

# ARIES

Assistance to  
Resource Institutions  
for Enterprise Support

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## Evaluation of MIDAS Recommendations for MIDAS II

*Sponsored by the*  
U.S. Agency for International  
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Contract DAI-1090-C-00-5124-00

*Directed by*  
Robert R. Nathan Associates, Inc.

April 25, 1983

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April 25, 1986

Submitted to:

Project Development Office/Asia  
Near East Bureau  
Agency for International Development  
Washington, D.C.  
and  
USAID/Dhaka

By:

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## EXECUTIVE SUMMARY

### Overview

As part of a CDSS that stresses generating employment in the rural non-farm sector, USAID Dhaka is providing support to a local NGO that provides analytical and financial services to small and medium-sized enterprises. The Cooperative Agreement states that MIDAS shall provide services to the development of employment through self-sustaining small and medium enterprise.

### U.S. Assistance

Bangladesh Rural Industries Component I - MIDAS (388-0842) was initiated by USAID Dhaka in September 1981. The program was originally administered through a Cooperative Agreement with the Asia Foundation as an intermediary. In 1983, a new Cooperative Agreement was signed directly with MIDAS. In 1985, the existing Cooperative Agreement was amended -- and in fact, completely written. The project's purpose is to develop mechanisms for promoting rural industries in Bangladesh.

### Purpose of Evaluation

This evaluation, conducted during March-April 1986, represents the first formal review of the MIDAS program, although numerous internal memoranda and periodic status reports have documented the experience of selected portions of program operations. The present review was conducted to provide USAID Dhaka with an objective, outside analysis of the progress and problems of this program and to provide guidance on design of a follow-on project to improve implementation and results. The evaluation team was contracted jointly with the ARIES Project and the AID/Washington WID Office.

## Findings

The MIDAS program has been managed and administered in a responsible and competent manner. The management structure and procedures were adequate for the size of the program and MIDAS has acquired a reputation for fairness and honesty in dealing with client groups. In the loan portfolio, 31 percent of available funds have been disbursed and 89 percent of funds have been committed. MIDAS has been able to draw on the expertise of its Board of Directors to develop a businesslike program.

There has been a dramatic shift in emphasis for the MIDAS program from the original Project Paper through the revised Cooperative Agreement and amendments. The original Project Paper was oriented almost wholly toward MIDAS providing support services to NGOs working with small and micro-producers. The revised Cooperative Agreement formally introduced a heavy emphasis on loan components and steps toward becoming a self-sustaining organization. The 1985 amendment further operationalized this change in direction by providing specific performance targets for MIDAS. The changes outlined have, de facto, resulted in an almost exclusive focus on medium-sized enterprise as the target group. This has been accompanied by a shift of emphasis from employment generation and small sector industrial development to commercially-oriented business development.

The approval process for loans is lengthy because of MIDAS legal status as an NGO and this has had negative impacts on operations. To receive loan funds, a small businessman's application must go through eight approval steps. The elapsed time for approvals alone averages from six to nine months. During this period market conditions and other circumstances change, sometimes rendering the original application obsolete.

MIDAS has adopted conservative financial management policies and this is reflected in the financial statements. The cash position of MIDAS is strong. The accounting system has been generally adequate to meet the needs of the organization. Relatively fewer resources were devoted to loan supervision, as compared to loan origination and appraisal; this is evident from the number of the loans of questionable quality on the books when MIDAS is compared to other financial institutions in developing countries with a similar mandate.

MIDAS has been very responsive to donor wishes in structuring financial activities in support of small-scale enterprise. The feasibility reports prepared by MIDAS for

USAID approval deal with the concerns expressed by USAID for innovation, labor intensity, impact on specific target groups, equity investments, and becoming self-sustaining. This has, however, had a negative impact on selected operations of MIDAS because of contradictory demands and overly literal interpretations of USAID wishes.

#### Project Design and Policy Implications

The significant issue that arises is the demand that MIDAS move toward becoming a self-sustaining organization while providing support services to small-scale enterprise. Many of these support services cannot be delivered on a full cost recovery basis. Recommendations were made on means to restructure the cost accounting system so that the MIDAS organization could become commercially viable while providing unprofitable support services on a full cost recovery basis through work order contracts. This change means that donors will be able to target subsidies directly to desired support activities, instead of subsidizing the organization that provides the services. It can be expected that this move will lead to more efficient allocation of resources within MIDAS and from donor organizations.

## Conclusions and Recommendations

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### Conclusions

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The mandate for MIDAS is a mix of development and commercial objectives which has translated into negative consequences for operation in both areas.

MIDAS is developing a credible administrative loan disbursement/recovery and technical assistance capacity.

The development impact of MIDAS will be maximized by focusing on industry sectors that have significant linkages to small-scale enterprise.

Technical assistance is needed to consolidate the administrative and technical capacity of MIDAS and to assist in the development of a business plan.

MIDAS has gained a reputation among other donors as a responsible and technical qualified organization in selected industrial sectors.

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### Recommendations

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The cost accounting system needs to be revised to allow tracking of costs to particular activities.

USAID should change its orientation from providing subsidies to the MIDAS organization to an orientation of providing subsidies for development functions performed by MIDAS.

The loan approval process should be streamlined by USAID delegation of sign-off authority.

Loan supervision, accounting procedures and personnel procedures need to be improved.

MIDAS should continue research directed at identifying sectors with such linkages.

Particular emphasis should be placed on sectors that involve female producers and employees.

Assistance should be available throughout the five-year period of MIDAS II but should be front-loaded.

USAID should offer assistance in marketing, accounting, computer applications, personnel management, and technical areas.

USAID and MIDAS should jointly address the issue of MIDAS entering new lines of business, such as contracting with other donors for project implementation.

USAID should take advantage of the opportunity to leverage its own resources by increasing the capacity of MIDAS to contract responsibly with other donors for development services.

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PROGRAM IDENTIFICATION DATA

1. Country: Bangladesh
2. Project title: Rural Industries  
Component I: MIDAS
3. Project Number: 388-0042
4. Project Dates:  
First Project Agreement: September, 1981  
Final Obligation: Ongoing Project  
Project Activity Completion Date: December 31, 1986
5. Project Funding  
AID Bilateral Funding: \$5,469,000 in overall project.  
The MIDAS portion was \$1,400,000  
Local Currency Matching Loan Funds:  
Other Major Donors: Swiss Development Fund, \$61,300;  
Ford Foundation, \$28,000  
Host Country Counterpart Funds: \$318,000
6. Mode of Implementation: Original 1981 Cooperative Agreement with the Asia Foundation as a non-government intermediary organization to channel USAID assistance. Subsequent 1983 Cooperative Agreement directly with MIDAS with a 1985 Amendment.
7. Project Design: USAID Dhaka
8. Responsible Officials:  
Program Officers  
M. P. Leifert, 1981-1982  
Robert F. Barnes, 1982-1984  
Michael Calavan, 1984-1986  
Gary Vanderhoff (1986 - present)

Mission Directors

Frank B. Kimball

James Norris

John Westley (1985 - present)

9. Previous Evaluation and Reviews: Internal Staff Memoranda
10. Cost of Present Evaluation
  - A. Director Hire: N/A
  - B. Contract: \$46,500
  - C. Other: N/A
11. Date of Present Evaluation: March 15 - April 9, 1986
12. Host Country Exchange Rates: Ranged from \$1 = Taka 24.00 to \$1 = Taka 30.24

## LIST OF ACRONYMS

ARIES	Assistance to Resource Institutions in Enterprise Support
APMO	Assistant Project Management Officer
BDKS	Bogra Dustha Kalyan Sangstha
BDSC	Bangladesh Development Service Center
BGO	Non-Governmental Organization
BSCIC	Bangladesh Small and Cottage Industries Corporation
CDSS	Country Development Strategy Statement
CPMO	Chief Project Management Officer
CRR	Current Recovery Rate
ERD	External Resources Division
JPMO	Junior Project Management Officer
MAWTS	Mirpur Agricultural Workshop and Training School
MIDAS	Micro Industries Development Assistance Society
MIS	Management Information Systems
NTIS	National Technical Information Services
PMCO	Project Monitoring and Collection Officer
PMO	Project Management Officer
PVO	Private Voluntary Organization
SME	Small and Medium Enterprise (also: Small and Micro Enterprise)
SSE	Small Scale Enterprise
WID	Women in Development

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## I. BACKGROUND ON MIDAS PROJECT

The present evaluation of the MIDAS Project was carried out in March-April 1986 by a three-person team from Robert R. Nathan Associates under the ARIES Project. Also participating in the evaluation effort was an expert in women's programs under contract to the International Center for Research on Women. The final report represents a joint effort with Appendix E containing a sub-report on female enterprise development.

The general terms of reference were (1) to provide an analysis of the strengths, capabilities and weaknesses of the MIDAS Project and (2) to comment on the design for possible follow-on support for MIDAS. The scope of work is attached as Appendix A.

Chapter I is a very brief introduction and overview of the MIDAS Project. Chapter II is an evaluation of the Project. In Chapter III, strategies for follow-on support for MIDAS are discussed. The final chapter goes into the conclusions and recommendations derived from the evaluation.

### Introduction

In the time since independence, a gradual concurrence has emerged among donor agencies, economists, and development

specialists that because of the rapidly expanding work force in the Bangladesh economy, new employment opportunities must be created. The small scale/informal sector has been identified as a promising one for generating new employment opportunities. A non-traditional approach to reaching the small and micro-enterprise sector is working through non-governmental organizations (NGOs) as intermediaries. This approach minimizes government involvement and relies heavily on autonomous organizations of the target groups as a conduit to complement existing systems.

To facilitate such an approach to small-scale enterprise (SSE) development, 40 NGOs participated from 1979 to 1981 in drafting the organizational concept that resulted in the registration of a non-profit voluntary organization called the Micro Industries Development Assistance Society (MIDAS) in 1982. The original conception was that MIDAS would serve as a clearinghouse for information, technologies, technical assistance, and experimentation for SSEs and the NGOs working with them. USAID participated in this early effort and funded the startup of MIDAS under its Rural Industries Project in 1981. Rural non-farm employment was one of four strategic program areas identified in the CDSS. A Cooperative Agreement was signed with the Asia Foundation as a non-governmental intermediary organization to channel and administer USAID assistance to MIDAS.

#### MIDAS Program Summary

MIDAS received some initial technical assistance through the Asia Foundation while the organization was still undergoing official registration. The management of MIDAS is under the control of its nine-member board of directors. Most

of the original members of the board participated in the drafting of the original concept. Many of the original board members still serve on the board and have been a source of perspective and stability through the pains of birth and growth.

During the time of the original Cooperative Agreement, there was a period of staff turnover at the Asia Foundation. The first MIDAS executive director was released by the board, and the technical assistance advisors were not renewed. The board attempted to have MIDAS work directly with SSEs, instead of limiting itself to working through NGOs, as seemed to be implied in the USAID Project Paper which provided the support for MIDAS.

A new Cooperative Agreement with USAID was drawn up in 1983 that dramatically changed the direction of MIDAS. Almost exclusive emphasis was placed on loan activities directly to SSEs, and the relationship with NGOs was de-emphasized. A mandate was given to become self-sustaining. A number of the original NGOs that had participated in founding MIDAS dropped out because of the changes.

At present, MIDAS operates as a lending organization for small and medium enterprises with a small consulting component. Technical feasibility studies are done as part of the loan origination process for the MIDAS portfolio and, to a lesser extent, on contract to other lending institutions.

MIDAS remains largely a creation of USAID; the vast majority of funds for support of MIDAS and its functions continues to come from USAID. The Ford Foundation and the Swiss Development Cooperation Fund have provided some funding.

Because of its reputation for honesty and its conservative business management, MIDAS has attracted the attention of other donors who are considering various grants and contracts for MIDAS to take on new responsibilities in lending, research, technical assistance and, possibly, project implementation. The areas of MIDAS' recognized expertise are textiles, light engineering, and light manufacture.

