties of identifying and locating potential beneficiaries, particularly women, will be lessened. As several development specialists have argued, a major issue in effective implementation of rural projects is the establishment of "intermediate institutions" between the disaggregated and often socially subservient "end user", and large, centrally located donor or government agencies which control funds and policy. MIDAS and its affiliates, as well as any less innovative but well-established governmental organizations which will participate in the project are examples of the kinds of institutions which can develop this intermediary role on behalf of low income rural enterprises and their operators.

Most of the private agencies with which MIDAS will be associated initially began operations in Bangladesh as relief agencies. They found, however, that helping impoverished people generate income was more productive than providing relief. These agencies had little experience in such economic activities, and did not have enough business experience to shift operational gears to the criterion of profitability. Especially in the case of poor rural women most of these agencies continued encouraging very marginal industries, (in terms of income potential) such as making jute hangings, reed mats or fish nets, or raising silkworms. These projects reach a number of really impoverished

people but do little to raise them above poverty or to contribute to GDP. One of the functions of MIDAS, therefore, will be to assist these agencies to develop business acumen and to work toward profitability as a goal, thus hopefully enabling more of the target population to generate income to rise above poverty.

#### E. Spread Effects: Diffusion of Innovations

The prediction of indirect "spread" effects for a project of this type is difficult. The initial thrust of the MIDAS component of the project is to provide information, technical and marketing advice to small scale enterprises in a diversity of product fields. In expanding the number of small industries, and in improving the economic position of low income groups, it is to be expected that beneficiaries will extend their activities into the wider society in a number of ways. Increased technical knowledge and increasingly frequent participation in broader scale institutions will inevitably change the perspective of low income, economically marginal or dependent people and allow them to become aware of alternative strategies for social and economic advancement.

The establishment of a service agency, MIDAS, which is intended to convey information about new techniques and materials should have an important diffusion effect over time, as it facilitates information flow among a diverse set of organizations at a time when they have expressed a strong need for such information. Targeting women and women's groups as beneficiaries is necessary to ensure that these innovations are spread equitably.

#### F. Equity Issues

Equity questions center on access to the services and information to be provided through project components and on the degree to which more vulnerable groups, such as households headed by women, will be able to benefit directly given social and cultural constraints to their participation; It must be recognized that the potential exists for increased exploitation of unpaid female laborers as a result of any industrial sector project. Therefore, to the extent possible, properly designed project activities will be aimed specifically at women in order to better their economic position and increase their earning potential.

The project proposes to reach its ultimate beneficiaries through intermediary organizations, both public and private. In the case of the latter, many of the PVO's planning to participate through MIDAS in this project are already engaged actively in assisting low income rural people to obtain access to services, and to markets, as well as to information. This project component will simply enable them to expand and improve their performance in this regard.

The public sector organizations, such as ICB and BSCIC are at present less capable of adapting their operations to deal directly with the impoverished. This project, through a variety of assistance components, will seek to improve their degree of contact and involvement with those individuals and groups most in need of assistance.

## V. FINANCIAL ANALYSIS

### A. Introduction

The financial plan is an aggregation of the financial requirements for MIDAS plus estimated funds for Component 2 activities and USAID long term Personal Services Contract (PSC) support costs. Tables 4 to 7 which follow provide the information required for the project financial analysis. All local currency costs have been converted at Tk. 16 = US\$1.

The detailed financial plan for MIDAS, broken down by category of assistance and year is provided in Appendix G.

### B. Basis for Cost Estimates

MIDAS has a well defined plan for activities to be undertaken, so costing is relatively straight forward. The budgeted estimates, derived from recommendations of MIDAS Board members, are on the conservative side. In addition some items costed into the MIDAS budget may be made available without cost from AID surplus supplies and equipment funded by the Project Development Grant (388-0031).

### C. Cost Components

Long term consultants are based on 3/81 costs of slightly under \$9,000 per month adjusted for inflation. This is based on assumed salaries of approximately \$4,000 per month and adjusted by the addition of 100 percent overhead rates. Local and regional short term consultants are costed at \$700-\$1,800 per month. Air fares have been included at \$2,600 per round trip (U.S./Bangladesh) with allowance made from contingencies for travel of dependents and household effects for each long term consultant. Dacca per diem has been included where called for at \$60 per day.

In the case of MIDAS, salaries of both professional and support staff have been set at current competitive levels. Adequate estimates, which have taken inflation into consideration, have been made for equipment items.

### D. Contingency - Inflation

Allowances for inflation have been built into all Year 2 and onward cost components at the rate of 10 percent on dollar costs and 20 percent on Taka costs per year over known base year costs. In addition, a 10 percent contingency factor has been included as a separate line item in Component 1 to reflect the lack of certainty inherent in portions of the estimated budget. This uncertainty factor

is primarily because of the project design's allowance for staffing plan modifications and adjustments in the mix of services MIDAS will offer its client agencies.

E. Counterpart Costs and Commitment

Component 1 (MIDAS)

This component is entirely an initiative of USAID. As a program to support the private sector and dealing primarily with non-governmental development agencies, the BDG has not been requested to contribute any of its financial or organizational resources to the project.

Overall

Including anticipated Component 2 counterpart participation, total counterpart contribution is \$469,000 or about 8 percent of total project cost. But during the next five years, the BDG will contribute 25 percent of the amount of US assistance to the rural industries sector. That contribution will include taka generated from PL-480 Title I concessional sale of cotton when such taka is used to support the rural industries sector.

F. Reasonableness and Firmness of Costs

On the basis of the above analysis and discussions, USAID concludes that the anticipated costs of undertaking the project are reasonably firm and that the financial planning for the project is adequate.

G. Periodic Examinations

Notwithstanding the above conclusion, the experimental nature and implementation flexibility allowed for in the MIDAS design will require that periodic reviews be undertaken to update MIDAS implementation and financial plans. These reviews, as already required in the pre-Rural Industries I Project start-up phase, will identify projected activities and cash flow over the next years for which the MIDAS work plan is to be approved by AID, and determine the necessity for arranging AID or other donor funding for post year 5 operations.

The procedures to be followed for each activity undertaken under Component II will be outlined in separate PILs for each activity.

H. Disbursement Procedures

Disbursements by USAID for local currency will be on an actual cost reimbursement basis to the implementing agency. Disbursement of foreign exchange for equipment and consultancy services outlined in Table 6 below will be by direct AID Letters of Commitment with all contracting to be undertaken by the host country on a competitive basis. Detailed instructions for disbursement will be covered in implementation letters.

I. Project support

As noted earlier, provision is made in the overall Rural Industries I Project budget for a three year PSC Rural Industries consultant. The consultant will work with AID on all phases of project implementation and follow-on project development. The cost noted in the following tables is consistent with the USAID Controller Office guidelines. The Mission PSC funding ceiling, or mode ceiling in the case of a PASA appointment, may need to be adjusted to allow for contracting for this assistance.

Limitations in the PSC funding and mode ceilings may preclude the contracting of this needed Mission assistance via direct PSC or PASA. In this case, funds which have been set aside for this purpose may be included in either the MIDAS or Development Funds Project Agreements. Contracting for project support technical assistance would then proceed using either MIDAS or the BDC as intermediary.

J. Obligation Schedule

Ideally, in the first project year, the project would be fully funded. Table 8, however, lowers first year Rural Industries I Project funding to \$2.0 million in recognition of limitations in the Mission Operating Year Budget (OYB).

TABLE 4  
 FINANCIAL PLAN (\$1,000's OR EQUIVALENT)  
 BY PROJECT COMPONENT AND CATEGORY

	Technical Assistance	Training	Land Buildings & Equipment	Component 3 & MIDAS Sub-Grant & Loans	Other (1)	Contingency	Total Rural Industries Project	Total Counterpart (3)	Total
Component 1 MIDAS	690	110	71	1,400	886	298	3,455	151	3,606
Component 2 Development Funds	(2)	(2)	(2)	1,270	(2)	(2)	1,270	318	1,588
Project Support	275	-	-	-	-	-	275	-	275
Total	965	110	71	2,670	886	298	5,000 (92%)	469 (8%)	5,469 (100%)

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1. MIDAS personnel, support staff, office operations, evaluation, and overhead costs
2. Breakdown unspecified - options as given in PP Component 2 description
3. Development funds - average counterpart contribution of 20 percent

TABLE 5  
 FINANCIAL PLAN (\$1,000's OR EQUIVALENT)  
 BY CATEGORY OF ASSISTANCE AND YEAR

	PROJECT YEAR					Total
	1	2	3	4	5	
<b>AID -</b>						
<b>Technical Assistance</b>						
Long Term Consultants	337	189	105	-	-	631
Short Term Consultants	25	50	75	90	94	334
<b>Training</b>	-	10	20	36	44	110
<b>Land, Buildings &amp; Equipment</b>	14	34	7	8	8	71
<b>Personnel/Staff Support</b>	45	109	144	163	168	629
<b>Component 2 &amp; MIDAS Sub-grants and Loans</b>	1,370	175	375	450	300	2,670
<b>Other</b>	184	-	33	-	40	257
<b>Contingencies</b>	25	57	76	75	65	298
<b>Sub-Total (AID)</b>	<b>2,000</b>	<b>624</b>	<b>835</b>	<b>822</b>	<b>719</b>	<b>5,000</b>
<b>Non-AID -</b>						
<b>Miscellaneous</b>	-	-	-	33	104	137
<b>Contingencies</b>	-	-	-	3	11	14
<b>Component 2 counterpart contribution</b>	318	-	-	-	-	318
<b>Sub-Total (Non-AID)</b>	<b>318</b>	<b>-</b>	<b>-</b>	<b>36</b>	<b>115</b>	<b>469</b>
<b>TOTAL</b>	<b>2,318</b>	<b>624</b>	<b>835</b>	<b>858</b>	<b>834</b>	<b>5,469</b>

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TABLE 6

FINANCIAL PLAN (\$1,000'S OR EQUIVALENT)  
BY SOURCE/USE AND FOREIGN EXCHANGE/LOCAL CURRENCY

USE:	AID		NON-AID		TOTAL
	FX	LC	FX	LC	
Technical Assistance					
Long Term Consultants	631	-	-	-	631
Short Term Consultants	184	150	-	41	375
Training	75	35	-	19	129
Equipment	60	11	-	3	74
Personnel/Staff Support	29	600	-	74	703
Component 2 & MIVAS Sub-grants and Loans	1,602	1,068	-	-	2,670
Component 2 Counterpart Contributions	-	-	-	318	318
Other (Evaluations & Overhead)	257	-	-	-	257
Contingencies	162	136	-	14	312
<b>Total</b>	<b>3,000</b>	<b>2,000</b>	<b>-</b>	<b>469</b>	<b>5,469</b>

TABLE 7

FINANCIAL PLAN (\$1,000's OR EQUIVALENT)  
RURAL INDUSTRIES PROJECT FUNDING BY COMPONENT AND YEAR

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
I. MIDAS	455	624	835	822	719	3,455
II. Development Funds	1,270	-	-	-	-	1,270
III. Project Support	100	75	100	-	-	275
Totals	1,825	699	935	822	719	5,000

TABLE 8

FINANCIAL PLAN (\$1,000'S OR EQUIVALENT)  
 RURAL INDUSTRIES PROJECT FUNDING  
 OBLIGATION SCHEDULE

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
I. MIDAS	455	3,000	-	-	-	3,455
II. Development Funds	1,270	-	-	-	-	1,270
III. Project Support	275	-	-	-	-	275
IV. Totals	2,000	3,000	-	-	-	5,000

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## VI. ENVIRONMENTAL STATEMENT

The approved PID for this project contains an Initial Environmental Examination negative determination of environmental impact, signed by the Mission Director (13 August 1979), and the Assistant Administrator (29 October 1979). That statement remains current. The activities described are to promote employment and generate productivity appropriate to a peasant economy. The PP deals with support for institution building activities. As with BSCIC, MIDAS will also deal with SCI's appropriate to the economy and resources of Bangladesh. There are no plans for removing significant amounts of land or other resources from current usage for the purpose of construction of new facilities.

An industry that might receive assistance is the roofing tile industry. It presently depends on firewood, and a shortage of firewood is the biggest constraint to possible realization of widespread use of roofing tiles. The intention expressed is to promote development of small kilns using gas in those parts of the country having gas supply. Gas fired tiles can be transported by boat and ultimately should displace the poorer quality wood fired tiles. Alternatively, initial information currently under analysis indicates that solar fired kilns may hold potential. The renewable energy source option will be analyzed as an alternative should detailed project design be undertaken.

Among other possible industries is lac, which will depend largely on utilization of existing trees or will encourage the planting of additional trees on unutilized lands. If the silk industry is promoted, it will require the planting of mulberry trees. If the coir industry is promoted, it will use the products of existing trees and may stimulate breeding of coconut trees. Such expansion will be concentrated in the southern regions of the country. Being so, the planting of these coconut trees should contribute positively to the coastal environment and erosion/coastal management concerns.

It is, therefore, not anticipated that any of the activities described in this PP will have any significant effect on the environment. There are no extractive industries producing wastes, nor plans to significantly alter the land, vegetation, or water resources.

## VII. IMPLEMENTATION ARRANGEMENTS

### A. Introduction

A schedule for implementation of the MIDAS component is contained in Appendix K.

Responsibility for managing the first component and each sub-project under Component 2 will be different. The primary implementation organizations to be involved in the project are The Asia Foundation (TAF) for Component 1 and the Ministry of Industries (MOI) for Component 2. For Component 2, one or more of the following may be delegated project responsibilities: The Bangladesh Small and Cottage Industries Corporation (BSCIC), the Investment Corporation of Bangladesh (ICB), and other line ministries or para-statal agencies. The BDG Ministry of Industries will, however, be the overall coordinating and approval authority for all Component II funding.

### B. Component 1 (MIDAS)

Reference is first made to Appendices D, E, F and G. The basic implementation plan is well documented in these sections. TAF, as they state, has begun to implement the MIDAS design through a grant made under the Mission's PVO-Cofinancing Project (388-0045-2). As such, it is the approval point for changes in MIDAS priorities or overall plans and for resolving issues. Within TAF itself, the Country Representative is the project manager and has the responsibility of coordinating the work of early MIDAS implementation as described in the Grant Agreement. Included in his activities is the responsibility to monitor and follow-up work within the scope of approved plans.

The TAF responsibility to coordinate, monitor and follow up on the array of activities undertaken by MIDAS is obviously significant. TAF, however, is being assisted by the MIDAS Board of Directors (initially, the Advisory Board) and Expert Committee. In addition, TAF and various Board members have been active in the design and development of the MIDAS concept since its inception approximately two year ago. The implementing agency and these Board members are familiar with potential client agency needs and desires for services to be rendered and can facilitate the use of appropriate implementing approaches among the new MIDAS staff. In particular, through its direct participation in project design, TAF has developed an appreciation for the total project concept and for each of the activities. It also has good relationships with potential client agencies.

On general implementing capability, the TAF Country Representative has, as stated, undertaken the responsibility of being the MIDAS Project Manager. Adequate support staff has been supplied to him in the person of a new Assistant Representative, to free him from other

time consuming bureaucratic responsibilities. In addition, TAF/Bangladesh is experienced with working with USAID as it has assisted USAID as intermediary previously in a number of other projects through similar grant arrangements. Also as stated, provision has been made in the MIDAS budget for all of TAF's MIDAS implementation costs (line item X Appendix G).

For both adequate TAF budget and staff therefore, there are no issues. Assurance on the first is contained in the project budget and on the second, will be reflected in the Rural Industries I Project TAF/AID Cooperative Agreement covenants as shown in Section VIII which follows.

Post TAF Years 2 through 5 MIDAS implementation will be undertaken without an intermediary funding and administrative conduit. Evaluation of MIDAS capability to directly receive AID funds is covered in Section IX. TAF, as indicated in Section II.A, Appendix F, and Section IX, will have set up and tested the MIDAS systems necessary to ensure successful post-TAF implementation.

C. Component 2 (Development Funds)

Each sub-project under Component 2 will be undertaken only if sufficient USAID staff time is available for project management and the implementation arrangements are determined to be satisfactory. Assurances on all critical points will be reflected in the implementing document's conditions precedent if necessary. In any case, where direct AID contracts are desirable<sup>(1)</sup> for shorter term technical assistance under Component 2, the Mission will give full priority attention to counterpart support and capability to fully utilize the contracted services.

D. USAID and AID/W

USAID will provide necessary AID approvals, participate in evaluations and perform all the functions normally associated with an AID monitoring role. No new positions within USAID will be established. Both support and monitoring requirements will be able to be met by existing USAID direct hire and one person PSC consultant staff as outlined below.