MIDAS operates with a senior staff of fifteen. Assets of the organization are approximately \$700,000, with a portfolio of eighteen disbursed loans valued at over \$350,000.

## II. EVALUATION OF CURRENT PROGRAM

This section presents and discusses the evaluation team's findings concerning the MIDAS project. This presentation is broken down into three areas: (1) goals and objectives, (2) management and operation, and (3) financial analysis. Because of the lack of economic data, it was not possible to complete a credible impact analysis. Whatever impact findings could be drawn have been incorporated into the body of the report.

### Goals and Objectives of MIDAS

#### Means: From Technical to Financial Services

While the goals and objectives of USAID support for the MIDAS program have remained the same, the means of achieving these goals has changed from an emphasis on extending technical assistance through NGOs to an emphasis on working directly with entrepreneurs with emphasis on financial services.

The original purpose of the project, as stated in the Project Paper, was to develop mechanisms for promoting rural industry in Bangladesh, employing two principal approaches:

- . The establishment of an organization to facilitate and enhance the involvement of primarily non-governmental organizations in rural industry 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 industry sector promotion

Goals and objectives of USAID support for MIDAS are set out in the Bangladesh Rural Industries I Project Paper. Although these goals have not been formally modified over the life of the project, the 1983 Cooperative Agreement substantially altered the strategy and targets of the project. As stated in the body of the Project Paper and the appended Logical Framework, the goal of MIDAS is "to reduce under and unemployment and increase productivity and real incomes of the rural poor."

The primary orientation of the Project Paper was development of micro-industries and rural areas -- based on the finding that these were the most promising areas for employment expansion. Support for this development was to be concentrated on technical support in production and marketing. Recognizing the difficulties of directly entering into contact with such a large and dispersed target group, MIDAS designated NGOs as critical links in establishing the necessary intermediary connections between MIDAS and the beneficiary population. MIDAS was to aid these NGO activities in supporting micro-industries by coordinating and augmenting the technical assistance of the NGOs.

Perspective: From Employment  
to Business Development

The original emphasis of an employment generation and development perspective has evolved into a commercially-oriented, business development perspective.

It was recognized in the Project Paper that the impact of MIDAS, as an operation heavily oriented to technical assistance with NGOs as the major direct recipients of assistance, could not be easily quantified. The proxy indicators identified as yardsticks for project success involved employment gains. The "Measures of Goal Achievement" indicated in the Logical Framework were: "MIDAS sub/grants and loans directly effecting employment and incomes of 50,000 plus increase in income and employment to thousands in 30 industry types serviced through MIDAS-assisted client agencies."

However, the 1983 Cooperative Agreement broke new ground by defining MIDAS' activities as provision of business development advice to "PVOs and selected private firms and individuals who are interested in and capable of initiating and/or expanding sound businesses."

Noteworthy in the above is an emphasis upon private firms and individuals. These had hardly figured in the Project Paper, which concentrated heavily upon service to NGOs. Not only were these groups introduced in the Cooperative Agreement; they were also designated as the principal future recipients of MIDAS' services. The Cooperative Agreement explained that "the benefits that will accrue to the process of business development in Bangladesh through the activities

of PVOs will, of necessity, be quite limited." Correspondingly, "MIDAS anticipates that an increasingly greater percentage of its resources will be devoted to assisting business development efforts within the private sector." This is reflected in the plan of activities: firms and individuals were to receive more loans than PVOs.

The 1985 Cooperative Agreement Amendment also introduced a strong element of cost recovery into MIDAS operations. MIDAS was requested to levy fees for its consulting services sufficient to cover its costs in providing same. The Project Paper had envisaged levying charges occasionally for technical assistance, but by no means on a cost recovery basis. The Cooperative Agreement made no mention of grants, which had figured prominently in the Project Paper. However, MIDAS was instructed to levy service charges on loans sufficient to cover the costs incurred in making and administering them. Moreover, a specific recovery target was established -- no lower than 75 percent.

MIDAS has been propelled toward an increasingly commercial stance. The Project Paper did not seriously emphasize recovery of technical assistance costs. Moreover, it referred frequently to grants, and established no criteria for extending and recovering loans. The 1985 Amendment, however, stipulated rigorous loan recovery targets. The 1983 Cooperative Agreement also laid down guidelines for cost recovery in technical assistance activities.

#### Targets: From Rural to Urban

The target groups selected for MIDAS involvement have shifted from rural to urban entrepreneurs and from micro and small enterprise to medium enterprise.

The Project Paper described an organization oriented toward the expansion of employment in rural micro-industries. The Cooperative Agreement and 1985 Amendment dropped the rural focus entirely. They also shifted the target group. Continued reference to small industry in the Amendment obscured a radical change in orientation. The micro-industries targeted in the Project Paper were quite different from the small industries mentioned in the Amendment. The Amendment indicated small industries with investments on the order of US\$75,000.

Women appeared as a target group in the Project Paper, disappeared in the 1983 Cooperative Agreement, and reappeared in the 1985 Amendment. The issue was transformed in the process. The Project Paper described an organization that would improve the position of the mass of rural women by improving the technical and commercial basis of their economic operations. The Amendment made reference to identifying and assisting female "small scale" entrepreneurs. The relevance of the former strategy to WID objectives is clear; that of the latter is not. The development of MIDAS' orientation toward more substantial members of the urban business community, as opposed to the rural poor, has dramatically reduced MIDAS' impact on the income and employment of women -- simply because women are among the poorest members of the community.

Criteria: From General  
to Specific

The operational criteria for MIDAS, as set out by USAID, have become increasingly specific. The MIDAS Project Paper

was unclear in relation to criteria and objectives for MIDAS' operations. The Project was clearly conceived in terms of technical assistance. However, the Financial Plan earmarks US\$1.4 million for MIDAS sub-grant and loans. The text of the Project Paper devoted to MIDAS referred variously to grants, loans, and equity participation. There was no specification of the division of funds among these categories, criteria for eligibility for funds, or anticipated returns. For example, projected MIDAS income was to contain income from "profit making corporations" within a range from US\$50,000 to US\$100,000 in the fifth year of the project. There was no specific projection of loan income. There was no specification of projected rates of return on financing operations. In general, it is evident that any income received by MIDAS from financing activities would not be used as a criterion of project success.

In the 1985 Amendment, MIDAS outputs were defined as technical assistance related entirely to entrepreneurs involved in the MIDAS loan program. There was no reference to PVOs under the heading of technical assistance, and no reference to the "free" advice stipulated in the Cooperative Agreement. Loans/equity participation was stipulated as falling within the US\$40,000 to US\$100,000 range. Borrowers would be expected to put up 30 percent or more of project capital from their own resources. Loan recovery was not to fall below 80 percent in any given month. A recovery figure below that target would trigger a meeting between MIDAS and USAID.

MIDAS was also enjoined specifically to:

- . Establish at least five innovative enterprises

- . Initiate and conduct practically-oriented studies of at least six small-scale industry subsectors
- . Arrange or facilitate joint ventures between at least three Bangladeshi firms and foreign firms
- . Acquire an equity position in at least two innovative businesses
- . Explore possibilities of obtaining funds from PRE to underwrite costs of major feasibility studies
- . Hold discussions with commercial banks on leveraging MIDAS-controlled credit (and develop at least one concrete proposal by the eighth month of the Cooperative Agreement as amended)
- . Develop a detailed plan for MIDAS involvement in strengthening subcontracting activities
- . Develop a staff incentive plan to motivate identification of promising ventures and woman-owned-or-managed enterprises

Interaction: From Targets  
to Entrepreneurs

MIDAS has steadily moved away from working with the target populations as proposed in the Project Paper. The preceding sections have shown the steady shift from working with NGOs and micro-enterprise to working directly with entrepreneurs. The financial analysis section that follows shows how the emphasis has shifted from small- to medium-scale enterprise.

The relationship between MIDAS and female producers has shifted with the focus on MIDAS' activities and the manner in which services are provided. Under the terms of the original MIDAS proposal, relevance of MIDAS' planned activities to the

interests and requirements of female producers was potentially great. Moreover, services to women were specifically identified as a goal.

The potential relation lay in the overall direction of MIDAS' intervention. An orientation towards the rural poor, and to micro-producers among them, in principle opened up the possibility of extensive work with women, because female production is heavily concentrated in the micro-sector, and because women are among the very poorest of the rural poor in terms of independent access to and control over resources.

Notwithstanding the latest benefits of MIDAS' activities for women, their actual utility was dependent upon the emergence of provision of services to women (or, better, to economic activities in which women micro-producers tend to cluster) as an internal organizational imperative. Such a practical imperative was not factored into the project design. It was stated that MIDAS would serve female producers, but there were no explicit and quantifiable performance objectives in this regard. Nor was a monitoring system developed capable of measuring activities and impact. Moreover, the lack of very precise sectoral targets for MIDAS' activities, and the lack of specification of support for women in terms of support for the sectors of production in which they engage, essentially eliminated means by which the large group of female producers with an implicit demand for MIDAS' services could be transformed into an actual client group by design, as it were.

The emergence of women as an actual rather than potential client group would be based, therefore, not on actual demand,

nor on project design ("Locking them in" as clients), but upon the extent to which PVOs and/or the MIDAS Board pressed their requirements upon the MIDAS organization; i.e., there was no direct means by which women could independently claim attention and services as a client group. In MIDAS' first phase, women did emerge as clients through the mediation of PVOs and Board members. It should be noted, however, that services were dependent upon the manner in which these intermediaries defined women's needs. The tendency was to define the female client group as "women-in-need," whose needs were not in fact synonymous with the mass of female producers. This led to rather low attention to development of the productive activities in which women are typically engaged.

The emergence (or non-emergence) of women as a MIDAS client group was based upon the existence of intermediaries capable of impressing upon MIDAS an accurate vision of the needs of female producers. The implicit demand for MIDAS' activities existed, and MIDAS' services were or could be relevant to servicing this demand; the problem was the transformation of implicit demand into an effective claim upon MIDAS.

The development of MIDAS, however, reduced even the implicit demand for what MIDAS offered. Women effectively disappeared as a potential client group. The reason is perfectly straightforward: MIDAS' activities were increasingly oriented to larger and more sophisticated industrial activities. The technical assistance offered was of decreasing relevance to women's practical possibilities; the loan program was far beyond the reach of small-scale female producers. On the one hand, then, the emergence of

women as a practical client group in the second phase of the life of MIDAS was inhibited by a change in what MIDAS had to offer. On the other, it was inhibited by the way in which services were distributed. In the first phase, women's access to services depended upon the emergence of "champions" in the PVO community and the MIDAS Board. In the second phase, services were offered on a cash-and-carry basis: studies were to be purchased by beneficiaries at cost; loans could be acquired only on the basis of high collateral. As women often did not have significant reserves of cash on their own, and could not typically put up the collateral required to obtain access to MIDAS loans, there was no way in which an implicit demand could be articulated as effective demand.

Some PVOs and international donors have acted as proxies for women in commissioning studies from MIDAS. However, these studies indicate that MIDAS has little to offer to small-scale female producers. The organization has not developed the technical capacity effectively to address small-scale producers' requirements. Under prevailing conditions, women cannot be major clients of MIDAS. Individual affluent women may be in the market for MIDAS services, but this must be considered irrelevant to the formation of women as a client group. These women are in contact with MIDAS not because they are women, nor because they exemplify women's requirements, but because they are affluent -- which is not a characteristic condition of women in Bangladesh.

### Management and Operations

#### MIDAS Organization

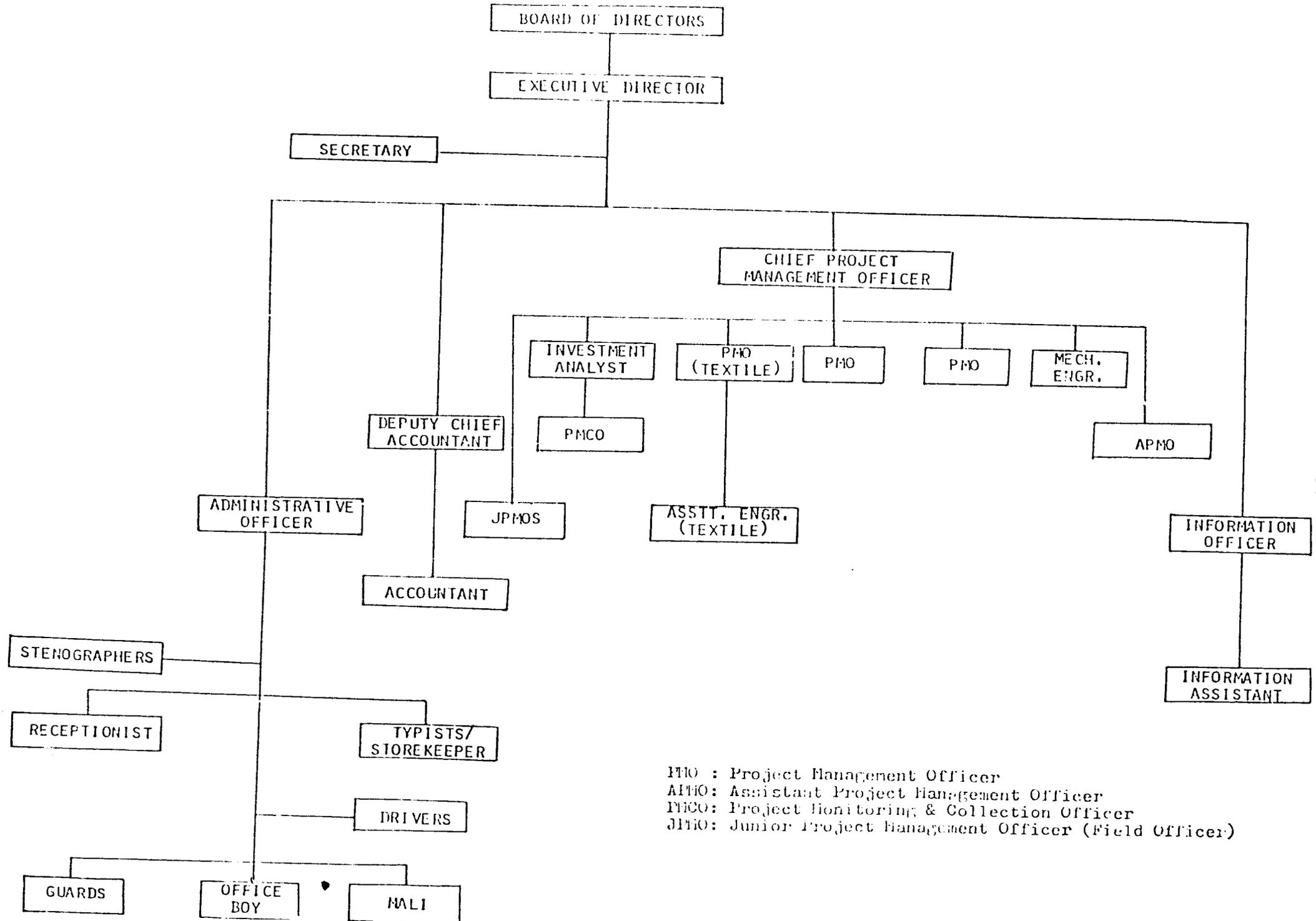
The MIDAS organization is structured and managed along direct line authorities, with delegation of responsibility

done largely on a task-by-task basis. The MIDAS organizational structure, displayed in Figure 1, was discussed with several of the staff members, and the following observations were made.

- . The Administrative Officer has direct supervisory responsibility for 13 people; the Chief Project Management Officer has direct supervisory responsibility for 11 people, who together constitute over three-fourths of the employees.
- . The CPMO's direct supervision reaches down through three levels: the Project Management Officer, Assistant Project Management Officer, and Junior Project Management Officer.
- . The bulk of MIDAS' outputs -- feasibility studies, consultancies, and loan portfolios -- are under the administration of the CPMO.
- . The MIDAS professional team has no support staff (typists, clerks, administrative assistants) working immediately in its division. This has occasionally slowed production and been a source of frustration for some of the staff.

The end result of this structure is that two of the top senior management staff spend most of their time administering people and little time on other managerial functions. This is particularly a concern for the CPMO, who oversees the technical activities of MIDAS. As work loads and/or staff increase, supervisory responsibilities will need to be delegated to mid-level management staff to free the CPMO to work on program policy and management issues in collaboration with the Executive Director.

# MIDAS ORGANOGRAM



PMO : Project Management Officer  
 APMO: Assistant Project Management Officer  
 PMCO: Project Monitoring & Collection Officer  
 JPMO: Junior Project Management Officer (Field Officer)

A revised structure might look like that presented in Figure 2. This structure should be considered illustrative and not prescriptive. Also, it should be interpreted as showing functional relationships and not necessarily reporting hierarchy.

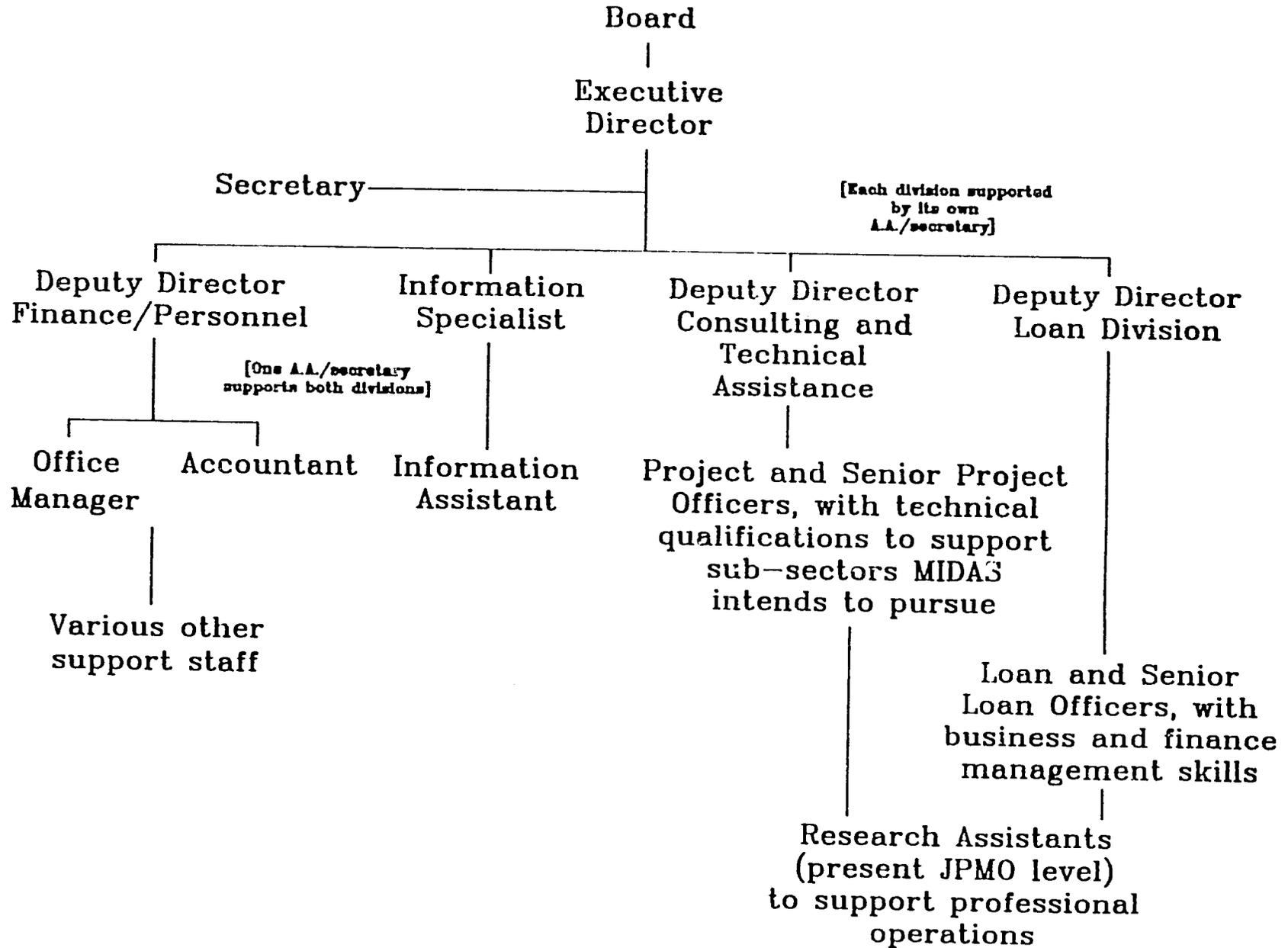
The existing organizational structure would become more productive if it were along more functional lines. MIDAS would operate more effectively with two divisions operating under separate division chiefs reporting directly to the Executive Director. Junior level staff could cross between these two divisions, depending on the work load, supporting a core staff in each division at the existing PMO level. It is recommended that administrative support staff be incorporated into the professional operations for typing, filing, travel scheduling, and general coordination of activities. The MIDAS information center could remain functionally independent.

#### Advancement Opportunities

Opportunities for staff advancement are limited, both in terms of salary and promotion in title or position.

The staff of MIDAS are motivated and committed to promoting private enterprise in Bangladesh. However, turnover rate at the JPMO level is high, and there is little opportunity to advance since there are a fixed number of position titles. Annual salary increments are also quite low. Staff benefits include those normally expected in Bangladesh, plus a provident fund. Three months notice is required for termination or resignation. One month is normal in many Bangladesh NGO operations. Staff training programs have been infrequent, and there is no formal performance evaluation process.

Figure 2. Illustrative MIDAS II Organizational Structure



The need for a MIDAS staff development strategy has been a topic for discussion by USAID, the Board, and previous evaluations, but little action has been taken to date. It is suggested that the following steps be considered in developing a strategy:

- . Implementation of an incentive program for professional staff
- . Increase in salaries at the junior professional staff levels
- . Annual review of average salary increments, rather than applying pre-fixed rates
- . A more flexible system of promotion
- . Management training for mid- and upper-level management staff
- . Annual performance evaluation for all staff
- . Budget provision for staff development, which might include technical training, attendance at workshops or seminars, etc.
- . Retirement plan for attracting and retaining outstanding professionals; this needs to be balanced in terms of what MIDAS can sustain through its own income generating efforts, and what it must obtain from donors
- . Increased delegation of project responsibilities to mid-level management staff; a greater reliance on initiative, accountability, and excellent work in terms of evaluating performance.

#### Program Planning

Program planning, review, and evaluation activities are limited. There are presently two planning activities at MIDAS:

- . The annual program plan and budget submission for the Government of Bangladesh External Resources Division, as required under current NGO regulations. This is prepared by Executive Director and approved by the Board of Directors, and based largely on targets set by USAID
- . Weekly workplans prepared by all professional staff and reviewed/discussed at weekly staff meetings

It appears that MIDAS' planning has taken place mainly on paper, without a real commitment to the process. It is questionable whether this type of planning process is appropriate for a dynamic operation in which members of an organization feel pride and ownership in the work they do. MIDAS should be encouraged to move aggressively toward this goal.

A specific recommendation is to adopt regular planning and review sessions at several levels in the MIDAS project. A few ideas are presented for consideration:

- . Quarterly staff meetings chaired by the Executive Director
- . Program review sessions with MIDAS Executive Director, senior staff, Board of Directors, and USAID
- . Annual planning and review sessions
- . Monthly or half-monthly meetings of each division, chaired by the appropriate division head

Weekly staff projections may be suitable for monitoring short-term activities, but they are ineffective for program planning. MIDAS should consider adopting a monthly projection scheme in which professional staff forecast (1) hours or days

each week they will be allocated to billable projects or overhead, and (2) projected unallocated time. Senior management staff can use this in planning work load distribution, later comparing it with actual time usages or billing efficiency.