<u>Personnel</u>	<u>Activity</u>	<u>% of Available Time</u>	<u>Total</u>
Project Officer	MIDAS	20	
	All activities of Component 2	50	70

(1) See comments on exception to AID PD-68 given in Section VIII.D.

PSC Consultant	MIDAS	10	
	All activities of Component 2	60-70	70-80
Foreign Service National or U.S. Engineer	Field monitoring of Component 2 and MIDAS client construc- tion and implementation and assistance in follow-on project design	25	25

The last of these items, i.e. field monitoring and assistance in project design, should not include formal implementation certification procedures or significant involvement for any one individual but will be required at various times on a workload or special technical input needs basis.

In AID/W principal backstopping of the project will be required of ASIA/PD and ASIA/TR, possibly assisted by DS/UD and DS/AGR. The first two of these will be the source of short term TDY assistance of a general rural industries sector nature if necessary, and will also provide assistance in direct aid technical assistance contracting. ASIA/PD with USAID will arrange assistance in monitoring and evaluating MIDAS implementation as may be requested from non-Bureau sources such as DS/UD.

#### F. Procurement

Offshore procurement by TAF/MIDAS will be in accordance with AID Handbook 11. Vehicle procurement by MIDAS will be according to current AID guidelines.

TAF is familiar with AID procedures and has successfully procured services under other AID financed projects. Similarly, contracting for the few long and short term consultants contemplated will not present a problem.

TAF/MIDAS will handle its own procurement for Bangladeshi source commodities and services. Prior USAID experience has been that TAF standard procedures can be made to conform satisfactorily to AID Handbook 11 requirements.

In all procurement under the Rural Industries I Project, minorities and women will be specifically encouraged to participate through firms or organizations or as individuals. In all cases, the implementing agency will select or approve the firms or individual consultants for the various assignments, subject to AID approval.

#### G. Schedules

As noted in the beginning of this section, a schedule for the first project component is presented in Appendix K based on initial steps as follows:

Project approval (delegated to Mission but undertaken by AID/W because of draft PP variations from PID design.)

August 1981

Authorization by Mission

August 1981

Project Agreements signed

September 1981

Initial conditions met

September 1981

Actual project implementation will begin in September 1981 as indicated in the individual schedules. The first major evaluation of MIDAS is budgeted and planned for 1983.

VIII. CONDITIONS PRECEDENT, COVENANTS, NEGOTIATING STATUS AND WAIVERS

A. Conditions Precedent

To initial disbursement:

- Designation of authorized representatives

B. Covenants

In the case of Component 1 (MIDAS):

- Assurance, while AID cooperative agreement funds are administered by TAF as intermediary to MIDAS implementation, of continuing adequate TAF staff support.
- Agreement to jointly develop and approve key staffing decisions, selection and phasing of key industry and product type activities, yearly work plans, MIDAS incorporation and registration documents, remedial actions or MIDAS design and function changes as presented in the cooperative agreement, and to jointly develop and undertake periodic evaluations of MIDAS performance. In the case of all sub-projects undertaken:
- Agreement to emphasize the recruitment and retention of women staff for work on project activities.
- Agreement to facilitate the dissemination of all rural industrial development experiences gained through sub-project implementation.

C. Negotiating Status

1. Component 1 (MIDAS)

A preliminary phase to the activities described under the MIDAS Component of this project is currently undergoing implementation. This set-up phase of maximum twelve months duration has been undertaken via an AID grant agreement with TAF. The grant agreement describes the intention of both AID and TAF to continue in the initial implementation arrangement described in the agreement through the period when MIDAS will be dependent on an intermediary institution for receiving donor (AID) funds and assistance in developing its independent management and operational capacities. The benefits to further implementation of MIDAS through the medium of a cooperative agreement rather than a grant have been discussed with TAF/Bangladesh, which agrees with the basis and efficacy of using such an implementing document and has obtained TAF/San Francisco approval for using this form of project agreement.

## 2. Component 2 (Development Funds)

The status of negotiation and degree of proximity to implementation of each of the items under Component 2 differs. In the case of BSCIC, assistance options have been under intensive review and evaluation since 1978. In February, 1981, BSCIC formally requested AID assistance for the program described under Component 2. As described earlier in this PP, both AID and BSCIC have the intention of pursuing the final definition of one or more of the AID/BSCIC joint project efforts currently being developed on an informal basis (see Section II.B.1). This directly reflects the above cited high BDG priority on rural employment generation promotion and the BDG's perception of BSCIC as a suitable promotion agency needful of donor community assistance.

The Mission and Investment Corporation of Bangladesh have agreed on the desirability and discussed the design of a small business investment equity capital program with the Bangladesh Bank, Ministries of Finance and Industries, all commercial banks, BSCIC, various chambers of commerce, development research institutions and university affiliated business bureaus and the BDG Planning Commission. All have informally approved the joint ICB/AID initiative.

In February, 1981, the first phase of a two stage consultancy was undertaken by the U.S. firm, Practical Concepts, Inc. under an AID IQC work order. Both ICB and the Banking and Investment Division of the Ministry of Finance, C's line ministry supervisor in the BDG, participated in the consultancy design and contractor selection process. The above listed BDG agencies involved in the assistance request and approval process have reviewed the first phase design document and agreed to proceed through this final design stage to implementation, should plans developed be acceptable to all parties concerned. They have been encouraged and are satisfied with the project development process based on AID's assurance that funds for such implementation will be made available by AID given their availability and the generation of a feasible plan of action.

The Housing and Building Institute (HBI) has been eager to undertake a joint effort with AID in the area of small roofing tile producing industries. The lack of complete project design and formal BDG request for assistance is due to the lateness in publication of the RISP case study report on roofing tiles, which was published in its final form in March 1981. The HBI currently has a team of four engineers backstopped by its Deputy Director developing details of its project design. The HBI is believed to have the technical expertise to undertake initial project definition and will submit it to the appropriate BDG authorities for processing a formal request for assistance upon its completion.

Other Component 2 activities are in varying stages of development and negotiation. The receptiveness the BDG has shown for all the

Mission's initiatives in rural industries development leaves little doubt, however, that once designs have been accepted by AID and its sub-project BDG counterparts, government planning and external resource coordination agencies will facilitate project implementation to the maximum extent possible. The development of substantial rapport with these BDG agencies through information exchange and early concept development coordination, has led to what the Mission intends to be a long term cooperative effort, with a commonality of purpose and strategy, in the rural industries sector.

3. AID/ERD Grantor/Grantee Relationship

In similar projects in the past, the External Resources Division (ERD) of the Ministry of Finance has been designated as the Grantee. The implementing agency for Component 2 activities will be the BDG Ministry of Industries, which will coordinate and sub-allot funds to appropriate implementation counterparts. These will be designated in Project Implementation Letters issued under the Grant. As experience has shown with other AID projects of a similar nature, no problems or objections to such an arrangement are anticipated.

D. Waivers (1)

One type of waiver will be required for implementation of the project as designed. It will grant an exception to AID Policy Determination PD-68. Through PD-68, a preference is stated for host country contracting for all assistance procured under bilateral project agreements. Such will be the case in all aspects of this Rural Industries I Project with the possible exception of short term technical assistance to be procured under one or more sub-projects of Component 2. In all cases, the determination for granting an exception will lie with the Mission Director as only contracts of under \$100,000 (threshold limit for Mission Director's authority) will be entered into directly by the Mission. (2) By approving the PP, the Mission Director will, in principle, have approved the exception request. Individual "exceptions to PD-68" will be processed at the time of contracting, however, in order to allow judgment of each exception request on an individual basis.

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(1) A waiver must be granted concerning the MIDAS component of the Project. Agency guidelines for Operational Program Grants (OPG's) with Private and Voluntary Organizations as given in AIDTO-Circ-A-530 of 9/26/76 and AIDTO-Circ-A-134 of 3/18/78 require that at least 25 percent of the estimated expenditures must be met from non-AID sources. This requirement was not met in the case of the MIDAS start-up phase grant, and as such, a retroactive waiver will be requested from the AID Deputy Administrator. Since a Cooperative Agreement and not a Grant Agreement will be signed for funding under the present project, 25 percent non-AID participation will no longer be necessary and no further waivers therefore, will be required.

(2) Contracting of long term Mission support technical assistance may also require an exception to PD-68 if limitations in PSC funding or PASA/mode ceilings require the Mission to follow the course of action described on PP page 38, paragraph I.

## IX. EVALUATION

### A. Component 1 (MIDAS)

#### 1. Impact on Beneficiaries

The Project is designed to test and implement ways of helping organizations deliver services to micro industries. In view of this, monitoring is a key component of the project design and a continual process throughout the project.

A monitoring and evaluation system for similar projects is being developed by the Urban Development Office, Development Support Bureau, and will be available for use in this project. That office will also provide consultants to monitor the project and undertake evaluations at the end of the first and second project years, should MIDAS and the Mission so desire. These evaluations will be based on simple indicators developed to measure the impact of specific services. These indicators will be such as can be measured on a quarterly basis by the project staff through an on-going simple reporting system.

The Years 1 and 2 evaluations will be jointly conducted by TAF/MIDAS and AID, possibly, as stated, by DS Bureau assistance. They will determine the level of service activities with their corresponding cost/benefits. The evaluation findings will be employed in directing the allocation of MIDAS resources to its highest impact programs and most effective income generating activities.

The MIDAS budget provides for thorough and independent evaluations during the third and fifth project years. The Year 3 study will include an analysis of possible post year 5 funding needs and progress against goals. The Year 5 evaluation will be an end of project summary of performance.

Each sub-project MIDAS takes up with a client agency will include an evaluation component to be conducted jointly by MIDAS and the client agency.

While the Economic Analysis section above attempts to quantify some expected benefits, it is not realistic to judge project performance solely on "number of jobs created" because most people in Bangladesh work. The concept of unemployment is more appropriate to urban and educated people than to villagers. Rural people who have no land or salaried income usually provide some service or labor to others for payment. Therefore, even if the number of jobs "created" in a project is counted, it is not possible to accurately count the number of additional people getting employment. It is more a matter of quality of jobs and increased production of goods than number of jobs created.

It will be possible, however, to cite number of women employed in jobs which women formerly did not take up, or new products and industries in a given area, or increased use or availability of credit. Of equal importance to employment, is increase of the total production of goods and services, as employment is closely interrelated with that. Measurement of these can be feasibly done either in a very small local area or in a particular limited industry type.

The RISP data can provide a general baseline for some kinds of industries within the country but this can be used in only a general way for specific sub-project evaluation since sub-projects with field agencies are not particularly likely to be located in the 11 thanas in which the RISP was conducted. However, MIDAS will give emphasis to a selected few product types or industry types. The RISP data in these cases may function as a baseline, serving for comparison of income, employment characteristics, and social characteristics of industries in general, versus industries assisted through MIDAS,

## 2. Direct AID to MIDAS Funding

During the next year, the Mission will be concerned with accurately determining when MIDAS will be ready to receive funding directly, rather than through TAF as intermediary.

This is a short term issue related to internal organizational viability rather than the longer term issue described above which usually relates to the external impact on beneficiaries. Because it is short term, the evaluation should be as simple as possible. The approach which will be taken is the use of a simple check list.

Much of the analysis related to this check list will be subjective. The check list itself should simply be a reminder of important issues rather than a set of hard and fast guidelines since MIDAS is highly experimental. The elements presented are listed in approximate order of priority.

### (1) Legal Structure

- a) MIDAS is a legally organized structure.
- b) Proper registrations have been obtained.

### (2) Leadership

- a) Competent, broadly based and widely respected Board of Directors is in place, which is giving significant time to MIDAS.
- b) Competent and widely respected Administrator has been hired who has demonstrated his capacity to successfully operationalize MIDAS services.
- c) Competent financial management staff is in place, who have developed and tested an acceptable financial system for MIDAS.

- d) Other competent senior staff are in place so that leadership has some depth in at least one technical area.
- e) The Expert Committee is operational and devoting significant time to MIDAS activities.
- f) MIDAS leadership has demonstrated the capacity to build and maintain a high level of staff morale and confidence of clientele in the MIDAS program.

(3) Policy Development and Implementation

- a) The Board has developed and approved policies governing MIDAS activities with reference to:
  - clientele to be served
  - services to be provided
  - internal management
  - relation to other organizations and individuals
  - long term financing
- b) Policies have been tested by the staff and found to be generally practical.

(4) Establish Physical Operation

- a) The Central Office has been set up and staffed.
- b) Hiring procedures/personnel policies have been established and critical staff hired and working with at least minimal efficiency.
- c) Other operating policies (e.g. hiring of consultants, grant/loan procedures, etc.) are in place.

(5) Program Operations

- a) Positive relationships have been successfully developed with key government agencies, PVO's and business groups, and these groups have helped MIDAS define program operation.
- b) First area of program operations has been selected, staff have been hired to operate it, procedures for staff functioning have been developed and field tested, and staff seem to be working effectively.
- c) A practical plan for expansion into other program areas has been developed.

(6) Program Monitoring and Evaluation

- a) An internal system of monitoring and evaluating program operations has been developed and is being tested.

- b) AID has a system established (possibly with the Asia Foundation) for periodic financial audits.

B. Component 2 (Development Funds)

This component is for studies, pilot projects, and initial follow-on project development. Determination of the form and frequency of evaluations of each sub-project must await complete sub-project definition. If a significant product type or industry type pilot project is taken up, however, it will certainly be subject to evaluation before embarking on an enlargement of it.

Whereas some assistance in evaluation of MIDAS might come from AID/W as stated above, there is no specific provision in the budget of Component 2 for evaluations, because those will be contingent on final sub-project definition. If necessary, funds from Component 2 could be allocated for evaluations to analyze the effectiveness of the initiatives undertaken and to enable competent decisions to be made on extension of funding.

BANGLADESH  
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APPENDICES

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- I. BSCIC Current Responsibilities and Activities
- J. Other Donor Activities
- K. Implementation Schedules
- L. Log Frame
- M. Statutory Checklist
- N. Final Authorization

APPENDIX A

UNCLAS STATE 286927

SUBJECT: APAC REVIEW - RURAL INDUSTRIES PID - 388-0042

REFS: (A) STATE 260154, (B) DACCA 6973

SUBJECT PID WAS REVIEWED AND APPROVED BY APAC ON OCTOBER 24. THE COMMITTEE NOTED THE MISSION'S INITIATIVE IN FORMULATING A PROJECT IN A NEW AREA THAT IS IMPORTANT TO THE COUNTRY DEVELOPMENT STRATEGY, BUT THAT HAS POTENTIAL DIFFICULTIES IN EVALUATION. THE FOLLOWING GUIDANCE IS PROVIDED FOR PP DESIGN, IN ADDITION TO DESIGN ISSUES RAISED IN REFTEL (A).

1. SUPPORT FOR POLICY RESEARCH AND POLICY DEVELOPMENT: IT IS IMPORTANT TO CONSIDER RURAL INDUSTRIAL POLICY AS INCLUDING MEDIUM AND LARGE INDUSTRY LABOR POTENTIAL. WE RECOGNIZE WORK DONE TO DATE MAY INDICATE LIMITED POTENTIAL FOR AID ASSISTANCE TO MEDIUM/LARGE FIRMS, BUT IT IS UNDERSTOOD THAT POLICY RESEARCH SUPPORTED UNDER THIS PROJECT WILL ANALYZE QUESTIONS OF SCALE AND CHOICE OF TECHNOLOGY AS WELL AS HELP TO RELATE RURAL INDUSTRY DEVELOPMENT TO OVERALL INDUSTRIALIZATION STRATEGIES AND TRADE POLICIES AND THE IMPLICATION FOR JOB CREATION. AS ONE MEANS OF ANALYSIS, MISSION MIGHT CONTINUE TO TAKE ADVANTAGE OF OTHER STUDIES ON RESOURCES THAT ARE AVAILABLE, SUCH AS THE 1979 IBRD REPORT ON INDUSTRIAL POLICY.
2. APAC RECOGNIZED LABOR-INTENSIVE NATURE OF PROJECT: THIS PROJECT WILL PROBABLY REQUIRE A MAJOR COMMITMENT OF STAFF TIME, GIVEN ITS EXPERIMENTAL NATURE, THE COMPLEXITIES OF WORKING WITH MANY GROUPS AND THAT THE PROJECT MAY REQUIRE MORE THAN ONE GRANT AGREEMENT. IN PP AND IN PLANNING FUTURE PERSONNEL NEEDS, MISSION SHOULD ADDRESS THIS QUESTION WITH SPECIFICS FOR IMPLEMENTATION AND MONITORING. PP PREPARATION MAY ALSO REQUIRE ADDITIONAL STAFF, AND MISSION IS ENCOURAGED TO USE AVAILABLE AID RESOURCES.
3. EVALUATION: PROJECT ALSO POSES THE PROBLEM OF OBTAINING HARD DATA THAT REFLECT MEASURABLE IMPACT ON INCOME AND WELFARE CHANGE, JOB INCREASE IN SUB-SECTORS AND IN TARGET GROUPS. PP SHOULD SPELL OUT SOUND EVALUATION PLAN. THIS IS REALLY THE CORE OF THE PROJECT AND THE ISSUE--JOBS CREATION AND INCOME INCREASE. USING MSU BASELINE DATA IN THE TEN THANAS WOULD SEEM TO PROVIDE A SOUND DATA BASE, ASSUMING PROJECT AREA INCLUDES THESE SAME THANAS TO PROVIDE SUBSEQUENT COMPARISONS.