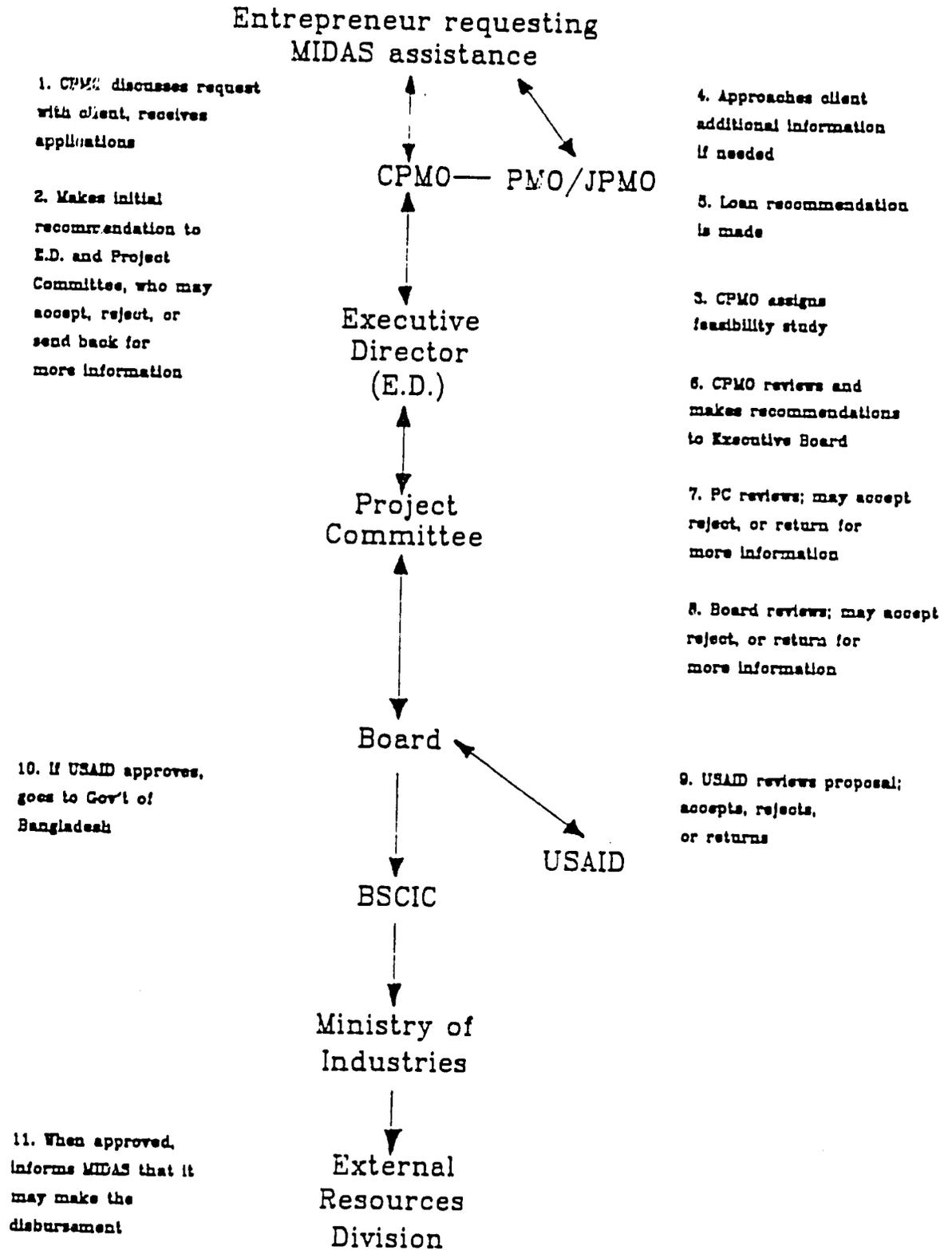
#### Loan Approval Process

The approval process for loans is lengthy and counter-productive to project operations. MIDAS loan approval covers two areas: (1) the approval of loans and equity investments using USAID funds, and (2) the approval of same using reflow monies. Figure 3 outlines this loan approval procedure through MIDAS, USAID, and the Government of Bangladesh levels. Approval for undertaking consultancies on a fee basis that are not part of a loan origination scheme is based on the judgment of the CPMO and Executive Director, presumably with consent from the Board. Approval of loans must pass through eight levels: CPMO, Executive Director, Project Committee, Board of Directors, USAID, BSCIC, Ministry of Industries, and External Resources Division of the Ministry of Finance.

Once completed by the PMO and CPMO, feasibility studies for loans are reviewed and may be passed back for reworking by the Project Committee, Board of Directors, and/or USAID before submission to the Government of Bangladesh.

A great deal of discussion has take place among the evaluation team, USAID, MIDAS staff, and Board about the loan approval process. It is generally agreed that it needs to be streamlined. This will be critical for two primary reasons.

Figure 3. MIDAS Loan Approval Process\*



\*AID and Gov't of Bangladesh do not have to approve consultancies or use of reflows.

The first reason is to reduce the turn-around time between loan application and disbursement. Although MIDAS is typically faster than other lending institutions, it now takes anywhere from six to nine months for loans to be evaluated and approved for disbursement. The second reason is to reduce the overhead cost of loan origination, analysis, and processing. Several opportunities exist for MIDAS to achieve these goals.

The fact that the Board members spend the time and effort to review each of the loan feasibility studies is an indication of the importance of lending to the MIDAS project. The Board's involvement in this process demonstrates its strong commitment to MIDAS and its goals. To streamline the loan origination and approval process, however, both the Board and USAID need to consider adopting more of an oversight role, directing their efforts toward policy guidance and program monitoring. An overall strategy directed toward this goal would include such steps as strengthening staff capabilities to produce work of consistent quality, developing quality-control procedures, and gradually disengaging USAID and the Board from the approval process by establishing criteria for loans that do not require full review.

Several PMOs expressed frustration that the present system allows for reworking the feasibility study two or even three times in response to questions raised by the Project Committee, Board, and USAID. These three steps need to be collapsed into one. Some thought should be given to the purpose to be served by the feasibility study, and the format should be adjusted to fit the purpose.

Government of Bangladesh approval is a major bottleneck. The system needs to be revised, perhaps to receive annual umbrella approval from ERD. This would allow MIDAS to process loans without specific approval for each loan, with concomitant time and cost savings.

Registration with the Government should be thoroughly researched to determine what legal status will best serve MIDAS' goals in finance, consulting, and technical assistance. This has profound implications for the Government loan approval process. Concern was expressed that MIDAS might be jeopardized if Government officials chose to take issue with the fact that MIDAS is making loans, charging interest, and charging fees in its consultancy work under its current Societies Act registration.

MIDAS' relationship with the Bangladesh Small and Cottage Industries Corporation (BSCIC) is critical under the existing loan approval process. The relationship is complicated by MIDAS and BSCIC sharing a common mandate to serve small entrepreneurs. This ambiguity is understandable because of MIDAS' and BSCIC's overlapping agendas and implicit competition for USAID funds. The MIDAS-BSCIC relationship will continue to be important, even if the loan approval process is streamlined to reduce BSCIC's and other Government of Bangladesh offices' direct involvement in operations decision-making. USAID should undertake informal intermediation to improve this linkage and should be clear in its mandate and terms of reference for the BSCIC and MIDAS projects it funds to reduce overlaps and unproductive competitiveness as much as possible.

### Monitoring/Information Systems

MIDAS' project monitoring and management information systems are limited and focus on reporting to donors. Monitoring and reporting activities at MIDAS currently include quarterly and annual reports to USAID and other interested parties and loan monitoring reports prepared by the Project Monitoring and Collection Officer. A discussion of loan monitoring is taken up in detail in the financial analysis section.

A well conceived management information system is becoming more important, since MIDAS will be initiating many additional activities (such as financing and marketing of consulting services) and will be contracted by USAID and others to implement sectoral programs and projects. This will generate additional reporting and information needs. MIDAS has its own requirements to fulfill as well. Monitoring and reporting activities should be constructed so as to facilitate follow-up action.

MIDAS should assess its overall management information system requirements in order to design the most useful and cost-effective system before purchasing any hardware or software. For example, the Ford Foundation has included a line item for computers in its textiles project. It is recommended that technical advisory services be made available to MIDAS to assist in assembling an appropriate system. Some examples of computer-based information that would help MIDAS include:

- . Staff time allocations and usage by project
- . Current operating, project, and loan accounts

- . Data base for economic impact analysis
- . Selectively retrievable data base of information on suppliers, manufacturers, wholesalers, retailers, exporters, etc. in Bangladesh and internationally
- . Data base of marketing contacts to promote MIDAS' services
- . Information data base for tracking loan origination development, processing, implementation, monitoring, and extinguishment

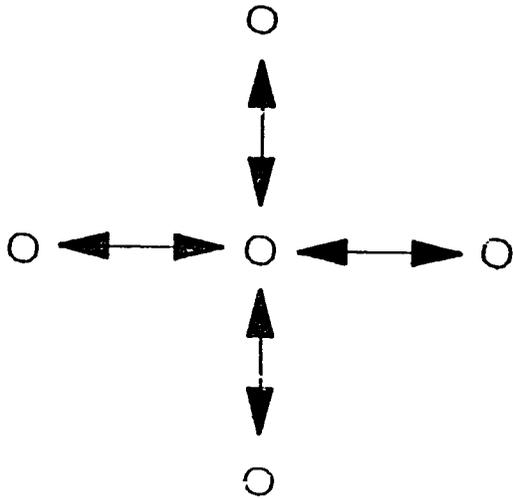
#### Internal Communication

Communication within the MIDAS project is directive, both in terms of the USAID-MIDAS relationship, and in terms of the MIDAS management - MIDAS staff relationship.

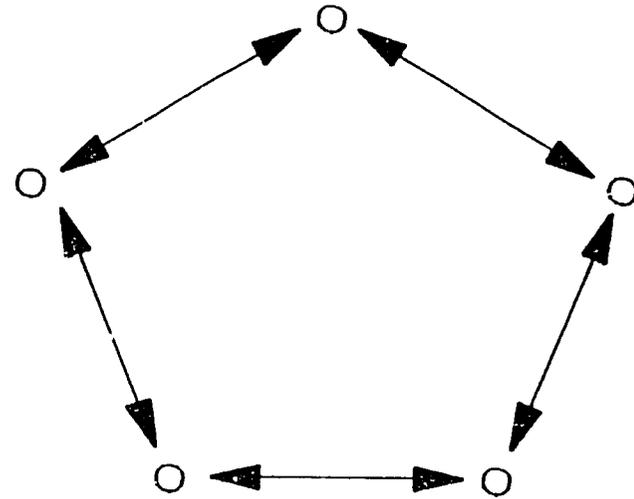
An organization's communication patterns strongly influence how its members respond to everyday task orders and, at a more dramatic level, how they respond to changes in the organization's purpose, goals, strategies, or design. Broadly speaking, communication patterns can be described as either directive or participative. In reality, most organizations exhibit characteristics of both, to varying degrees, and for good reason. Directive leadership is generally faster in achieving goals. Participative structures, on the other hand, enhance staff morale and form a stronger basis for handling crises and change. These are graphically depicted in Figure 4.

In addition to several expressions of frustration by those interviewed about the lack of participative communication, the following observations support the

Figure 4. Communication Patterns



Directive pattern



Participative pattern

conclusion that MIDAS' internal lines of communications need streamlining:

- . MIDAS had not yet seen the PID for MIDAS II, which was prepared last year.
- . MIDAS' Board, Executive Director, and staff do not have a clear understanding of USAID's goals for MIDAS. Some questions were raised on the criteria set down by USAID, but these questions were not discussed with USAID.
- . The CPMO and his professional staff have not seen the complete USAID/MIDAS cooperative agreement and its amendments.
- . MIDAS staff do not have full copies of the MIDAS Service Rules and Regulations or Provi-  
dent Fund Program.
- . USAID Program Officers overseeing the MIDAS project have historically had infrequent interaction with the full Board and Executive Director

Communication patterns are determined largely by leadership style, and can only be altered through the initiative and commitment of senior management staff, MIDAS Board, and USAID. Management workshops and technical assistance help in facilitating positive changes, but will be most effective once mutual commitment is ascertained.

### Financing

MIDAS has attracted the interest and support of other donors, in terms of project funding and hiring of consulting services. Its success in establishing financing agreements for projects with banks, however, has been mixed.

MIDAS has a core of well-qualified staff who are knowledgeable in selected technical and managerial aspects of small scale enterprise in Bangladesh. This cadre of professionals has done a commendable job of producing and processing loan feasibility portfolios and consultancies for various clients. It is generally recognized that the quality of their work exceeds that of many other indigenous groups. For this reason, other donors have been and continue to be attracted to MIDAS.

MIDAS is actively pursuing joint financing agreements with local banking institutions. It has also attempted to use feasibility studies as referral documents for entrepreneurs seeking loans from local banks, although success in this area has been mixed. MIDAS' most significant link to the banking sector was the consultancy work it did for Sonali Bank in writing 250 feasibility studies. There have been no significant events in terms of promoting small- and medium-scale enterprises as a result of these efforts. MIDAS, therefore, may need to moderate the use of its resources in pursuing these linkages.

#### Promotional Activity

MIDAS has concentrated its promotional efforts through informal business networks in an effort to identify potential loan recipients. MIDAS' linkages to the business community have been largely through informal networks, primarily centered in Dhaka. Some promotional activities have been undertaken, such as delivering speeches at chamber of commerce meetings and placing advertisements in the paper. If MIDAS is to expand activities outside of Dhaka in any significant way,

it should become more aggressive and better targeted. One way of doing this would be to place loan origination personnel in a few selected areas of the country, probably small urban centers.

Poor loan performance by a few NGOs has discouraged MIDAS from working with these groups. The shift away from NGOs has been somewhat precipitous and needs reevaluating. Three NGO representatives who were interviewed expressed disappointment in MIDAS' lack of responsiveness to inquiries about small-scale enterprises and specific manufacturing sectors. A more positive attitude is needed toward developing linkages with other NGOs and using these as opportunities to identify subsectors to strengthen, particularly in rural areas.

At present, the MIDAS information center has not realized its potential because MIDAS has essentially developed a library, not an information service. By tracking small industries, new products, export opportunities, etc., and filing these in a retrievable data base, MIDAS can provide a valuable service in linking producers with markets.

### Financial Analysis

#### Financial Management

MIDAS has adopted conservative financial management policies; this is reflected in the financial statements.

Table 1 shows comparative balance sheets at the end of each fiscal year and an interim statement for December 31, 1985. Certain categories have been regrouped. The initial

Table 1. MIDAS Comparative Balance Sheets  
(Thousand Taka)

	12/31/85	6/30/85	6/30/84	6/30/83
<u>Fixed Assets</u>				
At cost	1,201	1,189	1,033	663
Less depreciation	518	423	261	97
Net fixed assets	683	766	772	566
<u>Loan Portfolio</u>				
Current loans	8,792			
Past due loans	2,069			
Provision for bad debts	241			
Net loans	10,620	9,400	3,843	553
<u>Net current assets</u>				
Cash	9,138	10,942	4,337	1,921
Other current assets	837	1,156	133	39
Current and liabilities	51	52	23	17
	9,924	12,046	4,447	1,943
<u>Total assets</u>	21,227	22,212	9,062	3,062
Miscellaneous liabilities	2			
Donation	393	393	433	433
Gratuity fund	127	102	--	--
	522	495	433	433
<u>Grants for loans</u>				
Asia Foundation	3,636	3,910	4,261	863
USAID	9,170	10,135	1,609	--
Swiss Development Fund	804	804	--	--
	13,610	14,849	5,870	863
<u>Grants for operations</u>				
Ford Foundation (feas.)	242	242	273	--
Swiss Development (feas.)	48	--	--	--
Operation (AID)	934	1,153	757	1,506
	1,224	1,395	1,030	1,506
Retained income	4,826	4,727	1,349	260
Credit fund (loan recovery)	1,045	746	380	--
Total liabilities	21,227	22,212	9,062	3,062

impression is one of financial strength and liquidity -- easy to understand, since MIDAS obtains grants from its donors in advance of disbursement and therefore has large cash balances.

MIDAS cash stood at Tk 9.2 million (\$306,000) on December 31, 1985. This figure is nearly equal to the entire loan portfolio. MIDAS earnings on its cash balances appear low, probably as a result of various regulations and limitations that effectively limit the return on cash. Table 2 shows some detail on MIDAS' cash flow.

A few notes will help to explain other features of the MIDAS balance sheets. MIDAS receives the full amount of a grant from USAID upon approval of a loan. However, disbursement is phased over construction, and this results in cash deposits in the "grants for loans" account. Similarly "grants for operations" represents balances received by MIDAS for operations but not yet spent. The credit fund represents loan repayments received from clients.

Table 3 shows income and expenditure statements for the two years ending June 30, 1985, plus an interim statement for the six months ending December 31, 1985. The total picture is of an organization that covers its expenditures by quite a wide margin. MIDAS, throughout this 2½ year period, operated essentially on the basis of AID covering approximately 80 percent of MIDAS' expenses. To the extent that its income from consultancies, interest on loans, and interest on deposits cover the remaining expenses, MIDAS has a comfortable margin. The danger is that AID or other donors may change their attitudes or policies.

Table 2. MIDAS Cash Flow

(Thousand Taka)

	6 Months ending 12/31/85	12 Months ending 6/30/85	12 Months ending 6/30/84
<u>Cash at Beginning</u>	10,942	4,337	1,921
<u>Additions to Cash</u>			
Loan grants from USAID/ Asia Foundation	1,661	8,541 <sup>a</sup>	5,387
Loan grants from Swiss/Ford		804	--
Operations Grants from USAID/ Asia Foundation	1,460	3,792	2,389
Operations grants from Swiss/Ford		50	273
Income from Operations	846	3,401	781
Loan Repayments	<u>974</u>	<u>366</u>	<u>280</u>
	4,941	16,954	9,110
<u>Deductions from Cash</u>			
Loans to Clients	3,235	5,924	3,570
Operations Expenses	1,703	4,183	2,754
Fixed Asset Additions	7	242	370
Refund to AID	1,800	--	--
	6,745	10,349	7,794
<u>Cash at End</u>	<u>9,138</u>	<u>10,942</u>	<u>4,337</u>

a. This figure included an overpayment by AID to MIDAS of Tk 2600 M in respect to:

- Malleable Iron Loan; delayed, therefore Tk 800 returned to AID on July 31, 1985
- Underprivileged Children Education Program; Paid in error to MIDAS, Tk 1800 returned to AID September 1, 1985

Table 3. MIDAS Income and Expenditures

(Thousand Taka)

	6 Months ending 12/31/85	12 Months ending 6/30/85	12 Months ending 6/30/84
<u>Income</u>			
Grants:			
USAID	1,629	3,446	813
Swiss Dev.	1	1	--
Asia Foundation	--	--	2,327
Ford Foundation	--	30	--
Subtotal	<u>1,630</u>	<u>3,477</u>	<u>3,140</u>
Consultancy	250	2,742	515
Interest on Loans	42	1,000	221
Bank Interest	254	340	45
Other Income	<u>110</u>	<u>9</u>	<u>26</u>
Total	<u>2,286</u>	<u>7,568</u>	<u>3,974</u>
<u>Expenditure</u>			
Salary & Day	1,209	2,150	<u>1,561</u>
Consultants Fees	53	741	187
Depreciation	95	201	165
Provision for Bad Debts	249	--	--
All other Expenditures	<u>472</u>	<u>1,098</u>	<u>944</u>
Subtotal	<u>2,078</u>	<u>4,190</u>	<u>2,857</u>
Excess of Income Over Expenditure	<u>208</u>	<u>3,378</u>	<u>1,090</u>

The income from consultancies for 1984-85 reflects the contract to produce feasibility studies for the Sonali Bank. On the expenditure side, as with similar service organizations, the major expense items relate to salaries, payroll taxes and consultants. Personnel costs made up 65 percent of 1984-85 expenditures.

A provision for bad debt has recently been set up on the recommendation of the auditors. The category includes the total amount of principal and interest that has been overdue when no payments have been received for over six months.

#### Accounting System

The accounting system has generally been adequate to serve the present needs of the organization. It was designed by a firm of chartered accountants who are the Bangladesh representatives of Coopers and Lybrand. The system is based on a simple chart of accounts; all the entries are made by hand. The statements produced include:

- . Monthly statement of cash receipts and payments
- . Monthly status of AID operating grants
- . Monthly cash statement
- . Monthly statement of project loans
- . Quarterly balance sheet
- . Quarterly cash receipts and payments
- . Quarterly income and expenditures

The accounting organization consists of the Deputy Chief Accountant and a qualified Chartered Accountant assisted by an accountant. The Deputy Chief reports directly to the Executive Director.

#### Loan Monitoring System

MIDAS has placed far fewer resources into monitoring and supervising existing loans than into originating and appraising these loans.

A Project Monitoring and Collection Officer (PMCO) reports to the Financial Analyst. He occasionally has one of the Junior Project Management Officers (JPMO) working with him. The PMCO himself apparently ranks below the level of PMO and APMO, but above the JPMOs. The basis for this ranking is relative salaries. In terms of the Project Officers' hierarchy, there are 11 PMOs, APMOs, and JPMOs treating the problems of loan creation, development, and approval, and only one relatively junior PMCO engaged in follow-up, monitoring, debt collection, and nursing along the problem loan companies.

After all steps in the project approval process have been completed, the loan file is passed to the Investment Analyst, who prepares the loan agreement containing the pre-conditions to be met before disbursement can take place. The loan file is then turned over to the PMCO. The PMCO ensures that the pre-conditions of the loan agreement have been met. When he reports to MIDAS management affirmatively, the disbursements take place according to the schedule. The PMCO periodically visits and reports on the projects, both during construction/implementation and after operations have commenced.

Files are maintained on repayment schedules, and borrowers are sent notices 15 days before the due date. If payments are slow or delinquent, follow-up is made with telegrams, telephone calls, and personal visits. The PMCO may recommend revised repayment schedules. The loan agreements provide for arbitration, but no recourse is made to the courts, because the legal framework makes this step very expensive and infrequently effective. Threatening letters signed by lawyers have been found helpful in these difficult situations.

#### Loan Quality Objective

The objective of limiting problem loans to no more than 15-20 percent of the portfolio is not being met.

The Amended Agreement of August 1985 has very specific language dealing with problem loans. The measurement tool is the current recovery rate (CRR) -- the percentage of current payments to payments due. The minimum rate is 80 percent for any one month, and 84 percent cumulative. Because of the small number of loans on the books that generate payments of principal and interest in any one month, there can be wide variations in the CRR due to of repayment scheduling. Typically, the loan repayments occur every six months. Some months may have no scheduled repayments; other months may, for example, have two loans with scheduled repayments. In the latter case, assuming both loans with equal repayments, one loan payment overdue, and one loan payment on time, the resulting CRR for that month would be 50 percent. The following month, the CRR might be 100 percent. Thus, the monthly rate is almost certainly not an accurate or useful index of the health of the loan portfolio. On the other hand,

the cumulative CRR is a useful index of performance. To correct for the wide variations in the monthly CRR, an average CRR over the life of the project was calculated -- approximately 40 percent throughout the life of the project.

Another measure of problem loan performance would be to compare the outstanding amounts of the problem loans against the total portfolio outstanding. In these terms, the problem loans make up 33 percent of the portfolio on which payments are falling due. If the entire portfolio, including those loans which have not yet matured, is taken as a base for comparison, the problem loan ratio drops to 16 percent. Table 4 shows the problem loans on MIDAS' books.