4. MISSION MIGHT ALSO LOOK TO MSU AND/OR OTHERS FOR IDEAS ON EVALUATION TO INCLUDE SUCH FACTORS AS JOBS CREATED, CHANGES IN UNEMPLOYMENT, INCOME, WOMEN'S ACTIVITIES, AND FAMILY WELFARE AS WELL AS MORE EASILY OBTAINABLE DATA ON CREDIT, NEW PRODUCTS, INDUSTRIES, SKILLS, OR OTHERS. FYI, DS/UD HAS CONTRACT WITH DAI DIRECTLY CONCERNED WITH EVALUATION OF SMALL ENTERPRISE PROJECTS. IF MISSION INTERESTED, COULD EXPLORE USE DAI TO ASSIST THIS PROJECT. END FYI.
5. MISSION PROJECTS: OTHER AID BANGLADESH PROJECTS ARE COMPLEMENTARY, SUCH AS RURAL ELECTRIFICATION, RURAL CREDIT, PVO CO-FINANCING, AS WELL AS OTHER THEMES WHICH MIGHT IN FUTURE BECOME ACTIVE, SUCH AS MARKET TOWNS AND ROADS. PP SHOULD DETAIL LINKAGES WITH THESE AID PROJECTS.
6. REFTEL (A) PARA 4, AND REFTEL (B) PARA 4, WE DO NOT REALLY HAVE A FIGURE ON DOLLAR AMOUNT PER JOB CREATED, AND ANALYSIS SHOULD BE INCLUDED AS TO WHAT WOULD BE A SUITABLE RANGE IN THE CONTEXT OF BANGLADESH DURING THE LIFE OF THE PROJECT. FYI, AS IT DEPENDS HEAVILY ON THE TYPE OF INDUSTRY AND THE ECONOMIC STATUS OF THE COUNTRY INVOLVED, ESTIMATES IN PROJECTS IN OTHER COUNTRIES RANGED FROM 1,000 DOLLARS (IBRD-ASIA) TO 2500-4500 DOLLARS (AID/LAC). END FYI.
7. TEXTILES DEVELOPMENT: THERE IS NO REPEAT NO PROBLEM WITH DEVELOPMENT OF COTTAGE HANDLOOMS INDUSTRY BUT US DOMESTIC CONSTRAINTS LIMIT AID'S ABILITY TO SUPPORT ANY NEW MASS PRODUCTION TEXTILE INDUSTRY.
8. RIDAB: PP SHOULD HIGHLIGHT THE ROLE OF RIDAB OR GROUP WORKING WITHIN ADAB AS AN INTERMEDIARY TO BE USED IN OTHER PROJECTS.
9. COMMENT ON CIP IN PID: APAC NOTED THE DISCUSSION OF CIP IN PID. THIS WILL BE TAKEN UP BY DESK OFFICER ON CURRENT TDY.
10. AUTHORITY: MISSION HAS AUTHORITY TO APPROVE PP AT CURRENT FUNDING LEVEL WITH BASIC CONCEPT CONTAINED IN PID AT CURRENT FUNDING LEVEL. IN EVENT OF MAJOR PROJECT CONCEPT CHANGE, AID/W SHOULD BE ADVISED. CHRISTOPHER.

## APPENDIX B

### RURAL INDUSTRY STUDY PROJECT (RISP)

#### A. Background

The RISP has been conducted by the Bangladesh Institute of Development Studies (BIDS) under contract with BSCIC, and funded by USAID. The work began in June 1978 and is virtually completed.

For this study, an "industry" is defined as any establishment producing some manufactured goods for sale on a commercial basis. The definition is broad enough to include even the case of only one artisan in a household. All modern industries in the study areas having under 50 employees were also included.

About 100 field investigators and ten supervisors were trained and placed in the study areas. The project was managed from a central office having about 50 persons working as research associates, coders, administrators, and office staff, who have been processing the data and issuing the reports.

#### B. Study Procedure

Phase I of RISP was a house-to-house survey to locate all industries in ten scattered thanas and Mymensingh town. In this survey information on product type, employment size, qualities of entrepreneurship, machine type, land ownership, seasonality, and other characteristics were enumerated for the 57, 281 industries in the study area. These data were published in the Phase I Report.

Phase II is a detailed study of 1300 of these establishments, of which 1000 were selected mostly on a random sample basis and an additional 300 on an industry type basis. Field work for the main body of Phase II continued for one year and ended February 29, 1980.

The main body of quantitative data in Phase II is derived from four sets of questionnaires designed to gather a wide range of data on history of the enterprise, personal characteristics of the proprietor, capital, loans, equipment, raw materials, marketing, product competition, assistance desired and availed of, kinds of employees, and fuels. Input-output data were gathered from each establishment twice a week. These data have been coded and computerized.

The random sample allows generation of general data on the rural industries sector. The additional sample based on industry types allows for data base of 20 establishments each for some 50 important industry types.

A household budget study was conducted under Phase II, based on 2247 households in 18 selected villages. This study seeks to show labor characteristics of rural industries in the context of the household as well as demand for industries products in the context of household budgets.

### C. Case Studies

Of the following case studies, undertaken in Phase II, six are on particular products and three are on general aspects of rural industries development. They are either published or virtually ready for publication.

1. Coir This industry is based on coconut fibre, used largely in ropes and mats, and as cushion filler material. The industry has been neglected in Bangladesh compared to some other parts of South Asia.

2. Jute Baling Jute is the most important cash crop in the country, and baling is an important part of the processing chain which, until now, has not been studied.

3. Pottery Village pottery is a widespread industry, but it has not received much attention. Introduction of new clay products and potting methods may help potters retain their share of the market.

4. Roofing Tiles This industry is found in only a quarter of the country and could be diffused to the rest, with the idea of reducing use of imported corrugated iron sheets. This is a potentially important industry.

5. Agar This is an industry in which scents are made from a particular type of wood, found in only small area of Bangladesh. The product has a good export market.

6. Silk This industry is promoted by the Bangladesh Sericulture Board. There is scope for wider promotion than is presently taking place.

7. Finance This study surveys past and existing means of advancing credit to SCI's and explores the problems artisans and entrepreneurs have in obtaining financing.

8. Policies and Institutions This study surveys Government of Bangladesh policies and institutions regarding SCI's with the view of making recommendations based on the responses of artisans and entrepreneurs to the Phase II questionnaires.

9. Subcontracting This study seeks to identify the large industries that can subcontract out production of parts and components to small industries, and suggests means of encouraging development of such subcontracting in the country.

#### D. Phase II Contents

The following are the chapter headings of the Phase II Report, now entering the publishing phase:-

1. Basic Issues
2. Survey of Methodology
3. Rural Occupational Structure
4. Profile of Rural Industries
5. Entrepreneurship
6. Finance
7. Marketing
8. Demand
9. Linkages
10. Organization of Productivity
11. Profitability of Production
12. Potential Industries
13. Policies and Institutions

#### E. Some Sample Findings

The following are sample findings, some of which are described in the Phase I and Phase II Interim Reports:-

1. In the 11 thanas surveyed there are 57,281 industries employing an average of 5.8 persons each. In the thanas concerned, agriculture is the primary occupation of only 50% of the employed work force, rural industries of 22%, petty trade of 11%, salaried jobs and self-employment of 6%, and construction and transportation of 3%. The percentage engaged in rural industries is probably higher in the study thanas than in the whole of Bangladesh, but, nevertheless, the number of SCI's and the proportion of persons employed in them are several times greater than those shown in any previous studies.

2. Employment in rural industries generates an average income of 11.20 taka (75c) a day, whereas agricultural labor generates only 9.33 taka a day. Increase in rural industries, therefore, will cause relative increase of GDP.

3. The proportion of persons in agriculture is declining relative to that in industries. Among small proprietorships, 26% have agriculture as their main occupation, but 45% of their fathers had, and 66% of their grandfathers had.

4. About 27% of workers in SCI's are employed part-time. This percentage is higher among family members than hired workers, and also higher among females than males. Part-time labor is especially prevalent in molasses making, fruit drying, fish net making, jute baling and industries producing jute products, bedding materials, lac, and reed and bamboo mats and covers.

5. Entrepreneurship in starting small industries is increasing in the sense that SCI's seem to be growing at a long-term rate of about 4.7% a year. The proportion of Muslims entering SCI's is growing, though Hindus are still over-represented. While it is not very hard to start a small industry, nourishing its growth is more difficult. As many as 92% of proprietors are operating in the village of their birth and their mobility is less than for the population as a whole. Only 26% of enterprises expanded since operations began. The most disappointing finding is that 98.3% of proprietors stated that they did not introduce any new product or process in their establishment.

6. Shortage of raw materials, or their high cost, is cited as the biggest problem by 64% of respondents and outranks all other problems. This is not unexpected because virtually all metal, chemical, fibre, or fuel supplies (except gas where available) have to be imported, and in general only the soil and what grows in it are available as indigenous raw materials. The tax structure and black marketing make imported raw materials costly or difficult to obtain.

7. Working capital is cited as needed by 76% of the respondents. This is partly because of raw materials costs and partly because of poor management or poor sales. At present only 9.6% of the enterprises have borrowed from institutional sources. There is clearly a demand for SCI financing which is not being met by the organized sector.

8. The wage rate is very low in some industries, in particular oil pressing, rice husking, cane and bamboo containers, reed mats, coir mats, fishing nets, agar, paper bag making, and pottery. These industries have low labor productivity and a high proportion of female employment. High wage rates are found in cloth printing, footwear, plastic products, cane and bamboo furniture, timber processing, and wood working; higher skills are required in these industries and women participate less.

9. Of SCI products, 54% are sold directly to consumers, mostly at the micro-community level, while 27% are sold to wholesalers and 7% to retailers. Only in the handloom industry (which accounts for 43% of persons employed in rural industries) is marketing organized to the extent that as much as 67% of the products are sold to wholesalers.

10. Only 7.8% of proprietors are members of a cooperative and only 6% have gotten any assistance in the supply of raw materials, which is the main function of most cooperatives.

11. Prospective growth industries may be listed differently according to criteria: 1) use of local raw materials - molasses, jute products, tannery, bricks and tiles, timber, tobacco, cane and bamboo; 2) labor intensity - jute handicrafts, reed and bamboo mats and panels, coir rope and mats, bamboo tools and equipment, grain husking, fish nets, basketry, cane and bamboo furniture; 3) efficiency - timber processing, cane and bamboo furniture, hosiery, sheet metal and fitting, footwear, tobacco processing, tannery, grain milling; 4) demand; 5) dominance; and 6) female employment as criteria generate other industry priorities. Industries which respondents classified as growing ones are; coir products, woodwork, basketry, tobacco processing, grain crushing, handloom, silk products, tailoring, bricks, and wood processing.

#### F. Utilization of the Study

1. BSCIC is initiating many new projects under the leadership of a new chairman and under the national mandate for an "industrial revolution". These include three project areas in which USAID is providing some consultancy to assist BSCIC with project paper development: credit, women's industries and training. In all three areas there is direct input from RISP. All three projects will be implemented according to present BSCIC plans. They will begin in the 11 RISP thanas because the data base is available.

2. The data on the handloom industry in Phase II, from a sample of 200 handloom establishments, will be useful in projects of the Bangladesh Handloom Board which are to be assisted by USAID. These data cover many areas not covered under the Handloom Board's own census.

3. The data on about 76 particular industry types should be useful for agencies seeking to promote rural industries, as it will help them develop industry-specific assistance projects.

4. The case studies on particular industries should lead to projects.

5. RISP data on assets, credit and other financial matters will be useful to banks seeking to develop capacity in SCI credit. These data, given by industry type, can be used for guidelines on capitalization requirements and potential profitability.

6. The RISP data on assistance availed of and desired by SCI proprietors should be useful to all agencies offering extension services to this sector.

7. The Government of Bangladesh has begun to establish a Commission on SCI as specified in the Five Year Plan. RISP data will be a major source of understanding of this sector and important in generating policies. The sections in RISP on policies will have direct relevance.

8. RISP data are useful for USAID in formulating its own project plans for this sector.

## APPENDIX C

### MIDAS DESIGN ALTERNATIVES & EVOLUTION

MIDAS makes no initial assumptions about the kind of organizing mechanism (client agency) that will best serve the purpose of assisting micro-industries. One hypothesis, is that a variety of types of development organizations will have to operate simultaneously for there to be significant impact on large numbers of diverse micro-industries because no one approach can deal with all critical constraints at once.

A wide variety of such organizing mechanisms exist, including traditional cultural association and trade groupings, cooperatives, private voluntary organizations, business groups both large and small, banks, and government agencies. Each of these and other mechanisms needs to be encouraged to undertake its optimum role in constraint removal.

The problem on which this project specifically focuses is that most of these organizing mechanisms are poorly equipped to assist in constraint removal. Many lack staff with a business orientation. The result can be that assistance given inhibits rather than encourage profitability. Often, there are no staff capable of responding to particular technical questions which if answered might result in significant increases in profits. Some groups are inhibited from experimentation with new products or processes, or even new methods of organization, by a lack of financial resources.

Theoretically, government could assist in some of these matters, and indeed, in some cases it does. However, at present, the Bangladesh Government has neither the orientation nor the capacity to undertake the task envisioned by this project, as government agencies are greatly overtaxed with existing responsibilities. For this reason, the decision has been made in this case to work outside of the government.

The decision has also been made in the case of this project to establish a new institution rather than to utilize any existing one in Bangladesh. This decision was made despite the well-known preference in development thinking to avoid creation of new institutions because they take a considerable amount of precious time and endless difficulties to

establish, and once established, they often end up only duplicating other institutions.

While both decisions will make it difficult for the project to develop in an expeditious manner, compensating advantages will be gained, relating to the special situation of Bangladesh, which will more than make up for the difficulties which will be encountered.

It is understood that for this highly innovative project to be a success, it is absolutely essential that the implementing institution have the following characteristics:

1. Have the capacity to reach the target population (rural poor).
2. Be able to assist as many different types of effective organizing mechanisms (MIDAS clients) as possible.
3. Have the flexibility necessary to assist these organizing mechanisms in a variety of different ways.

Unfortunately, none of the existing governmental organizations can meet all of these criteria. The governmental institutions currently responsible for services to micro industries include the Bangladesh Small & Cottage Industries Corporation (BSCIC), which is part of the Ministry of Industries, and the nationalized banks.

Although BSCIC has a staff of about 1,500, most of its present activity centers around support of small, modern industry located in industrial estates. It sponsors efforts to assist in handicraft marketing and has other projects that reach a modest number of micro-industries. In the future, BSCIC's capability to reach widely dispersed micro-industries will improve, should AID<sup>1</sup> and other donor assistance facilitate success in implementing the strategy given in the BDG five year Plan<sup>2</sup>.

Utilizing BSCIC as an implementing vehicle would have the advantage of theoretically putting at the disposal of the project a substantial implementing capability with which to improve the likelihood of achieving the project goal. However, it is the opinion of all experts here that

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1 See PP, Component 3

2 See Appendix M

BSCIC is not at present in the position either to alter its focus or approach to development. Thus, it is felt that any possible advantage of utilizing BSCIC would not materialize, as placing the project there would overtax available BSCIC resources and manpower and be detrimental to plans for experimentation and extensive involvement with non-governmental development mechanisms.

While BSCIC will not be the home for the project, however, MIDAS will work closely with it and should develop sufficient rapport not only to provide feedback on the results of the experimentation, but to actually become a technical consulting agency to BSCIC. In this regard, the Chairman of BSCIC has been active in MIDAS development and has assisted USAID in several aspects of early project implementation.

As regards the banks, a good deal of experimentation is now taking place. The World Bank has recently made a \$30,000,000 loan to several banks which are making small loans for industrial projects<sup>1/</sup> Although the smallest loans will be theoretically just over \$300, in practice, very few loans of this size have been made through past Bank credits and the average loan size appears to be around \$2,000. Even the \$300 figure is larger than most micro-industries can absorb.