#### Portfolio Quality

The MIDAS loan portfolio is of reasonable quality when compared to other financial institutions in developing countries with a similar mandate. The Manual to Evaluate Small-Scale Enterprise Development Projects published by AID/PPC/CDIE indicates that an 85 percent recovery rate is excellent for an SSE program. The circumstances accounting for the performance of MIDAS are:

- . MIDAS is a new organization, and the bad loans were made in the first two years of operation.
- . Over 50 percent of MIDAS loans were made to start-up operations, which are inherently more risky than established business.
- . The criteria laid out by USAID for MIDAS to follow are non-market criteria, and this constrained the ability of MIDAS to finance an "investment quality" portfolio

Table 4. Problem Loans Outstanding  
(as of February 2, 1986)

Loan No.	Name	Amount	Percentage
2	Paduka Sramik Sangtha	Tk 63,000	4
4	Bogra Dustha Sangstha <sup>a</sup>	1,199,000	71
6	Ayesha Printing <sup>a</sup>	97,300	6
8	Bhairab Shoemakers	263,500	15
9	Screen Printing <sup>a</sup>	60,000	4
		Tk 1,682,000	100

a. Identified as "substandard," i.e., no payments received in six or more months by the auditors as of June 30, 1985.

- . The entrepreneurs typically have been weak, in terms of underlying financial strength, and the projects themselves have not been strongly capitalized.
- . The loan approval process often requires over one year to complete, during which time the inflation rate and changing market factors may render the loan appraisal obsolete.

#### Loans to Labor-Intensive Businesses

The MIDAS loan portfolio is made up of businesses which are relatively labor-intensive. Complete figures on the capital intensity per worker are not available, although MIDAS generally required a debt to equity ratio in the business of at least 70:30. Thus, the capital investment per employee in the AID-funded portfolio was approximately \$715. The capital investment per employee in the Swiss Development Cooperation Fund projects was approximately \$338; in the MIDAS reflow fund it was \$615 per worker.

Even though these figures are only rough approximations, the fact stands out that the employment opportunities financed through MIDAS were very cost-effective in terms of capital outlays. Breaking down the types of business financed showed that light manufacturing projects had an investment per worker of approximately \$1,511. The eight handicraft or small enterprise projects had an investment per worker of approximately \$520 per worker. Comparison of the six largest loans with the nine smallest loans does not show a large difference in investment per worker; however, this result is suspect because of the dominating influence of the BDKS project which was large and labor intensive, but not viable.

### Loan Screening

MIDAS has not undertaken an extensive screening and pre-qualifying process to identify potential loan recipients. Initial contacts are generally between an entrepreneur and the CPMO. The entrepreneur may have heard of MIDAS through word-of-mouth (the majority of cases), advertisements, reference from another financial institution, or MIDAS promotion activity. Recently the CPMO went to Chittagong and addressed a number of business groups, and out of that effort came some five inquiries. Table 5 summarizes the results of 53 inquiries received by the CPMO in calendar year 1985. Twelve of these inquiries resulted in feasibility studies being initiated and completed. Two-thirds of these inquiries were for projects in and around Dhaka. If the CPMO feels that a project is worth considering, and likely to be approved, the entrepreneur fills out an application.

### Project Appraisal

The project appraisal process is oriented heavily toward obtaining USAID and/or the Government of Bangladesh approval.

In general terms, MIDAS' handling of loans from inquiry to final approval has been business-like. Table 6 lists the status of AID source loans. MIDAS is processing an increasing volume of loan applications without compromising its excellent reputation for honesty. MIDAS is very conscious of the problems of evaluating and approving loan applications from often contradictory mandates.

Table 5. Deposition of Inquiries  
During 1985

Month/Product	Location	Remarks <sup>a</sup>
<u>January</u>		
Mech. toys and dolls	Dhaka	4/28/85
One band radios	Dhaka	Dropped
Jute sandles	Dhaka	4/28/85
Exportable nylon bags	Dhaka	Dropped
Umbrellas	Dhaka	Dropped
Work gloves	Dhaka	4/1/85
Brake linings	Dhaka	4/1/85 (dropped)
Recycling cocoons for silk yarn	Rajshahi	4/1/85
Motorized rickshaw	Dhaka	Dropped
Feeding bottle nipples, PVC floor tiles	Dhaka	Dropped
Disposable syringes	Dhaka	Under consideration
Correcting fluid	Bogra	Dropped
Mech. synthetic glue	Dhaka	ERO waiting for approval
Electronics	Dhaka	Dropped
<u>February</u>		
Compressed gas station	Dhaka	Dropped
Mini paper mill	Cok's Bazar	Dropped
Carton boxes for garments	Dhaka	Dropped

(Continued)

Table 5. (continued)

Month/Product	Location	Remarks <sup>a</sup>
<u>April</u>		
Fatty liquor chemical-leather industry	Dhaka	Dropped
Lemon grass oil	Rangamati	Delayed. Under consideration
<u>May</u>		
Electronic assemblies	Dhaka	--- Delayed. Under consideration
<u>June</u>		
Emery papers	Manikganj	Dropped
Bamboo Merchandse	Mirzapur	Waiting for ERD approval
Fast food	Dhaka	Waiting for ERD approval
Electric capacitors	Dhaka	Under preparation
Calcium oxide	Dhaka	Dropped
Export shoe uppers	Dhaka	Dropped
Insulation board	Tangail	Dropped
Brake fluid	Khulna	Dropped
<u>August</u>		
Shirt labels	Dhaka	Not labor intensive; dropped
<u>September</u>		
Rubber aprons and cots	Dhaka	Delayed
Malleable iron fittings	Dhaka	Waiting for ERD
Undergarments	Dhaka	Dropped
Shoes	Dhaka	Waiting for ERD
Cycle shairs	Dhaka	Dropped

(Continued)

Table 5. (continued)

Month/Product	Location	Remarks <sup>a</sup>
Jewelry	Dhaka	Going to Board next month
Electric irons	Dhaka	Dropped
Sanitary napkins	Dhaka	Waiting for AID/ERD
Textile spindle tapes	Dhaka	Dropped
<u>October</u>		
Fan belts	Khulna/ Manikganj	Delayed
Formica	Chittagong	Dropped
Printed circuit boards	Chittagong	Dropped
High quality buttons	Chittagong	Dropped
Nylon chips	Chittagong	Dropped
Vacuum flasks	Chittagong	Delayed
Household Linen	Dhaka	Dropped
Floor coverings	Barisal	Delayed
<u>November</u>		
Refined beeswax (export)	Khulna	Delayed
Sesame oil (export)	Dhaka	Under consideration
Crushed leather	Dhaka	Dropped
Rubber stoppers	Dhaka	Under consideration
<u>December</u>		
White cement	Dhaka	Under consideration
Food processing	Various locations	Under consideration
Metal caps (dry cell batteries, electric bulbs)	Dhaka	Under consideration

a. Dates represent completion of the feasibility study.

Table 6. MIDAS Status of AID Loans  
Already Disbursed February 28, 1986

Loan no.	Name of borrower (activity)	(Thousand Taka)			Loan status	Remarks
		Amount disbursed	Balance outstanding	Principal payment of assess		
1.	MAWTS (pumps)	540	--	--	Repaid	
2.	BDSC (shoe making)	113	63	63 <sup>a</sup>	Default	Shoemakers coop. dispersed. Guarantor, BDSC is insolvent
3.	Ceramic Raw materials (crocery)	900	700	100	One installment overdue	Project considered viable in spite of payment delay
4.	Bogra Dustha (BDSC)	1,378	1,119	1,119 <sup>a</sup>	Default	Destitute women's handloom project; BDSC insolvent
5.	Bangladesh Ent. (mech. and elec. products)	1,500	1,500	380	Overdue, re-scheduled	New schedule will be honored
6.	Ayesha (BDSC) (screen printing)	139	97	97 <sup>a</sup>	Default	Project had to move; MIDAS believes loan eventually will be repaid
7.	Jut-tex (textile machinery)	1,330	1,255	--	1st installment paid in advance	-----
8.	Bhairab (BDSC)	279	264	264 <sup>a</sup>	Default	Same as Loan No. 2
9.	Ayesha (BDSC) (screen printing)	60	60	60 <sup>a</sup>	Default	Same borrower as Loan No. 6 Same comments
10.	Satadal Chemical	346	346	--	Tk. 780M to be disbursed	Project not yet operational
11.	Krishi Club (roof tile)	253	253	--	Tk. 24M to be disbursed	Repayments will _____ on sales targets. Some problems
12.	Silicon Village (Electronic components)	3,307	3,307	--	1st repayment AM:87	Negotiating with USA partner
13.	Bangladesh Export (espadrilles)	1,661	1,661	--	--	Project was delayed; recently problem with French partner resolved machinery on its way from France
		<u>11,806</u>	<u>10,705</u>	<u>2,163</u>		

a. Any loans in default, full principal payments are considered due immediately.

MIDAS' portfolio of AID-funded loans is expected to rise quite dramatically in the near future because of the number of projects in the pipeline. Table 7 shows 14 loans at various stages of the approval process, totalling Tk. 28 million (\$933,000). In addition, MIDAS will probably make available Tk. 1 million (\$33,000) in equity money. There is an additional Tk. 45 million (\$1,500,000) covering 15-20 projects for which the feasibility studies are not yet completed.

Table 7. MIDAS Loans  
In the Approval Process

	Number of loans	Amount (Thousand Tk)
Awaiting disbursement	2	1,512
Awaiting ERD approval	8	17,351
Awaiting ERD & AID approvals	2	3,327
Awaiting MIDAS Board, ERD, & AID approvals	2	7,000
Feasibility studies in process	15-20	45,000 <sup>a</sup>
Total:	30-35	70,000 <sup>a</sup>

a. Approximate figures.

#### Bad Debt Policy

MIDAS has not developed an operational policy for writing off bad debts.

Five of the loans are in default. Tk. 1.6 million (\$53,300) is outstanding in defaulted loans equivalent to 16 percent of existing AID-financed loans. The three loans shown in Table 8 should probably be written off; however, MIDAS has established no procedures for doing so.

Table 8. MIDAS Loans that  
Should Be Written Off

Location	Description	Amount (Thousand Tk)
Paduba	Shoe making (BDSC) <sup>a</sup>	63
Bogra	Destitute women's hand loom (BDSC)	1,199
Bhairab	Shoe making (BDSC)	264
		<u>1,526</u>

a. Bangladesh Development Service Center.

### Equity Investment

MIDAS has been structuring equity investment participation in response to donor pressures, rather than as a response to market needs or perceived opportunities.

The Cooperative Agreement of November 1983 set specific targets with respect to MIDAS providing equity money to entrepreneurs. In the two-year period from November 1983 to

November 1985, MIDAS set a goal of making two equity deals, which were expected to grow out of MIDAS' consultancy assignments.

MIDAS has contributed equity to one project as of the date of this report. The project is Silicon Village, MIDAS' largest single project. Two more equity deals are contemplated for projects that are still moving through the approval process.

The initiative for suggesting MIDAS equity participation came from MIDAS rather than the entrepreneurs themselves. This is one way for MIDAS to provide financing to entrepreneurs whose balance sheet might otherwise be considered marginal by conservative lending standards. At least in the case of Femme Enterprise, the entrepreneur viewed MIDAS equity participation as one of its conditions for financing.

In each of the equity deals, the buyback provision has not been specified. The terms being discussed in the case of Silicon Village are that (1) the entrepreneur can determine the timing of the buyback and (2) the amount will be the original capital input plus imputed interest. Such a structure suggests a highly advantageous loan rather than equity participation. In the case of Femme Enterprise, the buyback is contemplated at book value. With inevitable startup losses, the chances are excellent that the entrepreneur will be able to buy back the MIDAS-held shares at a discount.

The prospective entrepreneurs/investors that MIDAS is helping are typically short of capital in overall terms and very short of capital in terms of the projects themselves. Having an equity portion of the MIDAS support, in contrast to

100 percent loan support, should be a help for the entrepreneur. It reduces (1) an entrepreneur's debt service burden (interest and principal repayments), and (2) the amount of collateral that must be put into financing. In overall terms, it simply allows more breathing room. The only and obvious drawback is that the entrepreneur loses an element of control and has to give up some share of the eventual profits; but with a buy-out provision, these negatives are reduced in importance.