AID currently has its Rural Finance Experiment Project (RFEP), which is in many ways seeking to do with credit what MIDAS will seek to do with non-credit assistance. RFEP is working with a number of banks and credit dispersing institutions, each of which is operating a different experimental program aimed at reaching the rural poor. Although targeted on agriculture rather than industries, to the surprise of many people, about 40% of the loans to date have been to non-farm commercial or industrial activities. The average loan size is approximately \$100, putting it in the range which would likely be utilized by micro-industries.

The USAID Project Identification Document (PID) on a second phase of the RFEP has now been approved. This PID calls for establishing the credit scheme on a nationwide basis. Credit and the organizational component which MIDAS is designed to provide are considered critical elements for the success of the MIDAS approach to development. Therefore, it is the intention of MIDAS to work very closely with the on-going AID rural finance program. One responsibility of staff under this project will be to assure that any organizing mechanism assisted also has access to

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<sup>1/</sup> See Appendix p on "Other Donor Activities"

adequate credit under the AID project or through some other means. For that reason, one of the staff hired by the project will have banking experience.

But, despite the close coordination which will be required, none of the Bangladesh banks can, at least for the moment, provide a home for the project. It is, however, possible that methodologies developed by MIDAS could be duplicated within a variety of banking and other institutions, including BSCIC.

In the short-term, the banks are loaded with a variety of social tasks and experimental programs, initiated by the BDG, AID, and other donors including the World Bank. As such, they are now having difficulty fulfilling all existing demands. They are not, therefore, in a position to undertake additional experimentation under this project, nor are they interested in doing so. They continue to feel, rightly or wrongly, that such social projects are too far afield from their area of responsibility.

As regards non-governmental organizations, there are a considerable number that are presently involved in micro-industry development and a few which are providing assistance to other organizing mechanisms. Such organizations as the International Union of Child Welfare (IUCW), The Asia Foundation (TAF), Agricultural Development Agencies in Bangladesh (ADAB), Village Educational Resource Centre (VERC), and Save the Children, are each attempting to provide at least one of the services proposed for MIDAS. However, such services are at present extremely modest, because of the relatively small budgets of many of these agencies and their lack of staff skilled in micro-industries. Further, for most of them, with the exception of ADAB and TAF, implementing their own field projects is their principal function. They have neither the capacity nor the interest in focusing on support services to others.

However, most of these agencies recognize the need for the services MIDAS could provide. Once the decision was made to develop MIDAS outside of government, these potential users of MIDAS services were extensively consulted both singly and in a series of meetings throughout 1979. More than 40 agencies attending the larger meetings<sup>1/</sup>. Those attending agreed as to the need for an agency to service

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<sup>1/</sup> See C. Maloney, RISP Special Report No.1 "Organizations and Projects Concerning Small-Scale and Cottage Industries in Bangladesh", June 1979 ...for activities of potential MIDAS client organizations.

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their needs in working with micro-industries. On the basis of this agreement, sub-committees were created to work on the questions of organization and function. Considerable agreement was found, but on two basic issues, the main committee was divided down the middle. These issues were how large MIDAS should initially be and whether it should make small development grants. Half the committee wanted MIDAS to be a modest agency with an information collection and dissemination capacity (newsletter and seminars) similar to that which ADAB already had in the field of agriculture. The other half wanted MIDAS to have the ability, in addition, to provide technical assistance and grants.

Finally, it was decided that no compromise on these issues could be found. A resolution was adopted which recommended that those agencies which wanted more extensive services should go ahead and establish their own model. A core of representatives of this group therefore continued to meet. This group was principally composed of VERC, CARITAS, Kumudini Welfare Trust and IUCW representatives, augmented by two private businessmen.

Having then opted for a larger MIDAS structure, the critical question for this group became how to organize it and where it should be housed. VERC, Save the Children, CARE, and ADAB were proposed as permanent homes for MIDAS. However, in view of its projected eventual size, no agency was willing or able to accept it. Therefore, the only option was to create a new agency. However, this was going to take time. In the interim, some existing agency would have to serve as a vehicle for receipt and control of the funds and to nurture MIDAS's development. ADAB, Save the Children and The Asia Foundation (TAF) were suggested for this function. Only TAF proved both capable and willing to perform this task.

Thus, TAF is now, and for the first project year will continue to be, the recipient of AID funding and will have ultimate control and responsibility for its use. An ad hoc committee has been created to advise and assist The Asia Foundation. This consists of the representatives of the Kumudini Welfare Trust, VERC, CARITAS, IUCW, a USAID consultant and two private businessmen, plus other agency or private sector representatives who may be recruited.<sup>1/</sup> During the current 12 month pre-Rural Industries I Project start-up period, this committee called the MIDAS Advisory

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<sup>1/</sup> See Attachment A of TAF/AID Grant Agreement for detail of MIDAS Advisory Board.

Board, has the responsibility to assist TAF to formulate policy and operational guidelines. TAF will, as controller of the funds, have the final decision in relation to the use of funds. It will be solely responsible for decisions relating to the use of MIDAS grant giving based on the advice of the Advisory Board and MIDAS staff.

Involvement by businessmen in project development and management is considered absolutely critical. Experience in other countries argue strongly that without it MIDAS will have less chance of success. Since this project is concerned with business development, project success requires a combination of concern for the needs of the rural poor with hard-nosed business common sense. Since development practitioners and businessmen are often distrustful of each other, bringing them together will be a delicate task and will require concerted care throughout project life. This task will be a major focus for the attention of the governing board and the project staff.

Beginning steps have already been made in this direction. Prominent businessmen with genuine concern and commitment have been identified and have been involved in the planning of MIDAS. At least two businessmen will be on the MIDAS Governing Body. The expert committee, which will advise the Board, will comprise a large proportion of businessmen. The legal organization of MIDAS is being established in ways which will hopefully encourage the involvement of businessmen. It is planned that development and a business perspective can be given equal weight in the project and that, with this balance, the project will have a better chance for success.

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## APPENDIX D

### MIDAS DEPARTMENTAL AND PERSONNEL RESPONSIBILITIES

#### Information Services

1. Information Specialist to create, maintain and translate information into a newsletter and other formats suitable for wide distribution, and to establish a technical library on micro-industries to include:

- a. Periodicals, books and papers, with information collected by agencies/scholars on various aspects of micro-industry development pertinent to Bangladesh.
- b. Technical information on key industries including raw materials, machinery, technical and managerial processes, and marketing.
- c. Information on relevant Bangladesh Government agencies, policies and procedures for obtaining access to assistance, establishing legality and coordinating development planning.
- d. Information on non-governmental activities/achievement of programs to assist micro-industries in Bangladesh.
- e. Information on specific sources of Bangladeshi industry inputs including raw materials, equipment, technical and managerial assistance, and financing, both in Bangladesh and abroad, together with descriptions of procedures for gaining access.
- f. Information on Bangladesh and foreign buyers of particular products together with descriptions of how to market products to them.

2. Research Specialist who would have the following functions:

- a. To identify and contract for revision, if necessary, existing research on the constraints of various industries, including raw materials technology, and marketing, making them useful for MIDAS clients.

- b. To supplement this, where necessary, contract field research for needed but unavailable information.
- c. To assist client organizations to design action research programs documenting field experience assisting micro-industries in Bangladesh.
- d. To contract for the development of easy to absorb reports on important elements of micro-industries development and give them wide distribution through MIDAS newsletter summaries and in detail to known, concerned client agencies.

### Technical Services

1. Project Development Specialist to assist client groups to:
  - a. Identify potential projects.
  - b. Design and obtain assistance for project feasibility studies.
  - c. Design project impact evaluation programs.
2. Coordinator of Technical Services to:
  - a. Assist groups to identify needs for product diversification, development of new process, technological innovation, quality control, etc.
  - b. Develop MIDAS Consultant Group - technical consultants available to help clients on particular problems by matching of Group Consultants with client needs. (See below for additional detail on Consultant Group).
3. Marketing Specialist to:
  - a. Help clients plan marketing strategies.
  - b. Keep producers advised of raw material developments and new processes, including sources/constraints and assist in procurement.

4. Manpower Development Specialist working through client agencies to:

- a. Organize seminars and workshops when resource people are available.
- b. Arrange for short-term tours for small groups to see projects in Bangladesh and abroad.
- c. Act as liaison for arranging apprenticeships in private sector of Bangladesh or for limited technical or on-the-job training, if necessary.
- d. Act as liaison between client agencies for exchange of information on availability of manpower development activities.

5. Planning Specialist to:

- a. Develop long-term plans, prepare program documentation and reports for MIDAS.
- b. Assist client groups in development of program plans and documentation and reports preparation.

### Financial Services

1. Grant Supervisors to process and supervise small grants to be obtainable with a minimum amount of paper work for use in experimentation to test new approaches to assisting micro-industries development. (Funds to be reserved for very small and women's groups.)

2. Loan and Grant Specialist to:

- a. Maintain information on other sources of grant or loan funding and provide referral services of client agencies to likely funders.
- b. Assist client agencies in preparing or obtaining assistance in the preparation of applications for funding.
- c. Be knowledgeable about available credit and coordinate with credit sources to assure credit is available to projects when needed.
- d. Assist donor groups to process client agencies applications.

## Profit Making Corporations

1. MIDAS Administrator when advised by the MIDAS financial services staff and Expert Committee of a suitable proposal for undertaking or assisting a profit making venture, will request the Project Development Specialist with assistance provided by member(s) of the Consultant Group, to develop the proposal to include MIDAS participatory/ equity position. MIDAS will then establish and finance private profit-making corporations. While not limited to the following, these enterprises might deal with the major constraints of micro-industries while making a profit for MIDAS. These corporations could:(1)

- a. Purchase scarce raw materials in bulk and distribute it to micro-industries;
- b. Purchase output of micro-industries and market in bulk; or MIDAS might;
- c. Take an equity position in marginal, but potentially profitable micro-industries, provide financial and technical resources necessary to make them profitable and then divest (roofing tile is an example);
- d. Undertake the establishment of an innovative and highly replicable micro-industry pilot project with high profit potential.

## Consultant Group

1. The MIDAS Coordinator of Technical Services to:
  - a. Recruit and maintain a directory of consultants who will provide assistance to client agencies as described above. (Per diem and transportation expenses are covered in the MIDAS budget.)
  - b. Provide consultants on a fee basis for technical and managerial assistance to governmental organizations and the private sector (consultants to share in proceeds earned).

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- (1) The high risk nature of these activities is recognized. An expatriate consultant will work with MIDAS to evaluate all profit generating proposals (years 2 & 3).

### Expert Committee

Members will receive honorary appointments by the Board of Directors of MIDAS. They will be entitled to a fixed fee for meeting days and provided with transportation plus other expenses while acting as a pool of resource personnel for consultation.

The composition of the Committee will be (maximum initially will be 10 to 12 members):

- a. One Expert from each product area selected by MIDAS for promotion - 5/7
- b. Financial/Economic Advisor - 1
- c. Expert on Co-operative/Credit Union movement - 1
- d. Experienced person in social welfare work - 1
- e. Administrator of MIDAS - 1
- f. Female philanthropist/social worker/woman volunteer development worker etc. - 1.

The functions to be performed by the Committee will be as follows:

- a. Detail study and deliberation on various aspects of projects submitted.
- b. Clearance on projects/proposals which they feel are feasible.
- c. Evaluation of projects/groups.
- d. Expert advise, on request, during project implementation.
- e. Advise the Administrator of MIDAS and Project implementers on technical aspects or product matters.
- f. Act as a neutral evaluator and advisory body to the MIDAS Board of Directors.

A chairman, elected by the Committee members from among the members, will be a voting member of the MIDAS Board of Directors as described in the by-laws (Appendix E).

## APPENDIX E

### MIDAS INCORPORATION DOCUMENTS

#### Legal Structure

Several organizational forms are possible. The form which is most flexible, given the multiple uses intended for MIDAS and the close ties with both development organizations and the business community, is the establishment of a private non-profit Society under the BDG Societies Act. This Act allows for the formation of non-profit entities for specified public-interest, charitable purposes. Societies under the Act are automatically non-taxable and require no separate registration to obtain tax exempt status. Under the Act, at least seven persons must be subscribers. They, in turn, elect a Board of Directors. This society may engage in a wide variety of activities, including ones which make a profit. It may also invest in companies which make a profit. These profits are not taxable as long as they are used for charitable purposes. The society would be registered with the Ministry of Commerce.

The next step would be registration with the BDG Department of Social Welfare. This registration process, which includes 17 separate BDG clearance steps, can take six months or a year. Lack of certainty of the time necessary to obtain this registration accounts in part for the MIDAS implementation design's flexibility as concerns the initiation of MIDAS independent (from TAF) operation.

Once the legal identity and proper registrations are obtained for MIDAS, The Asia Foundation may begin to transfer control of financial resources to MIDAS. However, this transfer will be neither automatic nor complete at any predetermined time. The timing must be based on the administrative and technical capacity of MIDAS staff. Information services might be the first to be transferred. Next might be technical services. Control of financial services might remain under TAF for a more considerable period if it does not appear sensible to transfer it. The procedural arrangement concerning the transfer process is provided for in the preliminary phase TAF/AID Grant Agreement.

Once it is legally organized, MIDAS will be headed by a 9-member board of directors, one of whom will be a member by virtue of his/her position within MIDAS and the rest will be elected for two year terms as outlined in the following sections.

MEMORANDUM OF ASSOCIATION

OF

MICRO INDUSTRIES DEVELOPMENT ASSISTANCE SOCIETY

(MIDAS)

(Registered under the Societies Registration Act, 1860)

NAME

1. The name of the Society is MICRO INDUSTRIES DEVELOPMENT ASSISTANCE SOCIETY (MIDAS).

REGISTERED OFFICE

2. The Registered Office of the Society is House No. 56, Road 7/A, Dhanmondi Residential Area, Dacca, Bangladesh.

AREA OF OPERATION

3. The area of operation of the Society shall be throughout Bangladesh.

OBJECTS

4. The objects for which the Society is established are:
  - (i) To engage in charitable purposes and social welfare strictly on a non-profit basis.
  - (ii) To promote the welfare of the people of Bangladesh through assistance to small and cottage industries and to groups or individuals promoting them on a strictly non-profit basis.

- (iii) To reduce poverty and unemployment through generation of productivity, especially among the poor.
- (iv) To provide such services as may promote and support small and cottage industries, to voluntary organizations, trade and business associations, cooperatives, government agencies, or any other groups or associations concerned with small and cottage industries, as well as to private business and individuals in this sector.
- (v) To provide information services, technical assistance, marketing and consulting advice, financial and material support, or any other assistance for non-profit promotion of small and cottage industries.
- (vi) To cooperate or participate with, or provide any assistance to such agencies, groups, business, and individuals, in setting up and managing small and cottage industries.
- (vii) To purchase, hire, or lease, any land, buildings, industrial equipment, or other facilities or materials or to develop land or construct buildings or other facilities, for any of the purposes of the society.
- (viii) To procure for the use of the Society or for any of its clients any equipment, commodities, raw materials, or other assets, from any part of the world, for the purposes of the Society.
- (ix) To receive donations or other financial assistance, from any private or government sources, and from any country for use in work consistent with the purposes of the Society.
- (x) To provide financial assistance to agencies, groups, and businesses, for the purposes of promoting small and cottage industries.

- (xi) To set up or operate any subsidiary enterprise for overall promotion of the charitable objectives of the Society.
- (xii) To set up or maintain in any place in Bangladesh or elsewhere in the world, branches, agencies, or local boards, for managing the affairs of the Society.
- (xiii) To establish, support, and maintain, any research centers, training institutes, schools, laboratories, inspection centers, or other institutions, as may be calculated to be beneficial for the work of the Society.
- (xiv) To enter into any arrangement with any Government or authority supreme, local, municipal or otherwise, public or quasi-public bodies, that may seem conducive to the objects of the Society for rights, privileges and concessions, which the Society may think desirable to obtain and to carry out, and to exercise and comply with any such arrangements rights, privileges and concessions.
- (xv) To invest and deal with the money of the Society not immediately required in such manner as may from time to time be determined.
- (xvi) To borrow or raise or secure the payment of money in such manner as the Society shall determine from time to time and generally to borrow money in such manner as may be agreed upon between lender and the Society and to apply the same for all or any purpose of the Society.
- (xvii) To draw, make, accept, discount, execute and issue cheques, bills of exchange, promissory notes, bills of lading warrants, debentures and other negotiable or transferable instruments or securities.
- (xviii) To sell, exchange, mortgage, let or demise lands, buildings, houses or other properties vested in or held by the Society.

STATUS

5. (a) The Society shall be a non-profitable organization. The income and property of the Society howsoever derived shall be applied solely for or towards the promotion of the objects of the Society as herein set forth, and no portion thereof shall be paid or transferred directly or indirectly to anyone who or at any time have been members of the Society or to any persons making claims through all or any of them. But nothing herein contained shall prevent the payment in good faith of reasonable and proper remuneration to any officer or servant of the Society whether a member or not of the Society or the Governing Body, in return for any services actually rendered to the Society, and/or for reimbursement of the out-of-pocket expenses incurred by him/them for the purpose of the Society and/or in the discharge of his/their duties, or payment of interests on money borrowed from any member of the Society or other persons.

(b) The Society shall be a non-political organization and it shall not take part in any activities other than those mentioned in paragraph 4 hereabove.

DISSOLUTION

6. If upon winding up or dissolution of the Society. at any time, there remains after satisfaction of all its debts and liabilities, any property whatsoever, the same shall not be parted or distributed among members of the Society but shall be given to some other society or institution having objects similar to the object of the Society.

MANAGEMENT

7. The Management and the affairs of the Society shall be entrusted to the Governing Body consisting of nine (9) members in accordance with the Rules of the Society.

8. The names, addresses and occupations of the present Governing Body of the Society:

	<u>Name and Address</u>	<u>Occupation</u>
1.	Mr. Peter Amacher Administrator International Union for Child Welfare No. 12, Road 15 Dhanmandi, Dacca	Service
2.	Mr. Ian R. McCabe Representative The Asia Foundation No. 55, Road 6/A Dhanmandi, Dacca	Service
3.	Mr. Sheikh Halim Director Village Education Resource Centre Savar, Dacca	Service
4.	Mr. R.M.H. Hirji Managing Director Dacca Refractories Ltd. No. 33 Bangabandhu Avenue Noor Chamber Ramna, Dacca	Businessman
5.	Mr. Md. Ikramullah Director Mirpur Agricultural Workshop Mirpur, Dacca	Service
6.	Mr. Amirul Islam Director Associated Builders Corp. Ltd. 1st Floor, 30 Tipu Sultan Road Dacca	Businessman

	<u>Name and Address</u>	<u>Occupation</u>
7.	Mr. Clarence Maloney Consultant, USAID 4th Floor, Jiban Bima Bhaban 10 Dilkusha C/A Dacca	Service
8.	Mrs. Joya Pati Managing Director Kumudini Welfare Trust Narayanganj, Dacca	Businesswoman
9.	Mr. Mamoon-al-Rasheed Director MIDAS Feasibility Study The Asia Foundation No. 55, Road 6/A Dhanmandi, Dacca	Service

We, the several persons whose names and addresses are subscribed hereto, having associated ourselves for the purpose described in this Memorandum of Association, do hereby subscribe our names to this Memorandum of Association and set out several respective hands hereunto and form ourselves into a Society under the Societies' Registration Act, 1860.

Sl No.	Name and Address	Occupation	Signature
1.	Mr. Peter Amacher Administrator International Union for Child Welfare No. 12, Road 15 Dhanmandi, Dacca	Service	
2.	Mr. Ian R. McCabe Representative The Asia Foundation No. 55, Road 6/A Dhanmandi, Dacca	Service	
3.	Mr. Sheikh Halim Director Village Education Resource Centre Savar, Dacca	Service	
4.	Mr. R. M. H. Hirji Managing Director Dacca Refractories Ltd. No. 33 Bangabandhu Ave. Noor Cahmber, Ramna Dacca	Businessman	
5.	Mr. Md. Ikramullah Director Mirpur Agricultural Workshop Mirpur, Dacca	Service	

Sl No.	Name and Address	Occupation	Signature
6.	Mr. Amirul Islam Director Associated Builders Corp. Ltd. 1st Floor, 30 Tipu Sultan Rd. Dacca	Businessman	
7.	Mr. Clarence Maloney Consultant, USAID 4th Floor. Jiban Bima Bhaban, 10 Dilkusha C/A Dacca	Service	
8.	Mrs. Joya Pati Managing Director Kumudini Welfare Trust Narayanganj. Dacca	Businesswoman	
9.	Mr. Mamoon-al-Rasheed Director MIDAS Feasibility Study The Asia Foundation No. 55, Road 6/A Dhanmandi, Dacca	Service	

Dated this the

day of

1981

Witnesses with their addresses:

1.

2.

R U L E S

OF

MICRO INDUSTRIES DEVELOPMENT ASSISTANCE SOCIETY  
(MIDAS)1. Membership

Any person of any nationality interested in charitable promotion of small and cottage industries in Bangladesh is eligible to become a member. He may be associated with a voluntary organization, a private business, or a donor agency, but his membership will be as an individual. Membership requires recommendation by two existing members and approval by two thirds of the members of the Governing Body. Each new member shall be listed by the Governing Body as belonging to one of the following membership categories : (i) those associated with voluntary agencies, (ii) those associated with private business or commerce, (iii) those associated with donor agencies, and (iv) others. A member upon election will pay a subscription of Taka 10 (ten), which shall also be the amount of annual subscription. A list of members and their addresses shall be maintained at the registered office of the Society.

2. Meetings of the Membership

- (a) There shall be an Annual Meeting of the members of the Society at a time and place to be determined by the Governing Body. No more than 15 months shall elapse between Annual Meetings. Notice shall be given in writing at least 14 days before, specifying the place, day and hour, with an agenda of the business to be transacted.
- (b) The business of any ordinary meeting of the Society shall be to (i) receive the report of the activities of the previous year, (ii) receive the annual budget of the Society and the audited accounts of the previous year, (iii) elect three members of the Governing Body as specified in Section 3b below, and (iv) consider such other business as might be submitted by the Governing Body or individual members.

- (c) The Chairman of the Governing Body shall preside as Chairman of the Annual Meeting of the Society. If there is no such Chairman, or if he does not function in his place within 30 minutes of the stated time of the meeting, members present shall choose one of themselves to be Chairman of the meeting.
- (d) A quorum shall consist of seven members present and voting. Every question to be decided in any Annual Meeting shall be decided by a show of hands. In case of an equality of votes the Chairman shall have a casting vote in addition to the vote to which he is entitled as a member. A vote may be given by proxy if deposited with the Society at least 24 hours before the meeting.
- (e) Minutes of proceedings and resolutions shall be made and signed by the Chief Executive Officer or in his absence by a member appointed by the Chairman. Minutes so signed and approved by the succeeding Annual Meeting shall be conclusive evidence of such proceedings and resolutions.
- (f) The Governing Body may call an extra-ordinary meeting of members in the same manner as the Annual Meeting. An extra-ordinary meeting may be requisitioned by the signature of at least 20 percent of the members. In this case the Chairman shall be obliged to call such meeting, and shall circulate notice of such meeting with the agenda at least 21 days beforehand. If such a meeting is not held, the requisitionees may themselves notify the members and convene the meeting.
- (g) The first Meeting of the members shall be held within three months of registration of the Society.

3. Governing Body

- (a) The affairs of the Society shall be managed by a Governing Body. It shall have the responsibility to determine the direction and scope of the activities of MIDAS, and to approve the appointment of the

Chief Executive Officer and/or his deputy, Accounts Officer, and heads of departments. It shall also have the responsibility to approve major projects and grants to associated agencies, and the annual budget and the supplementary budgets. It shall exercise financial control of the Society.

(b) The Governing Body shall consist of nine persons as follows:

three to be elected from the category of members of the Society associated with voluntary agencies;

two to be elected from the category of members of the Society associated with private business or the commercial sector;

one to be elected from the category of members of the Society associated with donor agencies;

two to be appointed by the Governing Body;

one MIDAS Chief Executive Officer.

The General Body shall elect members of the Governing Body for the categories of voluntary agencies, commercial establishments, and donor agencies, three in each year, to serve terms of two years each. The Governing Body shall appoint two members and the MIDAS Chief Executive Officer - and may make appointments to fill any vacancy in the above-mentioned three categories which could not be filled by election. The Governing Body may also make an appointment to fill a vacant seat until the time of the next Annual Meeting. The Annual Meeting may elect more than three members of the Governing Body in any year in which there are additional vacancies in the first three categories.

(c) The term of service shall be two years. Unlimited succession is permitted.

- (d) Members of the Governing Body shall function in their individual capacity and with individual judgment, and not as representatives of any agencies with which they may be associated.

4. Meetings of the Governing Body

- (a) The Governing Body shall elect a Chairman from among its members, who shall hold the position until it convenes newly constituted following an Annual Meeting.
- (b) The Governing Body shall hold at least four regular meetings in every year. Meetings may be called by the Chairman, or by the MIDAS Chief Executive Officer in consultation with the Chairman. Members of the Governing Body shall be given notice of all regular meetings at least 10 days before, by written notice or by telephone, to which their personal response is recorded.
- (c) Special meetings of the Governing Body may be called by the Chairman, the MIDAS Chief Executive Officer, the Steering Committee, or any three members of the Governing Body. Such meetings are for consideration only of the agenda for which the special meeting was called. Notice of such special meetings must be communicated to all Governing Body members at least on the previous day.
- (d) The quorum for the Governing Body meetings shall be five.
- (e) If there is no Chairman, or if he does not function in his place within 30 minutes of the stated time of the meeting, members present shall choose one of themselves to be Chairman of the meeting.
- (f) Any Governing Body member may waive receipt of notice of a meeting. The attendance of a member at a meeting shall constitute a waiver of notice of such meeting, except where a member attends for the express purpose of objecting to the transaction of any business because the meeting is not lawfully convened.

- (g) Minutes of the Governing Body meetings shall be recorded by the Chief Executive Officer, or in his absence by a member of the Governing Body appointed by the Chairman. The minutes shall be duly approved or corrected at the following regular meeting and filed in the permanent records of the Society.
- (h) Members of the Governing Body shall not receive any stated compensation for their services, but by resolution of the Governing Body, may be reimbursed for their expenses from within Bangladesh for attendance at meetings on business of the Society.

5. Steering Committee

The Governing Body shall elect three members, one of whom shall be the Chief Executive Officer, to form the Steering Committee. This Committee shall meet from time to time as need be to fulfil the responsibility to be given to it by the Governing Body. It shall make reports of its actions to the Governing Body at all regular meetings of the Governing Body.

6. Other Committees

The Governing Body may designate other committees by resolution of a majority of members present at a meeting, to undertake specific tasks. Such committees may include persons who are not members of the Society.

7. Contracts

The Governing Body may authorize in writing any officer or agent of the Society to enter into contract or execute and deliver any instrument in the name of and on behalf of the Society. Such authority may be general or it may be confined to specific instances.

8. Financial Records

- (a) All Cheques, drafts, or other orders for the payment of money, notes, or other evidences of indebtedness issued in the name of the Society, shall be signed by such officer or agent of the Society as shall from time to time be determined by resolution of the Governing Body.
- (b) At the direction of the Governing Body, the Accounts Officer or any other officer or employee of the Society may be bonded or required to have fidelity insurance.
- (c) The Society shall keep correct and complete books and records of accounts at the registered office.
- (d) At least once in every year the Governing Body shall lay before the Society in its Annual Meeting a true and audited statement of income and expenditure and balance sheet which shall be signed by the Chairman of the Governing Body, the members of the Steering Committee, and the Accounts Officer. There shall be an annual audit of accounts of the Society by such independent chartered accountant as may be appointed by the Governing Body.

9. Indemnity

The Society shall indemnify the Chairman and other members of the Governing Body against all costs and other expenses incurred by him or them in good faith in connection with affairs of the Society done with the objectives of the Society.

10. Amendments

The Memorandum of Association and the Rules of the Society may be altered, amended, or repealed, by members of the Society, provided that at least 30 days written notice is given, and provided such changes are approved by two thirds of the members of the Society.

**Best Available Copy**

## APPENDIX F

### MIDAS ACTIVITIES

As stated in the MIDAS inputs description (Section III.A of PP), the following basic program of action will be undertaken consistent with the Financial Analysis (Section VI) and with refinements and modifications based on experiences gained in preceding phases.

#### Start-up Phase

See TAF/AID Grant Agreement Number 388-0045-2.

#### Year 1

1. Finalize establishment and registration of MIDAS as a legal entity, with officially nominated and elected Board of Directors.
2. Establish and implement with the Asia Foundation, the phased transfer of financial and operational control to the MIDAS staff.
3. Based on feedback from client agencies, revise long-range plan and prepare implementation plan for second year.
4. Complete structuring of Expert Committee and develop Consultant Group and other ties with the governmental and business community.
5. Deliver services including technical consultancies, financing and credit assistance, and information services as required by clients.
6. Further identify clients' projects and expand linkages with other groups for advertising MIDAS services.
7. Evaluate options and expand number of key industry types to receive MIDAS services based on capacity of MIDAS organization.
8. Finalize and begin implementation of monitoring and evaluation system.
9. Develop technical library, to include at minimum:
  - i. Technical information on key micro-industries.

- ii. Information on government agencies, policies, and procedures related to micro-industries.
  - iii. Information on sources of key industry inputs (raw materials, equipment, technical aid, financing, etc.).
10. Train and develop work plans with each new staff member.
  11. Provide small grants to projects based on MIDAS staff capacity to process, monitor, and control them. (Since one important purpose of MIDAS is to experiment, no grant will be made unless an evaluation component is in place and capacity exists in MIDAS for careful monitoring. The number of grants given will depend on MIDAS staff grant management capacity.)
  12. Initiate linkages with AID Rural Finance and other credit programs.
  13. Develop job descriptions/scope of work and initiate recruitment of Year 2 new hires/expatriate consultant.
  14. Design and test information dissemination system.
  15. Formulate MIDAS service fee system and pursue paid consultant service in accordance with market interest/demand.
  16. Purchase office equipment and supplies. (1)

## Year 2

1. Revise long-range plan and develop implementation plan for third project year.
2. Evaluate options and expand number of key industry types to receive MIDAS services based on capacity of MIDAS organization.
3. Refine project monitoring and evaluation system through field testing.
4. Expand technical library and refine material into a newsletter and other forms and give maximum feasible distribution to include:

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(1) Some of these items have been transferred without cost to MIDAS from other AID funded projects.

- a. Information on micro-industry development around the world.
  - b. Technical information on particular industries.
  - c. Information on government activities in micro-industries.
  - d. Information on activities/achievement or existing micro-industry programs in Bangladesh and other countries.
  - e. Information on sources of industry inputs.
  - f. Information on Bangladeshi and foreign buyers.
5. Train new staff and develop work plan with each one.
  6. Evaluate current staffing pattern against program, develop new job descriptions and/or initiate recruitment of Year 3 supplemental new hires, providing in-house staff training as needed.
  7. Expand and refine interaction with business community, expand Expert Committee and Consultant Group membership, and provide consultants to projects.
  8. Assist clients in identification, feasibility studies, and evaluation of projects.
  9. Provide small grants to projects/programs consistent with MIDAS monitoring and evaluation capacity and MIDAS project innovation and development goals.
  10. Continue to develop linkages with other loan grant giving organizations.
  11. Provide financial services assistance in proposal preparation and liaison/referral to clients' projects. (Work especially with AID rural credit projects.)
  12. Assist groups with marketing strategies and/or in overcoming raw materials constraints.
  13. Begin to implement MIDAS involvement in profit making enterprises/projects. (The first of these ventures should be undertaken during this year.)
  14. Refine MIDAS service fee structure, expanding paid consultant service operations as possible.

15. Purchase office equipment, supplies, etc.

### Year 3

1. Revise long-range plan based on experience and develop implementation plan for following year's activities.
2. Evaluate options and expand number of key industry types to receive MIDAS services based on the capacity of the MIDAS organization to undertake expansion.
3. Expand and refine interaction with the business community, expand Expert Committee and Consultant Group membership as necessary, and provide consultants to an increasing number of clients' projects.
4. Continue expansions of technical library and dissemination of informative newsletter.
5. Refine work plans with staff and continue in-house training as necessary.
6. Jointly, with client agencies, sponsor workshops; travel to see projects, programs for industries; and arrange apprenticeships and on-the-job training.
7. Assist clients in project identification, feasibility studies, and evaluation experiences.
8. Provide small grants to projects/programs consistent with MIDAS monitoring and evaluation capacity and MIDAS Project innovative and development goals.
9. Expand linkages with other loan and grant agencies, providing referral and project proposal preparation assistance.
10. Identify policy level constraints to micro-industry development and make recommendations for changes.
11. Assist clients in developing appropriate marketing strategies and/or overcoming raw material constraints.
12. Continue development of profit making enterprises and refine MIDAS service fee structure.
13. Expand and/or maintain office as necessary including the purchase of equipment and supplies.

In addition, the following activities will be undertaken in project years as designated below:

- Year 3 - Produce first evaluation report on impact of assistance provided and facilitate performance of independent evaluation performed by short-term consultant.
  
- Years 4&5 - Evaluate future funding needs, if any, based on cash flow produced by MIDAS participation in profit generating enterprises, paid consultant fees, and other fee receipts, preparing proposal to access funds.
  