From both MIDAS' and the other shareholders' points of view, the lack of a carefully thought out and well described buy-out procedure is going to create problems. The Silicon Village Agreement, in this respect, will only be satisfactory as long as both parties share the same objectives.

Details and provisions of the equity participation arrangements are summarized in Table 9.

#### Constraints Due to Loan Eligibility Requirements

The recent conservative emphasis on requirements for loan eligibility has effectively precluded MIDAS from working directly with small entrepreneurs. MIDAS has reacted to USAID pressure to become self-sustaining by adopting the policy of not lending above a 70:30 debt/equity ratio. To be eligible for a loan, an entrepreneur must post collateral equal to 120 percent of the loan value, and any equipment or buildings purchased with the loan must be mortgaged to MIDAS. This places substantial capital requirements burdens on entrepreneurs seeking a MIDAS loan. In addition, the average loan

Table 9. Summary of Provisions of Completed and Contemplated Equity Participation

	Silicon Village		Femme Enterprise		Superior Footware	
<u>Shareholders</u>						
MIDAS' shares	Tk 1,000,000	33%	Tk 500,000	29%	Tk 500,000	37%
Other shareholders shares	<u>2,000,000</u>	<u>67%</u>	<u>1,195,000</u>	<u>71%</u>	<u>1,358,000</u>	<u>73%</u>
Total share capital	Tk 3,000,000	100%	Tk 1,695,000	100%	Tk 1,858,000	100%
<u>Debt/Equity Ratio</u>						
Equity (as above)	Tk 3,000,000	46%	Tk 1,695,000	43%	Tk 1,858,000	62%
Debt (MIDAS)	<u>3,500,000</u>	<u>54%</u>	<u>2,289,000</u>	<u>57%</u>	<u>1,122,000</u>	<u>38%</u>
Total Capitalization	Tk 6,500,000	100%	Tk 3,984,000	100%	Tk 2,980,000	100%
<u>Directors:</u>	MIDAS shall have 2 members		MIDAS appoints 1 member		MIDAS appoints 1 member	
<u>MIDAS Buy-out</u>	The agreement provides that the price which shares will be transferred shall be a "consideration to be mutually agreed"		Assumed same terms as Silicon Village		Assumed same terms as Silicon Village	

size presently in the pipeline is now Tk. 2.5 million (\$93,300).

Another factor that has moved MIDAS away from the SSE sector is the USAID mandate to stress exports. The nature of export markets is such that there is effectively no niche for a small entrepreneur. In the area of USAID-mandated joint ventures with foreign firms, a joint venture with a small entrepreneur is really not cost-effective for the foreign firm. The high capital requirements to qualify for lending plus the relatively large average size of loans being considered by MIDAS and its AID-mandated criteria effectively mean that the small entrepreneur is no longer a target group for MIDAS.

#### Interest Rates

Interest rates were set in response to donor wishes. The current interest rate on loans is 18 percent. This is higher than rates available from commercial banks and development banks. However, because of MIDAS' reputation for honesty, no extra payments are required from MIDAS' borrowers. Borrowers at other financial institutions are often required to make unofficial side payments, which effectively raise the rate of interest. Therefore, the difference in effective rates of interest between MIDAS and other financial institutions is not as large as the difference in nominal interest rates.

#### Economic Assessment

It should be noted how economic analysis differs from financial analysis. Economic analysis assesses the impact of an investment or action on the economy by attempting to

determine what situation would prevail if the investment or action had not taken place. This "without" status is compared to the "with" status, and this is a measure of economic impact, which is translated into monetary terms. Prices used in economic impact studies are free-market prices, which differ from prevailing prices in many instances. Corrections have to be made for distortions caused by subsidies, import and export restrictions, taxes, and other non-market influences. In Bangladesh, estimating free-market prices and making "with" and "without" comparisons is a heroic task beyond the capacity of the evaluation team in the time allotted.

To do a valid economic impact analysis would require a minimum of six to eight weeks in the field with interviewers and survey personnel plus two to three weeks of write-up. At present, such an exercise would be foolish because of the modest size of the MIDAS program and its relative newness.

#### Employment Generation

The data available do not allow accurate estimates of the employment generation impacts of MIDAS. The nominal number of employees and proprietors in projects funded from AID sources was 946, including 100 from the Swiss Development Corporation fund and 48 from MIDAS' own fund. The actual number is probably far less. Details are shown in Table 10.

The figures above should be taken with a generous portion of salt because of the uncertain nature of the data upon which they are based. One such uncertainty is that the number of employees in a given project is a very vague figure. In the Bogra Dustha Kalyan Sangstha (BDKS) project, the number of

Table 10. Jobs Created as a  
Result of MIDAS Loans

Name of project	Loan amount <sup>a</sup>	Number of jobs	Cost per job <sup>b</sup>
<u>USAID Fund</u>			
Mirpur Agricultural Workshop and Training School	\$ 21,652	40	\$ 541
BDSC (Paduka Sramik Sangha)	4,530	26	174
Ceramic raw materials processing plant	36,086	25	1,443
Bogra Dustha Kalyan Sangstha	55,265	300	184
Bangladesh enterprise	57,586	47	1,225
BDSC (Ayesha Printing and Dyeing Industries)	5,573	10	557
Jut-Tex Services	52,906	32	1,653
BDSC (Bhairab Shoe Makers' Association)	11,098	30	397
BDSC (screen printing)	2,387	4	597
Satadal Chemical Industries	44,791	39	1,148
Krishi Club	11,372	29	392
Silicon Village	170,961	364	469
Bangladesh Export Ltd.	110,733	N/A	
<u>Swiss Development Cooperation Fund</u>			
A.K. Silk ) Jhowbona Sericulture ) ADI Kesham Prothistan )	23,778	100	237
<u>MIDAS Reflow Fund</u>			
Save the Children	9,323	27	345
Mirpur Agricultural Workshop and Training School	11,346	21	540

a. Loan amounts are not exact because of exchange rate difference.

b. This figure is an approximation based on estimates from available data so these figures should only be used for comparison purposes.

jobs was listed as 300. This is a "destitute women's project," and it is unclear how many full-time equivalent jobs are represented in the figures. Also, the project has not proven to be sustainable, and it is unclear what vestigial employment efforts remain. One of the shoemakers' groups disbanded, and it is unclear what effect this has had on the number of jobs. Another uncertainty is that since the portfolio is relatively new, it is not yet clear how many of the projects are actually financially viable; therefore, it is not yet certain to what extent the MIDAS portfolio is financing transfer payments to recipients in nonviable enterprises that will soon shut down.

The question of indirect creation of new jobs in the Bangladesh economy is even more uncertain. The evaluation team found some evidence that entrepreneurs who could have received financing elsewhere came to MIDAS because of the reputation for honesty and because the loan approval process takes less time than elsewhere in the Bangladesh financial sector. It is conceivable that certain loans extended by MIDAS resulted in no new job creation, because the project and loan would have taken place without MIDAS involvement, and MIDAS simply served as an alternative source of finance. In such cases, the net employment effect is only to create jobs more quickly because of the expedited loan approval process.

Whether new jobs are created as a result of MIDAS loans depends in large part on the sector in which loans are extended. The handloom sector is a declining industry; small weavers are gradually giving up the profession. Extending loans for semiautomatic looms probably has the effect of increasing the supply of handloomed cloth and hastening the

demise of weavers using traditional looms. Thus, net employment effects may be neutral or even negative.

In the semi-conductor assembly project, the entire output is destined for the export market. Essentially, there is no established semi-conductor industry in Bangladesh, so any jobs created as a result of a MIDAS loans can be considered net new employment. The machine tool industry is an established industry, and the net effect of MIDAS loans on employment is not clear.

In general we can say that enterprises that (1) produce for export, (2) produce import substitutes, or (3) produce new products that do not displace existing indigenous producers will end up creating new employment in the Bangladesh economy. Examining the MIDAS portfolio, we can conclude that investments have resulted in a net employment gain. The number of new jobs cannot be determined. It would be safe to conclude that MIDAS did not affect the employment and income of 50,000 people as was envisioned in the Project Paper.

III. RECOMMENDED FOLLOW-ON SUPPORT FOR MIDAS  
UNDER BANGLADESH ENTERPRISE  
DEVELOPMENT (388-0066)

This chapter provides commentary and suggestions for USAID to consider in provision of follow-on support for MIDAS. It is not intended to provide all of the elements necessary for a Project Paper. It is based on the evaluation team's assessment of MIDAS' present strengths, capabilities, and weaknesses, and suggests strategies for strengthening the abilities of MIDAS to deliver beneficial business services to medium, small, and micro entrepreneurs. This chapter also reflects a critique of certain features contained in the Project Identification Document 388-0066.

Goal and Purpose

The PID states:

The purpose of this project is to develop an institution which can, on a continuing, largely self sustaining basis, identify exceptional promising small and medium scale industrial opportunities, and provide financial, managerial, and/or technical assistance to entrepreneurs prepared to explore these opportunities.

This statement clearly identifies this new effort as an institution-building project, rather than a technical

assistance or credit project. This sets the tone for the kind of results that can be expected in the time frame allowed. The encouragement of a sound and rapidly growing small and medium business sector in Bangladesh is seen as a means of absorbing the almost 2,000,000 people entering the labor force each year.

#### Strategies for Reaching Small Entrepreneurs

Without belaboring the point or unduly focusing on the definition of small enterprise, we would like to offer observations on strategies for achieving the stated purpose on a largely self-sustaining basis. Small and micro entrepreneurs are usually not serviced by self-sustaining or commercial credit organizations because of high transaction costs in relation to the size of loans and, therefore, interest income. These entrepreneurs generally need closer supervision of loans because of their unfamiliarity with commercial or mainstream lending practices. In addition, technical assistance or training is often necessary to encourage small entrepreneurs to innovate and grow. All of this combines to make small entrepreneurs unattractive to commercial credit organizations.

Even as small entrepreneurs find difficulty in gaining access to formal credit, numerous studies have shown that in developing countries small entrepreneurs provide the real dynamism, growth, and employment creation in the economy. Economic rates of return on investment in the small-scale sector have been consistently high -- in some cases exceeding 100 percent.

Given the way MIDAS is structured and conceived, it is not in a position directly to serve the small-scale entrepreneur and recover the costs incurred. MIDAS is subject to a number of operating strictures on interest rates charged and types of investments allowed that limit profitability and increase risk. Thus, MIDAS cannot directly serve the small-scale sector without jeopardizing its chances of becoming self-sustaining. USAID has indicated a willingness to tolerate reasonable losses, but such an outlook encourages a "grants mentality" on the part of MIDAS and inhibits the most effective use of available resources.

A recommended strategy is to encourage MIDAS to provide effective support to industries that show strong growth potential combined with significant backward linkages to small-scale producers. MIDAS can reasonably be expected to recover costs in servicing medium-scale enterprises, and this provides supply links to small-scale producers who can benefit from concessional technical assistance, financial assistance, or training.

One of the major faults of small-scale entrepreneurs is failure to identify and take advantage of market opportunities. By using medium-scale enterprises as an entry point for identifying small-scale entrepreneurs eligible for assistance, MIDAS would help solve the problem of marketing for small entrepreneurs. MIDAS would, in effect, be helping to establish the markets for small-scale entrepreneurs. Any direct assistance to the small entrepreneurs identified in this manner would focus on product development, quality control, management assistance, and financial assistance. More will be said later about cost recovery mechanisms by which MIDAS can provide these services.

To identify such opportunities, MIDAS should be encouraged to continually research industry sectors, technologies, or markets that may provide significant linkages. However, this should not be considered a normal business expense for MIDAS, since such research is developmental in nature and should be subsidized by USAID or other donors.

The strategy of focusing on industries with significant linkages is also viable for targeting specific groups, such as female producers and employees. MIDAS should be mandated to pay specific attention to the role of women in each of the industry sector studies. After identification of the industry sectors that have significant linkages involving women, a portion of the MIDAS portfolio should be targeted specifically to that sector(s).