- Year 5 - Assist outside consultants perform comprehensive independent evaluation of activities.

APPENDIX H

BDG OFFICIAL REQUEST FOR ASSISTANCE

From : M. A. Matin Lasker  
Deputy Secretary

External Resources Division  
Ministry of Finance  
Sher-e-Bangla Nagar  
Dacca-7

D. O. No. ERD/USA(P)-8/81

Date: August 8, 1981

Subject :- Rural Industries Project.

Dear Mr. Kimball,

Please refer to our recent discussions with Mr. Crandall on the Project Paper for Rural Industries which is designed to develop mechanisms for promoting Rural Industries in Bangladesh.

In order to reduce the rate of underemployment and unemployment and increase productivity and real incomes of the rural people the Rural Industries Project would be very much beneficial for the over all economic development of the country particularly the rural people. This Project would include 3(three) components viz Micro Industries Development Assistance Society (MIDAS), assistance to Bangladesh Handloom Board (BHB) and creation of a Development Fund for developing & undertaking pilot programmes in high potential approaches to Sector development.

The Government requests the USAID to provide a grant of \$10, 000, 000 (ten million) for implementation of the project. You are accordingly requested to take necessary action for providing the fund at an early date.

With regards,

Yours sincerely

(M. A. Matin Lasker)

To  
Mr. Frank B. Kimball,  
Director,  
USAID Mission to Bangladesh  
Jiban Bima Bhaban (4th floor)  
10, Dilkusha, C/A, Dacca.

## APPENDIX I

### BSCIC CURRENT RESPONSIBILITIES AND ACTIVITIES

#### A. BACKGROUND

BSCIC was formerly the East Pakistan Small industries Corporation. In the late 1960s, it was reorganized and the cottage industries sector was added to its portfolio. In the late 1970s, the handloom and silk industries were removed from its portfolio and reorganized under separate boards in the Ministry of Textiles. Certain other small industries, such as agricultural pumps, come under the purview of other government agencies. But BSCIC is the premier agency in Bangladesh designated by the Government to promote small and cottage industries.

After Bangladesh independence, the BDG took an interest in the SCI sector and allocated to it \$22 million in the First 5-Year Plan. It allocated another \$9 million during the 2-Year interim Plan. It has proposed a budget of \$50 million for SCI during the current 5-Year Plan.

BSCIC has its headquarters in Dacca, with about 900 employees. It maintains offices in almost every district, which are now being converted into District Industries Centres. New efforts are under way to enable BSCIC to provide technical and extension services in rural areas.

#### B. CURRENT PROJECTS

##### 1. Industrial Estates

In the 1960s a program was taken up to establish industrial estates, in most cases one to a district. Infrastructure development for all of them was completed in 1980. Out of 3,343 available plots in these estates, by 1980, 1,862 had been allotted to 828 applicant industries. Of these industries, in 1980, 355 were under production, 85 more were nearly ready for operation, and 115 were construction. It may be summarized that 6 of these estates are functioning well, 8 are functioning marginally,

and the remaining 6 do not yet have enough industries to justify the investment made in infrastructure. The unsuccessful industrial estates are mostly in the more rural or agricultural districts which have little tradition of entrepreneurship. It is proposed to establish a number of new industrial estates, of smaller size.

## 2. Loan Application Evaluation

BSCIC plans a major role in the evaluation of proposals of modern small-scale industries for financing. These proposals are submitted to BSCIC by the banks for obtaining feasibility estimates.

The BDG made \$4 million available from its own resources as loans to SCI through commercial banks in 1978-80, which is now being renewed; BSCIC served on the committees evaluating proposals for loans from this fund. BSCIC also served as the consultant to commercial banks for 18 months under the IDA II credit for SCI, after which the Janata and Sonali banks acquired their own capacity to evaluate SCI proposals.

It is the policy of the BDG that BSCIC should not be a credit giving agency, but concentrate on extension and promotion. Earlier, BSCIC had distributed credit from grants from Sweden, the Netherlands, and USAID, and failed to recover the larger part of the capital. For this reason, the banks are now assigned the role of giving and recovering credit.

## 3. Handicraft Design Centre

This Centre, located in Dacca, has produced several thousand designs for handloom, pottery, printing, doll making, cane and bamboo work, metalwork, leather, and other products. Some of these designs are prototypes. The Centre has organized many training courses and participated in fairs and exhibitions. But since this Centre is located in Dacca with little outreach, its effectiveness in promotion of improved product design on a commercial basis has been limited.

4. Bangladesh Handicraft Marketing Corporation

This is a subsidiary of BSCIC which has concentrated on export of cane, bamboo, basketry, jute, leather, wood carving, and other handicrafts. Producers have been organized and assisted to make goods according to requirements of orders from abroad, especially from Germany and Italy. It was funded under IDA II and has doubled exports of bamboo, cane and jute handicrafts.

5. Salt Industry

The BDG assigned BSCIC the responsibility of making the country selfsufficient in salt, for which a 3-year program was begun in 1975, and a follow-on 2-year program in 1978. Through its salt demonstration centers in coastal areas, techniques of production of ocean salt have diffused, and the country is now self-sufficient in this item.

6. Cottage Industries in the Chittagong Hills

The BDG requested BSCIC in 1975 to initiate development of handicrafts among tribal people in the Chittagong Hills. Under this project, 4 artisans' workshops and a sales outlet have been set up. The crafts promoted include: cashew nut processing, bamboo and cane products, doll making, musical instrument making, use of pineapple fiber, cotton growing and spinning, weaving, and silk production.

7. Other Industries

An ambitious bee-keeping project is being promoted. There is a pottery unit within BSCIC and a number of potter villages have been assisted in product upgrading. There is a new brass and bell metal industry promotion program. Weaving is being assisted (apart from BHB projects). There is some work in promotion of embroidered quilts, blanket making, and cottage industries of the Garo tribe.

## 8. Rural Industries Service

This is a system of giving assistance to artisans in particular handicraft fields, such as weaving and pottery. It is not really an extension system because there are only 7 extension officers (out of 28 sanctioned), all of whom are either in Dacca or Narshingdi (a weaving center). It is being superseded by the BSCIC extension system now being developed.

## 9. Extension

In 1979 BSCIC began planning for an extension system; a few officers were trained and placed in some of the district offices, but they did not leave their chairs much and were not very effective. It was the opinion of the consultants funded by USAID to work with BSCIC for three weeks in 1980, that the existing SCI extension system needed modifying in order to function properly.

Plans have been made for training 144 persons in India, the Philippines, and Dacca, to work as extension agents in the District Industries Centres. The BDG has also issued a directive that BSCIC should reach to the Union level; BSC itself is thinking of trying now to have coverage experimentally in some thanas, and to reach then to particular villages and hamlets offering extension and credit liaison services. This entire system has to be built up and integrated with the District Industries Centers and credit availability.

There are no vehicles for use by BSCIC officials, even in the district industries centers; nor are there bicycles, nor vehicles for mobile units such as BSCIC is thinking of developing.

## 10. Publications

BSCIC has compiled a number of product-related short feasibility studies, but these are very brief. BSCIC also puts out "Current Awareness Service," a bulletin about modern processes. It also maintains an SCI library.

## 11. Training

In the last few years BSCIC has trained about 4,000 persons. It claims to have a capacity now to train about 2,000 a year in its various courses. Under the Rural Industries Scheme, courses are offered in specific technologies, such as pottery, brassworking, and house-wiring. In the Handicraft Design Centre, courses are offered in designs of textiles, ceramics, bamboo, leather, and doll making. Other courses are offered in collaboration with other agencies in metal working and small engineering skills. Still other courses are offered in the Chittagong Hills, primarily for tribal people. The biggest problem is that after training, few of the trainees set up an industry under their own initiative. BSCIC now plans to provide more post-training assistance.

## C. BSCIC INPUT TO BDG 5-YEAR PLAN

In July, 1979, the President of Bangladesh issued a directive that there should be a national plan for development of SCI on the basis of locally available natural resources. BSCIC prepared a plan, and incorporated these ideas into the Industries section of the national 5-Year Plan of which the following are some highlights.

### 1. Goals

The goal of the Plan is to increase the SCI sector contribution to the GDP from 2.8 percent to 5 percent and create employment for 250,000 persons. Self-sufficiency is to be achieved in agricultural tools and equipment, pumps, small hand tools, office supplies, and educational equipment. Investment in SCI is to increase 10 percent a year.

### 2. Policies and Activities

There will be a National Coordination Council for Development of SCI, but each District will develop its own plans in view of its resources, skills, and growth potential. The 20 industrial estates will be promoted

and occupancy accelerated. BSCIC will collaborate with entrepreneurs in setting up pilot projects in new industries and will conduct a pilot project intended to develop outreach services to selected village industries. Existing activities in promotion of trade fairs, handicraft exports, handicraft designs, bee keeping, Chittagong Hill Tracts industries, and salt production will be enhanced.

### 3. New Institutes, Centres, and Projects

A District Industries Centre will be set up in each of the 20 districts, to provide training, marketing assistance, research, liaison with credit institutions, technical assistance, and other services. A training institute will be set up for training entrepreneurs and managers, extension workers, and also artisans. A product and prototype technology centre will be set up within BSCIC. A subcontracting exchange will be set up. It is recommended that some sort of SCI financing mechanism be set up. More industrial estates will be opened; the goal is an additional 20 mini-estates. Thana level centres may be set up.

## D. NEW DIRECTIONS FOR BSCIC AND AID ACTIVITIES

A new chairman for BSCIC took office in September 1980, and since then new initiatives have been set in motion. Meanwhile, the President of Bangladesh declared that there would be an "industrial revolution" in which BSCIC is to play an important role. In response to this, BSCIC prepared a plan showing a many-faceted role in the proposed "Industrial Revolution," in which USAID was mentioned as possible donor for projects in women's industries and credit. With World Bank assistance, BSCIC is turning each district industrial estate office into a District Industries Centre, abolishing the present offices in the four Divisions, and planning to train and place at least two or three extension officers in each district.

The new BSCIC Chairman has held many wide-ranging discussions with people inside and outside of BSCIC. His desire is to turn BSCIC around to make it genuinely responsive to the needs of small enterprises and villagers who do

not have access to urban centers, while at the same time continuing to promote growth industries and small factories.

The Chairman requested AID assistance in preparing data for three project proformas for BSCIC to submit to the government and to donor agencies. These are in micro industries credit, women's industries and entrepreneurship, and training. In response, the AID PSC Consultant in SCI organized three committees. These three committees have produced three reports. The committee members included both BSCIC and AID personnel and relevant local outsiders having special skills and knowledge. This exercise was completed in summer, 1981, and should result in BSCIC project proformas in these three or in related areas. USAID has been requested to consider funding two of them. Project development and pilot activities in BSCIC may proceed with funds from Component II of this project, with full implementation to follow from a future project yet to be designed.

## APPENDIX J

### OTHER DONOR ACTIVITIES

#### A. IDA (WORLD BANK)

##### 1. First Small Scale Industries Project

An IDA loan of \$3 million was made in 1970 to Pakistan and reactivated to Bangladesh in 1973. It ended in 1977, and financed 28 industrial projects, mostly medium scale industries located in major cities.

##### 2. Second Small Scale Industries Project

IDA II was for \$7 million, begun in September, 1980. The funds were all committed by the banks by June 30, 1980 and financed 146 subprojects. Loans were handled through Janata and Sonali banks, which, through IDA encouragement, have established strong small scale industry departments. BSCIC served as Consultant to the banks for 18 months, but phased out as planned. A component of IDA II was for Bangladesh Handicraft Marketing Association (BHMC), a subsidiary of BSCIC, for jute, bamboo, and cane handicrafts; export of these handicraft items by BHMC doubled during this project.

##### 3. Third Small Scale Industries Project

The proposed IDA III will be for \$35 million, including \$30 million for loans through commercial banks to small industries, and \$5 million for technical services and projects through other government agencies.

##### a. Loans through Banks

In addition to Janata and Sonali banks, which handled IDA II, Agrani and Shilpa banks will participate in this project, and all will be assisted in improving their capacity to evaluate applications and administer small industrial loans. Interest will be at 13 percent with participating banks remunerated by spreads of 6 to 8 percent. An average of 70 percent of the cost of each sub-project may be financed, and the participating bank may be refinanced

up to 100 percent by the Bangladesh Bank. A guarantee scheme by the Bangladesh Bank will cover 70 percent of subloans under Tk. 500, 000 and 50 percent of larger subloans. Maximum size of a subloan will be Tk. 3 million.

b. BSCIC

IDA has encouraged BSCIC to improve its promotion and extension capacity, and the draft plan includes deployment of 80 extension and technical staff in the BSCIC District Offices during the three years the project will run. These officers are to be supported by a continuous training program, more responsive BSCIC management by use of the District Manager's office, and a system of rewards to encourage strong performance. These expenses are to be borne by BSCIC (and in fact are being incorporated into the scheme to convert the BSCIC district offices in District Industries Centers (DICs) after the pattern in India).

Under IDA III, BSCIC is to receive \$1.47 million for use as follows:

- 1) \$670, 000 for subsector development. BSCIC is to reorganize its promotion activities so as to provide special technical assistance in four areas: light engineering with emphasis on agricultural implements, agro-processing of fruits and vegetables, wood working, and garments making. A cell will be set up within BSCIC for providing services in each of these areas.
- 2) \$600, 000 for investment in pilot projects. BSCIC will collaborate with private entrepreneurs to set up plants for testing new lines of products and demonstrating project viability, to be disinvested when successful.
- 3) \$200, 000 for a sub-contracting exchange.

IDA is also considering sponsoring training of 144 extension officers for the BSCIC district centers, to be trained in India, Philippines, and Bangladesh. This training will be in management and small industries extension services ( as opposed to cottage industries extension ).

c. Institute of Leather Technology

\$1.63 million will be given to this institute for assistance to private tanneries, particularly in upgrading the technology so finished leather will be available locally for production of better quality and exportable leather goods.

d. Export Promotion Bureau

\$800,000 will be given to the EPB to fund practical consultancy services to assist exporters in product improvement and to finance trips abroad and sales fairs. Of the \$25 million allocated for loans through commercial banks, \$1 million is to be reserved for handicraft exporters and related manufacturers.

e. Integrated Rural Development Program

Of the sum allocated for loans through commercial banks, \$1 million is reserved for IRDP development of bee keeping, goat rearing, poultry, and fish ponds, in selected thanas; \$30,000 is also to be available for technical assistance.

f. Planning Commission Study

\$400,000 is to be available for a series of studies under the Planning Commission. These studies may be carried out in about 35 thanas to identify feasible local industries and develop local area industry promotion plans. The studies will identify goods and services in demand, assess market potential for new product lines, move quickly to develop concrete project profiles, and assess existing and needed policy.

g. Miscellaneous

Further sums of \$260,000 for training of bank personnel and \$470,000 unallocated, are in the project. The BDG and implementing agencies are to contribute \$1.92 million to the total IDA II project, while the input of private sponsors to the projects receiving subloans is estimated at \$13.08 million; total project is estimated at \$50 million. The project is to last for three years.

4) Industrial Promotion and Development  
Company of Bangladesh (IPDC)

Through the International Finance Corporation (IFC), the World Bank may undertake a joint development effort with Industrial Promotion Services, S.A. (IPS-Switzerland), the Agha Khan Foundation, German Development Corporation, Commonwealth Development Corporation and the BDG. A public limited company (IPDC) with initial share capital of \$6 million (equivalent) would be created to carry out investment promotion, financing, and business advisory activities in Bangladesh. The company plans to invest its initial capital (\$6 million) in 15 to 20 companies over a five year period. The investments will be oriented towards expansion of medium scale enterprises and new large scale enterprises including joint ventures with foreign technical partners.

5) Textile Sector Assistance

In March 1981, a World Bank team visited Bangladesh to investigate potentials and design a program of assistance to the textile sector. Preliminary indications are for a balancing, modernization and rehabilitation (BMR) activity for 15 BTMC mills, raw cotton and mill spare parts imports, and technical assistance for the BTMC marketing cell and a reorganization study. A second and third stage may follow-on these activities, which are as yet in the early stages of definition. No involvement with the BHB is presently planned.

6) Shilpa Bank Credit

A second loan (\$50 million equivalent of Special Drawing Rights) to the Shilpa Bank was negotiated in March, 1981. The funds will be used for import of industrial raw materials and commodities.

B. Asian Development Bank

The ADB approved a loan of \$25 million to Bangladesh Shilpa Bank, of which \$4 million is reserved for small scale industries; this took effect from June, 1979. Most of the loans go for larger modern-type small industries.

C. UNICEF

Several UNICEF projects have a component for assisting industries, especially for poor women and their families. A grant of \$456,000 to the Bangladesh Women's Welfare and Rehabilitation Foundation for two years includes funds for training in village industries. A grant of \$90,000 to IRDP and the Women's Cooperative Foundation working together in 20 thanas, includes some funds for use for handicraft development. There are also agro-industry projects, such as development of a grain thresher. Some women have been sent India to learn and observe textile printing.

D. ILO (through UNDP)1. Cottage Industries Development

This project, costing \$850,339, is to be implemented through BSCIC. It grew out of an earlier study made ILO Consultant Vince Austin. The project specifies development of BSCIC extension for cottage industries in two districts, to be selected. It specifies concentration in 5 (or 7) types of village industries. There are to be 40 temporary village-level workers, 10 BSCIC-trained staff, and 10 extension officers. The project is to be implemented from about February, 1981, and will last two years. It will test BSCIC's capacity to develop cottage industry extension. The BSCIC Chairman intends to modify the project to be consistent with overall present policy in BSCIC and its long range plans as outlined under component III of this project paper.

E. NORAD (Norway)1. Credit

An agreement has been negotiated with Bangladesh Bank to set up a Refinancing Fund for SCI for which NORAD will give about \$2 million. This will refinance loans given by Janata and Sonali Banks, in two districts to be determined. The loans shall not exceed 25,000 taka and should average 10,000 taka. Normal bank procedures will be followed, and interest will be 13 percent with commercial banks paying 2 percent to the Bangladesh Bank on the amount refinanced.

Another agreement has been negotiated with the Bangladesh Bank for a District Development Fund for Shilpa Bank for making loans in rural areas and for enhancing growth of SCI in particular. Loans from this fund shall be subordinate to Shilpa Bank loans to the same projects, and shall not cover more than 50 percent of the cost of each project. Maturity will not exceed 15 years. Shilpa Bank shall pay 3 to 6 percent interest on funds drawn from this fund.

## 2. Women's Training

NORAD has financed the buildings and some staff and training for 14 centers for the Jatiya Mahila Sangstha. These centers are to give training to women in weaving, sericulture, and other industries. It has been found that training by itself, without assistance in marketing, getting raw materials, and capital, produces little economic improvement, so project modification plans includes providing extension assistance in setting up village industries.

## F. SWISS DEVELOPMENT CORPORATION

### 1. Sericulture

A 3-year bilateral project in sericulture began in August, 1978, with a budget of 2.07 million Swiss francs for the donor contribution. The project is implemented by the Sericulture Board, in Rajshahi, under the Ministry of Textiles. The purpose is to improve silkworm breeds and mulberry varieties, develop sericulture as a household industry, assist research and training, and bring in technical assistance from India. The project is to assist 3,000 small farmers and landless families.

### 2. Diesel Pump Maintenance

This project is funded by the Swiss Development Corporation through ILO and implemented through BADC. The objectives are to set in place a system of repair and maintenance of agricultural diesel pumps, and training of repairmen. Training is offered to 3,500 mechanics and 52,000 pump operators, besides 1,200 store-keepers and 600 machine shop operators. The donor contribution is 3.5 million Swiss francs.

### 3. Village Industries

A project in family and village development is funded through International Union for Child Welfare working in cooperation with the Social Welfare Department, for assistance to the genuinely poor in 40 thanas. Donor contribution is 3 million Swiss francs. The project includes an interest-free loan scheme combined with technical advice and marketing assistance for such enterprises as blacksmithy, rickshaws, rice husking, and jute and other handicrafts. Loan repayment goes into a revolving fund managed by a village committee.

## G. SIDA (Sweden)

### 1. Vocational Training

SIDA has a major program to build and equip the Vocational Teachers Training Institute at Bogra and to equip the 35 trade schools run by the Ministry of Education. The program ran from 1976-81 and is being extended by two years; total cost is 60 million kroner (\$16 million). The program includes building of the campus in Bogra, training of 8 chief instructors in England, development of curricula at the Institute and in the trade schools, and installation of new equipment in all the trade schools.

### 2. Export Promotion Bureau

SIDA is funding staffing and training at the Export Promotion Bureau, including posting of some experts from other Asian countries. The program is funded through the International Trade Corporation in Geneva, and started in 1977; the budget is for 10 million kroner (\$2 million). One of the functions taken up by the Export Promotion Bureau recently is Banglacraft, an association of handicraft exporters.

## H. NETHERLANDS

There is a plan for a rural development project in Kushtia District, based on an anthropological local study. The plan includes development of village industries. It has not been finalized.

I JICA (Japan)

JICA undertook a study of small scale metal and agro-related industries in a few selected areas. It pointed out many problem areas in small metal industries, such as poor technology, lack of sub-contracting, mistrust in business, and very high prices of raw materials because of shortages and high duties. The report has been adapted by BSCIC into a project proforma, "Integrated Small Metalworking Industries Development", which calls for a Product and Prototype Center (probably to be in Joydebpur), and a center for metalwork production and repair, or light engineering, in each thana in the country. Also called for is a credit system (possibly with IDA funding), a sub-contracting system, a patent and registration design system, establishment of industrial standards, and improved raw material allocation. This project is proposed to cost \$100 million, and JICA has agreed to discuss it with the Government.

J. DANIDA (Denmark)

DANIDA is operating a wide-ranging rural development project in Noakhali District. Included in it is a component for rural industries, costing \$513,000 for 3 years, which will now be extended for 2 more years. Activities include service facilities centers, a waste-oil burning pottery kiln, and coconut husking machines. The industries projects are implemented with BSCIC; 36 extension workers are to be placed, and the budget includes study tours of other Asian countries for the bamboo and coir industries. Loans to artisams are available through Janata Bank, and products are to be marketed through Karika, an apex cooperative.

## APPENDIX K

### IMPLEMENTATION SCHEDULES

The chart on the following page outlines the five year implementation plan of Component I. No plan is suggested for Component II because of uncertainty in sub-project selection and design detail.

Major pre-implementation actions include the following:

- |  |                |
|--|----------------|
| 1. USAID project approval                              | May 1, 1981    |
| 2. Mission support (PSC)<br>documentation/search begun | July 1981      |
| 3. AID/W project approval                              | August 1981    |
| 4. Mission funding authorization                       | August 1981    |
| 5. Project agreements signed                           | September 1981 |
| 6. Initial conditions met                              | September 1981 |
| 7. Mission support (PSC)<br>consultant contracted.     | November 1981  |

The 5 year schedule which follows begins in September, 1981. Any actions begun previous to that date, i. e. during MIDAS preliminary phase, are marked by an asterisk. Numbers shown in the year/month columns represent number of persons employed, activities undertaken, issues of a journal published, etc. For example, item 4 of the chart shows that 4 professionals will be employed by MIDAS in staff positions during the period 9/81 to 12/81, with 9 more employed between 8/82 and 2/83 and one more in September or October of 1983.



**APPENDIX G**  
**MIDAS FINANCIAL PLAN**

	AID	AID	AID	AID	Non-AID <sup>(8)</sup>	AID	Non-AID <sup>(8)</sup>	Total	Total <sup>(8)</sup>	Grand
	Year 1	Year 2	Year 3	Year 4	Year 4	Year 5	Year 5	AID	Non-AID	Total
<b>I. Professional Personnel</b>										
Salaries(Tk.3000 to 8000/mo)	13,400	44,300	55,900	60,700	6,700	60,600	20,200	234,900	26,900	261,800
Benefits (40%)	5,400	17,700	22,400	24,300	2,700	24,200	8,100	94,000	10,800	104,800
Sub-Total	18,800	62,000	78,300	85,000	9,400	84,800	28,300	328,900	37,700	366,600
<b>II. Support Staff</b>										
Salaries(Tk.600 to 4000/mo)	10,300	18,700	24,800	26,800	3,000	26,800	8,900	107,400	11,900	119,300
Benefits (40%)	4,100	7,500	9,900	10,700	1,200	10,700	3,600	42,900	4,800	47,700
Sub-Total	14,400	26,200	34,700	37,500	4,200	37,500	12,500	150,300	16,700	167,000
<b>III. Consultants (expatriate)</b>										
Evaluation (1)			33,300			40,300		73,600		73,600
Long-term (2)	62,000	189,400	104,500					355,900		355,900
Sub-total	62,000	189,400	137,800			40,300		429,500		429,500
<b>IV. Office Operations (3)</b>	12,200	21,000	31,100	41,100	4,600	45,400	15,200	150,800	19,800	170,600
<b>V. Reference Materials (4)</b>	7,000	6,000	7,200	7,800	900	7,800	2,600	35,800	3,500	39,300
<b>VI. Office Equipment (5)</b>	6,800	24,000						30,800		30,800
<b>VII. Office Furnishings (6)</b>	200	3,500						3,700		3,700
<b>VIII. Client Support</b>										
Regional & Local Consultants	25,000	50,000	75,000	90,000	10,000	93,800	31,200	333,800	41,200	375,000
Training		10,000	20,000	36,000	4,000	44,000	15,000	110,000	19,000	129,000
Grant/Loan Funds	100,000	150,000	225,000	350,000		300,000		1,125,000		1,125,000
Equity Participation Funds		25,000	150,000	100,000				275,000		275,000
Sub-Total	125,000	235,000	470,000	576,000	14,000	437,800	46,200	1,843,800	60,200	1,904,000
<b>IX. Contingencies (10%)</b>	24,600	56,700	75,900	74,700	3,300	65,400	10,500	297,300	13,800	311,100
Total Direct Costs	271,000	623,800	835,000	822,100	36,400	719,000	115,300	3,270,900	151,700	3,422,600
<b>X. Indirect Costs</b>										
TAF Overhead (7)	183,800							183,800		183,800
GRAND TOTAL (Rounded)	455,000	624,000	835,000	822,000	36,000	719,000	115,000	3,455,000	151,000	3,606,000

Footnotes: Total of six person months; (2) Total of 48 person months - one consultant hired locally and one is foreign (probably U.S.) hire; (3) Rent, utilities, telephone, supplies, printing & reproduction, postage, and staff transport & per diems; (4) Books and periodical subscriptions; (5) Typewriters, duplicating machine, 2 vehicles, photograph machine, fans, and calculators; (6) Desks, almirahe, chairs, tables, and shelves; (7) 45.3% Program Operating Expenses & 15.5% Grants and Administration; (8) See footnote to Table 2, Section II.A of PP.

APPENDIX L

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Life of Project  
From FY 81 to FY 85  
Total U. S. Funding \$5, 000, 000  
Date Prepared: 7/30/81

Project Title & Number: Rural Industries I Project (388-0042)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p>To reduce under and unemployment and increase productivity and real incomes of rural poor.</p>	<p>Measures of Goal Achievement:</p> <p>MIDAS sub/grants &amp; loans directly effect employment &amp; incomes of 50, 000 plus increase in income &amp; employment to thousands in 30 industry types serviced through MIDAS assisted client agencies. Combined employment and income increases for 15000 through various component 2 sub-projects.</p>	<p>MIDAS success indicated by extent and rate of increase of demand for MIDAS services, periodic project evaluations and client sub-project evaluations. Loan utilization records and sub-project evaluations.</p>	<p>Assumptions for achieving goal targets:</p> <p>Increased activity in traditional and new product rural industries and improved procurement, credit and marketing system will open new markets and total demand for products will allow continued expansion of economically viable rural industries. BDG maintains or creates policies which favor local small-industry production over imported or large-scale production.</p>

<p><b>Project Purpose:</b></p> <p>To develop mechanisms for promoting rural industries in Bangladesh.</p>	<p>Conditions that will indicate purpose has been achieved; End of project status.</p> <ol style="list-style-type: none"> <li>1. Through MIDAS assistance, NGOs increase scope and quality of services to rural industries.</li> <li>2. At least 1 replicable approach to sector expansion defined.</li> </ol>	<p>Client agency records, USAID spot visits, MIDAS reports and evaluations.</p> <p>Sub-project evaluations and subsequent discussions with BDG.</p>	<p>Assumptions for achieving purpose:</p> <p>MIDAS services are of high quality. NOGs have necessary skills and funding to expand rural industrial activities.</p> <p>BDG overall attitude towards rural industries sector encourages development and replication of new approaches.</p>
<p><b>Outputs:</b></p> <ol style="list-style-type: none"> <li>1. MIDAS established, operational and providing full range of services.</li> <li>2. Pilot projects for sector development carried out.</li> </ol>	<p><b>Magnitude of Outputs:</b></p> <ol style="list-style-type: none"> <li>1. a. MIDAS legally established as Bangladesh enterprise by end of 1st project year 1. b. Minimum targets defined Table 2 met.</li> <li>2. At least three pilot projects testing new approaches or products completed by end year 5.</li> </ol>	<p>MIDAS and client agency records. USAID and sub-project reports.</p>	<p>Assumptions for achieving outputs:</p> <p>BDG remains receptive to MIDAS concept. MIDAS organizational structure and staff levels are appropriate for providing the planned services. Client agency demand exist BDG agencies come forward with well designed proposals for pilot projects.</p>
<p><b>Inputs:</b></p> <p>See Budget Tables</p>	<p><b>Implementation Target (Type and Quantity)</b></p> <p>See Budget Tables</p>	<p>USAID, BDG records.</p>	<p>Assumptions for providing inputs:</p> <p>USAID and BDG are able to provide all inputs in a timely fashion and at level as agreed upon.</p>

APPENDIX M

STATUTORY CHECK LIST  
5C(1) - COUNTRY CHECK LIST

A. General Criteria for Country Eligibility

1. FAA Sec. 116. Can it be demonstrated : Yes, it can be so  
that contemplated assistance will directly demonstrated.  
benefit the needy? If not, has the Depart-  
ment of State determined that this govern-  
ment has engaged in a consistent pattern  
of gross violations of internationally  
recognized human rights?
  
2. FAA Sec. 481. Has it been determined : No. Department of  
that the government of recipient country State has not so  
has failed to take adequate steps to determined.  
prevent narcotics drugs and other con-  
trolled substances (as defined by the  
Comprehensive Drug Abuse Preven-  
tion and Control Act of 1980) produced  
or processed, in whole or in part, in  
such country, or transported through  
such country, from being sold illegally  
within the jurisdiction of such country  
to U.S. Government personnel or  
their dependents, or from entering the  
U. S. unlawfully?
  
3. FAA Sec. 620(c). If assistance is to : Yes  
a government, has the Secretary of State  
determined that it is not controlled by  
the international Communist movement?
  
4. FAA Sec. 620(c). If assistance is to a : No  
government, is the government liable  
as debtor or unconditional guarantor  
on any debt to a U.S. citizen for goods  
or services furnished or ordered where  
(a) such citizen has exhausted available  
legal remedies and (b) debt is not denied  
or contested by such government?

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? In 1972 the BDG nationalized five firms which were fully or partially owned by U.S. entities. The BDG has announced a compensation policy and is taking steps to discharge its obligations toward U.S. citizens and entities.
6. FAA Sec. 620(a), 620(f) 620D, App. Act: Is recipient country a Communist country? Will assistance be provided to Afghanistan, Angola, Cambodia, Cuba, Laos, the Socialist Republic of Vietnam or Syria? Will assistance be provided to Mozambique without a waiver? a. No  
b. No  
c. Not applicable.
7. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression? a. No  
b. No
8. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property? No
9. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvenience or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason? OPIC bilateral agreement was signed January 15, 1975.
10. FAA Sec. 620(o). Fishermen's Protective Act of 1967, as amended, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters: Not applicable.

- a. has any deduction required by the  
Fishermen's Protective Act been made?
- b. has complete denial or assistance been  
considered by AID Administrator?
11. FAA Sec. 620; App. Act.  
(a) Is the government of the recipient : No  
country in default for more than six months  
on interest or principal or any AID loan to  
the country?
- (b) Is country in default exceeding one year : No  
on interest or principal on U. S. loan under  
program for which App. Act appropriates  
funds?
12. FAA Sec. 620(s). If contemplated assistance: Not applicable.  
is development loan or from Economic  
Support Fund, has the Administrator taken  
into account the percentage of the country's  
budget which is for military expenditures, the  
amount of foreign exchange spent on military  
equipment and the amount spent for the  
purchase of sophisticated weapons systems?  
(An affirmative answer may refer to the  
record of the annual "Taking into Considera-  
tion" memo; "Yes, taken into account by  
the Administrator at time of Agency OYB.  
The approval by the Administrator of the  
Operational Year Budget can be the basis  
for an affirmative answer during the fiscal  
year unless significant changes in circum-  
stances occur. )
13. FAA Sec. 620(t). Has the country served : No  
diplomatic relations with the United States?  
If so, have they been resumed and have  
new bilateral assistance agreements been  
negotiated and entered into since such  
resumption?

14. FAA Sec. 620(u). What is the payment : Not in arrears  
 status of the country's U. N. obligations?  
 If the country is in arrears, were such  
 arrearages taken into account by the  
 AID Administrator in determining the  
 current AID Operational Year Budget?

15. FAA Sec. 620A, App. Act.; Sec. 607. Has : No  
 the country granted sanctuary from prosecu-  
 tion to any individual or group which has  
 comitted an act of international terrorism?  
 Has the country granted sanctuary from  
 prosecution to any individual or group  
 which has committed a War crime?

16. FAA Sec. 666. Does the country object, : No  
 on basis of race, religion, national origin  
 or sex, to the presence of any officer or  
 employee of the U. S. there to carry out  
 economic development program under  
 FAA?

17. FAA Sec. 669, 670. Has the country, after : No  
 August 3, 1977, delivered or received  
 nuclear enrichment or reprocessing  
 equipment, materials, or technology, without  
 specified arrangements or safeguards? Has  
 it detonated a nuclear device after August 3, : No  
 1977 although not a "nuclear-weapon State"  
 under the nonproliferation treaty?

B. Funding Criteria for Country Eligibility

1. Development Assistance Country Criteria

a) FAA Sec. 102(b)(4). Have criteria been : Yes  
 established and taken into account to assess : Yes  
 commitment progress of country in effectively : Yes  
 involving the poor in development. On such : Yes  
 indexes as: (1) increase in agricultural : Yes  
 productivity through small farm labor inten- : Yes  
 sive agriculture, (2) reduced infant mortality,  
 (3) control of population, (5) reduction of  
 unemployment, and (6) increased literacy.

b) FAA Sec. 104(d). If appropriate, is this : Not applicable.  
 development (including Sahel) activity  
 designed to build motivation for smaller  
 families through modification of economic  
 and social conditions supportive of the  
 desire for large families in programs such  
 as education in and out of school, nutrition,  
 disease control, maternal and child health  
 services, agricultural production, rural  
 development, assistance to urban poor and  
 through community-based development  
 programs which give recognition to people  
 motivated to limit the size of their families.

2. Economic Support Fund Country Criteria

a) FAA Sec 502B. Has the country engaged : Not applicable.  
 in a consistent pattern of gross violations of  
 internationally recognized human rights or  
 made such significant improvements in its  
 human rights record that furnishing such  
 assistance is in the national interest?

b) FAA Sec. 533(b). Will assistance under : Not applicable.  
 the Southern Africa program be provided to  
 Mozambique, Angola, Tanzania, or Zambia?  
 If so, has President waived the prohibition  
 against the assistance by determining that  
 such assistance will further U. S. foreign  
 policy interests?

c) FAA Sec. 609. If commodities are to be : Not applicable.  
 granted so that sale proceeds will accrue  
 to the recipient country, have Special  
 Account (counterpart) arrangements been  
 made?

d) App. Act. Will assistance be provided : No  
 for the purpose of aiding the efforts of the  
 government of such country to repress the  
 legitimate rights of the population of such  
 country contrary to the Universal Declaration  
 of Human Rights?

e) FAA Sec. 620B, P. L. 94-329, Sec. 406. : Not applicable.  
Will ESF be furnished to Argentina or Chile?

5C(2) - PROJECT CHECK LIST

A. GENERAL CRITERIA FOR PROJECT

1. App. Act; FAA Sec. 634A; Sec. 653(b).  
(a) Describe how authorizing and appropriations Committees of Senate and House have been or will be notified concerning the project; (a) A congressional Notification Document will be prepared and transmitted to Congress.  
(b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure)? (b) Yes
2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there by (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of that cost to the U.S. of the assistance? : Yes
3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? : No further legislative action is needed.
4. FAA Sec. 611(b); App. Act. If for water or water-related land resource construction, has project met the standards and criteria as per the Principles and Standards for Planning Water and Related Land Resources dated October 25, 1973? : Not applicable.
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project? : Not applicable.

6. FAA Sec. 209. Is project susceptible of : No  
 execution as part of regional or multi-  
 lateral project? If so why is project not  
 so executed? Information and conclusion  
 whether assistance will encourage regional  
 development programs.
7. FAA Sec. 601(a). Information and : Yes, the project  
 conclusions whether project will encourage will foster private  
 efforts of the country to: initiative and com-  
 (a) increase the flow of international trade; petition. It will  
 (b) foster private initiative and competition; discourage monopolis-  
 (c) encourage development and use of co- tic practices and it will  
 operatives credit unions, and savings and improve the technical  
 loan associations; (d) discourage monopolistic efficiency of industry,  
 practices; (e) improve technical efficiency agriculture and  
 of industry, agriculture and commerce; commerce.  
 and (f) strengthen free labor unions.
8. FAA Sec. 601(b). Information and : Activities under  
 conclusion on how project will encourage component II of Project  
 U.S. private trade and investment abroad may directly encourage  
 and encourage private participation in joint ventures and  
 foreign assistance programs (including investment by U.S.  
 use of private trade channels and the private sector.  
 services of U.S. private enterprise).
9. FAA Sec. 612(b); Sec. 636(h). Describe : The host country  
 steps taken to ensure that, to the maximum contribution for  
 extent possible, the country is contributing component II should  
 local currencies to meet the cost of contract- be a significant  
 ual and other services, and foreign curren- percentage of the  
 cies owned by the U.S. are utilized to meet local currency costs.  
 the cost of contractual and other services.
10. FAA Sec. 612(d). Does the U.S. own excess : No  
 foreign currency of the country and, if so, :  
 what arrangements have been made for its  
 release?
11. FSS Sec. 601(e). Will the project utilize : Yes  
 competitive selection procedures for the  
 awarding of contracts, except where  
 applicable procurement rules allow otherwise?

12. App. Act. If assistance is for the : Not applicable.  
 production of any commodity for export,  
 is the commodity for export likely to  
 be in surplus on world markets at the  
 time the resulting productive capacity  
 becomes operative, and is such assis-  
 tance likely to cause substantial injury  
 to U. S. producers of the same, similar or  
 competing commodity?

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

- a) FAA Sec. 102(a); 111; 113; and 281a. : (a) All are included  
 Extent to which activity will (a) effectively in the project purpose  
 involve the poor in development, by exten- and design.  
 ding access to economy at local level  
 increasing labor-intensive production (b) The project will  
 and the use of appropriate technology, assist development  
 spreading investment out from cities to of cooperatives and  
 small towns and rural areas, and insuring encourage democratic  
 wide participation of the poor in the private institutions.  
 benefits of development on a sustained basis  
 using the appropriate U. S. institutions; (c) The project will  
 (b) help develop cooperatives, especially decrease reliance on  
 by technical assistance, to assist rural imported commodities  
 and urban poor to help themselves toward through import  
 better life, and otherwise encourage substitution.  
 democratic private and local governmental  
 institutions; (c) support the self-help (d) Women's uplift  
 efforts of developing countries; (d) promote through employment  
 the participation of women in the national opportunities will be  
 economies of developing countries and encouraged in all  
 the improvement of women's status; and development schemes.  
 (e) utilize and encourage regional  
 cooperation by developing countries? (e) Technical assis-  
 tance may potentially  
 be drawn from Indian  
 and other regional  
 government institu-  
 tion(s).

b) FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source).

1. (103 for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; (103A) if for agricultural research is full account taken of needs of small farmers and extensive use of field testing to adapt basic research to local conditions shall be made (b) extent to which assistance is used coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.
2. (104) for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes lowcost, integrated delivery systems for health, nutrition and family planning for the poorest people, with

particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

3. (105) for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people in developing countries in such disciplines as are required for planning and implementation of public and private development activities.
  
4. (106) For technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:
  - (i) (a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves.
  
  - (ii) technical cooperation and development, especially with U. S. private and voluntary, or regional and international development, organizations;
  
  - (iii) research into, and evaluation of economic development processes and techniques;

(iv) reconstruction after natural or man made disaster;

(v) for special development problems, and to enable proper utilization of earlier U. S. infrastructure, etc., assistance;

(vi) for programs of urban development, especially smaller labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

c) (107) is appropriate effort placed on use of appropriate technology? (relatively smaller, cost saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor). : Yes

d) FAA Sec. 110(a). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)? : Satisfied

e) FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? : Country is "relatively least developed."

f) FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental and political processes essential to self-government. : Project will utilize local labor in training and contracting when available, jointly with expatriate technical assistance, to encourage growth in self-help capability and general development theory awareness.

g) FAA Sec. 122(b). Does the activity : Yes  
give reasonable promise of contributing  
to the development of economic resources,  
or to the increase of productive capacities  
and self-sustaining economic growth?

2. Development Assistance Project Criteria  
(Loans Only)

a) FAA Sec. 122(b). Information and : Not applicable.  
conclusion on capacity of the country to  
repay the loan, at a reasonable rate of  
interest.

b) FAA Sec. 620(d). If assistance is for : Not applicable.  
any productive enterprise which will com-  
pete with U. S. enterprise, is there an  
agreement by the recipient country to  
prevent export to the U. S. of more than  
20 percent of the enterprise's annual  
production during the life of the loan?

3. Project Criteria Solely for Economic  
Support Fund

a) FAA Sec. 531(a). Will this assistance : Not applicable.  
support promote economic or political  
stability? To the extent possible, does  
it reflect the policy directions of  
Section 102?

b) FAA Sec. 533. Will assistance under : Not applicable.  
this chapter be used for military, or  
paramilitary activities?

5C(3) - STANDARD ITEM CHECK LIST

A. Procurement

1. FAA Sec. 602. Are there arrangements to : Yes  
permit U. S. small business to participate  
equitably in the furnishing of commodities  
and services financed?

2. FAA Sec. 604(a). Will all procurement be : Yes  
from U. S. except as otherwise determined  
by the President or under delegation from  
him?
3. FAA Sec. 604(d). If the cooperating : Project Agree-  
country discriminates against U. S. marine : ments will so  
insurance companies, will commodities : provide.  
be insured in the United States against  
marine risk with company or companies  
authorized to do a marine insurance  
business in the U. S. ?
4. FAA Sec. 604(e). If offshore procurement : Not applicable.  
of agricultural commodity or product is  
to be financed, is there provision against  
such procurement when the domestic price  
of such commodity is less than parity?
5. FAA Sec. 608(a). Will U. S. Government  
excess personal property be utilized  
wherever practicable in lieu of the  
procurement of new items?
6. FAA Sec. 603. (a) Compliance with : Project Agree-  
requirement in Section 901(b) of the : ments will so  
Merchant Marine Act of 1936, as amended, : provide.  
that at least 50 per centum of the gross  
tonnage of commodities (computed  
separately for dry bulk carriers, dry cargo  
liners, and tankers) financed shall be  
transported on privately owned U. S.  
flag commercial vessels to the extent that  
such vessels are available at fair and  
reasonable rates.
7. FAA Sec. 621. If technical assistance is : Yes  
financed, will such assistance goods and  
professional and other services from  
private enterprise, be furnished on a  
contract basis? If the facilities of :  
other Federal agencies will be utilized, : Not applicable.

are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport, Fair Competitive Practices Act, 1974.

If air transportation of persons or property : Yes  
is financed on grant basis, will provision be made that U. S. flag carriers will be utilized to the extent such service is available?

9. App, Act. Does the contract for procurement contain a provision authorizing the termina- : Yes  
tion of such contract for the convenience of the United States?

B. Construction

1. FAA Sec. 601(d). If a capital (e. g., : Not applicable.  
construction) project, are engineering and professional services of U. S. firms and their affiliates to be used to the maximum extent consistent with the national interest?

2. FAA Sec. 611(c). If contracts for construc : Not applicable  
tion are to be financed, will they be let on a competitive basis to maximum extent practicable?

3. FAA Sec. 620(k). If for construction of : Not applicable.  
productive enterprise, will aggregate value of assistance to be furnished by the U. S. not exceed \$100 million?

C. Other Restrictions

1. FAA Sec. 122(e). If development loan, is : Not applicable.  
interest rate at least 2 percent per annum during grace period and at least 3 percent per annum thereafter?

2. FAA Sec. 301(d). If fund is established solely by U. S. contributions and administered by an international organization, does Comptroller General have audit rights? : Not applicable.
3. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-block countries, contrary to the best interests of the U. S. ? : Yes
4. FAA Sec. 636(i). \$ financing not permitted to be used, without waiver, for purchase sale, long-term lease, exchange or guaranty of motor vehicles manufactured outside the U. S. ? : Yes
5. Will arrangements preclude use of financing:
- a) FAA Sec. 104(f). To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions, to pay for performance of involuntary seerilization, as a method of family planning, or to coerce or provide financial incentive to any person to under-go sterilization? : Yes
- b) FAA Sec. 620(g). To compensate woners for expropriated nationalized property? : Yes
- c) FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement assistance, except for narcotics programs? : Yes
- d) FAA Sec. 662. For CIA activities? : Yes
- e) App. Act. To pay pensions, etc., for military personnel? : Yes
- f) App. Act. To pay U. N. assessments? : Yes

g) App. Act. To carry out provisions of : Yes  
FAA Section 209(d) (Transfer of FAA  
funds to multilateral organizations for  
lending).

h) App. Act. To be used for publicity or : Yes  
propaganda purposes within U. S. not  
authorized by Congress?

APPENDIX N  
PROJECT AUTHORIZATION

Name of Country: BANGLADESH

Name of Project: Rural Industries I

Number of Project: 388-0042

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Rural Industries I Project for Bangladesh involving planned obligations of not to exceed five million United States dollars (U.S.\$5,000,000) in grant funds over a five (5) year period from date of authorization, subject to the availability of funds in accordance with the AID OYB/allotment process, to help in financing foreign exchange and local currency costs for the project.

2. The project purpose is to develop mechanisms for promoting rural industries in Bangladesh. To this end, two principal activities will be undertaken:

- a. The establishment of an organization (Micro Industries Development Assistance Society MIDAS) to facilitate and further enhance the involvement of primarily non-governmental organizations in rural industries development and related employment generation.
- b. The provision of funds for developing and undertaking feasibility studies and pilot projects that may lead to high impact, widely replicable follow-on activities aimed at rural industries sector promotion.

In addition, funds will be made available for financing a long term Personal Services Contract (PSC) consultant for Mission rural industries sector program support.

3. The Project Agreements which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with AID regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

a. Source and Origin of Goods and Services

Goods and services, including ocean shipping financed by A.I.D. under the project shall have their source and origin in the United States, other Code 941 countries or in Bangladesh, except as A.I.D. may otherwise agree in writing.

b. Conditions Precedent to Disbursement

Prior to first disbursements under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursements will be made, the Grantees will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(1) An opinion of counsel acceptable to A.I.D. that these Agreements have been duly authorized and/or ratified by, and executed on behalf of, the Grantees, and that they constitute valid and legally binding obligations of the Grantees in accordance with all of their terms.

(2) A statement of the names of the persons holding or acting in the offices of the Grantees specified as authorized representatives, and a specimen signature of each person specified in such statements.

c. Covenants

The Project Agreements shall contain covenants providing in substance as follows:

(1) In the case of MIDAS, while AID cooperative agreement funds are administered by The Asia Foundation (TAF) as intermediary to MIDAS implementation, continuing adequate TAF staff support will be provided.

(2) In the case of MIDAS there will be substantial A.I.D. involvement with TAF during the performance of agreed upon activities in such areas as the development and approval of key staffing decisions, selection and phasing of key industry and product type activities, development and approval of post agreement work plans or modifications to current work plans, and development and implementation of evaluations of MIDAS performance.

(3) There will be agreement to emphasize the recruitment and retention of women staff for work on all project activities.

(4) There will be agreement to facilitate the free and unrestricted dissemination of all rural industrial development experiences gained through Grant activity implementation.

Clearances: RIA/JFRogan	<u>[Signature]</u>	date	<u>5/17/51</u>
RDE/DZvinakis	<u>[Signature]</u>		<u>5/17/51</u>
CONT(A)/JKYang	<u>[Signature]</u>		<u>8/17/51</u>
PRO/LCrandall	<u>[Signature]</u>		<u>8/17/51</u>
RDE/PO'Farrell	<u>[Signature]</u>		<u>8/17/51</u>

Signature [Signature]  
Frank B. Kimball  
Director

Date Aug 15, 1951

TELEGRAM

August 5, 1981

FROM SECSTATE WASHDC  
TO AMEMBASSY DACCA PRIORITY  
UNCLAS STATE 206349

Subject: Rural Industries I (388-0042)

Refs: (A) State 170213 (LOU), (B) Dacca 4622

Ref B appears to address APAC concerns. In view of redesign and reduced funding to PID level of Dols 5 million, we suggest that for expeditious treatment Mission proceed with authorization of project. Accordingly, you are hereby delegated authority to do so. HAIG