The rationale for such a strategy is that programs, projects, or sub-projects identified as women's programs are too easily ignored or relegated to a "checklist" priority. Absent the political will to succeed, separate women's programs are doomed to falter when outside assistance is withdrawn. In the MIDAS program, women should be "mainstreamed" as an integral part of the MIDAS loan and technical assistance program.

A second strategy for reaching smaller enterprises is through intermediary organizations. MIDAS had some initial bad experience in dealing with PVOs, and this has led to disenchantment in both MIDAS and USAID. However, other

lending organizations in other countries have found intermediaries such as PVOs, group lending, business associations and others to be cost-effective means of reaching small-scale entrepreneurs. We recommend that MIDAS be encouraged to continue exploring possibilities for working with and through intermediaries to reach small entrepreneurs. At this point, such an effort should be considered part of an experimental research effort, rather than part of MIDAS' regular portfolio.

#### Commercial vs. Development Activities

A major conceptual concern of the evaluation team that has already been alluded to is the goal of MIDAS becoming largely self-sustaining while also being expected to provide developmental services.

The analogy of the agricultural extension services provides a valid basis for comparison. In the agricultural sector, small producers are expected to be financially viable, but they are not expected to pay the full cost of agricultural research, education, or extension. These services are usually viewed as beneficial to the economy, and are provided by government as development costs or sectoral investments. The same argument applies to the small-scale enterprise sector. Small producers can be expected to be financially viable, but they should not be expected to pay the full cost of industrial or sectoral research, enterprise education, or extension. Indeed, just as farmers are not expected to pay the full cost of administering small credit programs, small entrepreneurs should not be expected to pay the full cost of small business credit.

USAID expects MIDAS to provide many of the above-mentioned services and also to be largely self-sustaining. Such an expectation is unrealistic. USAID's willingness to underwrite MIDAS' losses creates another set of problems that undermine the incentives to use resources efficiently.

An overall strategy recommended by the evaluation team is for USAID to subsidize specific functions or activities and move away from general subsidies to the MIDAS organization. This will compel MIDAS to operate in a businesslike and efficient manner, since MIDAS itself will be expected to be operated on a commercial basis. USAID and other donors will be able to contract for the services of MIDAS to provide research, technical assistance, training, or financial services for small enterprise on a full cost-recovery basis through a combination of user fees and donor grants.

The analogy can be drawn to commercial consultants with which USAID may contract. A commercial consulting firm is expected to be self-sustaining. Such a firm normally does not do development work or infrastructural development with its own money, since this is not a profitable line of business. However, commercial consulting firms quite regularly do this kind of work under contract to USAID and other donor agencies. Such a model can be applied to MIDAS.

#### MIDAS' Accounting System

To contract with donors as suggested here, MIDAS must completely revise its accounting system. The present accounting system accumulates cost information only by category or type of expense (i.e., salaries, allowances,

consultants' fees, rent, repairs, and maintenance). Precise information does not exist for costs by type of activity (i.e., feasibility study preparation, consultancies, loan supervision). Costs are not systematically accumulated against specific projects; therefore, fees charged for consultancy may or may not be realistic. The management of MIDAS cannot measure performance of certain individuals or units in terms of cost effectiveness. Admittedly, rough estimates can be made.

The present accounting system is based on all accounting entries being made by hand. Without a cost system, and at the current level of activity, statements are produced in a timely fashion; however, there are problems with errors. In any case, installation of a cost system will give rise to a substantially greater number of accounting entries. In the interests of both accuracy and copying additional entries, a mechanized or micro-computer-based approach is probably appropriate. Additional justifications for a computer-based approach include applications such as MIS, economic database, and use of the computer in connection with analysis of loan applications and consultancy work.

It is necessary to upgrade the accounting function to furnish management with more accurate, more timely financial information including cost information, by type of activity and by individual project. The MIDAS team designated to carry out the work of this project should include the Executive Director, Financial Analyst, Deputy Chief Accountant, and CPMO. Other assistance would be drawn from a technical advisor, auditors, hardware suppliers, software suppliers, and other consultants.

Technical assistance in accounts could be provided on an intermittent basis, using an incremental change strategy. One approach would be to select an advisor who would work with the MIDAS staff over a pre-scheduled period of time to identify procedural constraints and make necessary modifications. Implementation should be coordinated with procurement of computers and training of staff in their use. It is important that the technical assistance advisor have a general business consulting background and expertise in finance and accounting systems. Implementation of this technical assistance effort should begin soon after signing of the new cooperative agreement.

Carrying out the work would require the following specific steps:

- . Draw up a specification in terms of end products (accounting and non-accounting applications)
- . Analyze workload or volume
- . Identify and evaluate alternate solutions
- . Identify and evaluate hardware and software choices
- . Choose, order, install, and debug hardware and software
- . Train operators and staff

#### Management and Operations

Organizational management and development should be a priority in the MIDAS II project. Front-loading of technical assistance to implemented needed changes is highly recommended. The staff and Board of MIDAS see the need for

this, and are committed to making the MIDAS management and operations more effective.

- . Goals
  - Streamline and increase cost effectiveness of MIDAS operations
  - Encourage and reward excellence among staff
- . Purpose
  - Institutional strengthening of MIDAS to meet its mandates
- . Criteria for evaluation
  - Achievement of output targets (i.e., loans made to target groups, income generated through consulting services, etc.)
  - Reduction in overhead and subsidy ratios of overall budget and implementation of staff development programs and policies
- . Input needed
  - Technical assistance
  - Training
  - Micro-computers plus software

An Illustrative  
Implementation Program

Step One: Management Inventory

MIDAS has numerous strengths upon which to build its institutional capability. These include:

- . A dedicated staff, Director and Board

- . A set of operational procedures which -- although in need of improvement -- have sustained MIDAS thus far
- . A willingness and genuine interest among staff to streamline operations and increase productivity

The purpose of the management inventory would be to assess in detail MIDAS' existing mode of operation and identify areas in need of major modification or minor adjustment. This would be done largely through in-depth discussions with the staff Director, the Board, USAID, and other MIDAS donors. Many of the key points to be addressed have already been brought out in the evaluation.

Step Two: Organizational  
Design and Management  
Recommendations

Once the inventory is completed, detailed recommendations will be placed before the Board and management of MIDAS for discussion, refinement, and approval. This will be an important forum for exchanging ideas among these groups and working toward a consensus on management issues. The person or team responsible for carrying out the management inventory would also suggest and discuss a strategy for implementing a program of management development in MIDAS. Areas to be addressed could include:

- . Organizational framework recommendations resulting from evaluation
- . Functions of the various divisions or departments in MIDAS
- . Administrative support requirements

- . Personnel policies
- . Salary structure, levels, and annual increment policies
- . MIS requirements
- . Program planning, monitoring and evaluation procedures
- . Staff development policies and programs

#### Step Three: Implementation

It is especially important that MIDAS participate in developing and making any changes recommended. Many useful suggestions have already been discussed and proposed by the staff of MIDAS, and should be considered as part of the overall program.

The following activities should take place as part of the implementation effort:

- . A series of meetings for all staff to introduce and discuss changes
- . Training workshops for mid-level and senior-level management staff
- . Computer procurement, installation and training
- . Agreement with USAID and MIDAS upon criteria for evaluating MIDAS organization and management changes

#### Step Four: Evaluation and Modification

The changes instituted would be evaluated continually as part of ongoing internal planning and evaluation. Technical

assistance advisor(s) involved in the design and implementation phases should also participate in the follow-on efforts, in order to maintain continuity and expedite any modifications needed.

Technical Assistance  
Requirements

It is recommended that the following areas for technical assistance be incorporated into the MIDAS 2 program:

- . Organizational design and management
- . Computer applications/MIS
- . Marketing
- . Financial analysis

Several of these institutional development goals can be addressed through training aimed at strengthening in-house staff capabilities. In other cases, a more effective strategy would be the use of intermittent or full-time advisors working on a counterpart basis with senior and mid-level management staff. The evaluation team has recommended a full-time marketing advisor, for example, who could also have as his or her terms of reference improving the feasibility study papers prepared by the staff, perhaps with additional technical assistance on a short-term basis.

During the evaluation, the team observed a critical need to make improvements in marketing research, estimates and plans, loan supervision, and feasibility study preparation.

Marketing estimates for both Bangladesh and overseas markets submitted by entrepreneurs seeking finance from MIDAS

are frequently underdeveloped marketing ideas for creating a demand for a new product. These inadequacies have also been reflected in the feasibility studies used to substantiate loan applications.

Loan supervision has been inadequate. Five out of twelve AID loans currently on the books are problem loans, and at least three of them probably should be written off. MIDAS personnel engaged in loan follow-up will have to monitor closely the results of the borrowers under their supervision. Problems leading to possible non-performance or delayed payments must be anticipated and corrective action worked out in cooperation with the borrower.

Feasibility studies can be improved. As part of an effort to speed up loan processing, the studies themselves can probably be shortened, but at the same time their depth can be increased. See a more detailed discussion of the feasibility studies cost sharing program later in this chapter.

A main objective for training will be increasing the effectiveness of key staff members to plan and implement project and loan activities. The staff members in such a program could include staff at the PMO, APMO, JPMO, and PMCO levels.

Because of the comparatively small number of professionals in MIDAS, the training and development effort could be tailored to each person's strengths and weaknesses. The first and preparatory step, therefore, is determining the training and development needs of each individual, involving the individual, his or her supervisor, and the technical advisor. The approach will be work-related. For example, improving

marketing skills of the PMOs will be accomplished by analyzing the marketing plans submitted by an entrepreneur. Some limited classroom or lecture work may be appropriate to discuss common problems and common solutions. Some required reading of basic reference material may also be appropriate. The technical advisor's work with supervisors will emphasize the necessity for the supervisor to exercise quality control.

#### Monitoring and Evaluation Plan

Because of the lack of data, a credible economic impact evaluation was not possible for MIDAS I. Putting aside for the moment the question of what criteria should be used in data collection and analysis, the evaluation team recommends that MIDAS, in cooperation with USAID, establish a policy and mechanism for making some determination of the costs and benefits of the follow-on project. MIDAS is a unique effort in that it is to (1) sell technical assistance/ consulting services, and (2) make loans to small and medium-sized enterprises on a partial cost-recovery basis, and could therefore provide a showcase for other SME development projects.

In order that the impact analysis component of MIDAS II be cost-effective, data collection efforts should be incorporated into the loan origination, processing, and disbursement processes. Project Management Officers could also complete a basic questionnaire which would provide economic information about recipients of MIDAS technical assistance. It is likely that the MIDAS staff, with some input from the USAID Mission Economist, could develop a set of criteria and procedural guidelines for making the impact analysis effort practical.

The data and information needed to evaluate MIDAS performance will be the same kind of data and information MIDAS will need for its own planning, implementation, and monitoring systems. A mid-term evaluation during the third year of the project will provide timely information that will allow for any midcourse corrections or refining. To be of maximum value to USAID and MIDAS, this evaluation should be performed by a joint USAID/MIDAS team. To prepare for this mid-term evaluation several steps should be taken now.

The MIDAS management information system must be upgraded. A smoothly-functioning MIS would:

- . Provide critical decision-making and oversight information in a timely, useful and cost-effective manner
- . Enhance the efficiency and effectiveness of MIDAS planning and implementation
- . Help project administrators manage resources to achieve the project objectives in a timely manner
- . Track the flow of project input activities and outputs for accounting and planning purposes
- . Assist managers to modify project activities
- . Serve as an early warning system to signal deviations from plans
- . Report progress and identify problems

Upgrading the MIS will involve:

- . Improving the accounting system
- . Installation of a micro-computer-based MIS delivery system

- . Training of staff in information retrieval and reporting uses for the MIS
- . Improving the loan supervision and tracking capabilities of MIDAS
- . Development of standard control and operating procedures for handling loans, technical assistance and possible project implementation

As part of standard operating procedure, contact forms should be completed and entered into the MIS. This will allow some judgments to be made regarding the search and screening procedures to identify potential clients for MIDAS' financial and technical assistance services.

Improving the accounting system will allow the evaluation to assess MIDAS' performance in terms of financial indicators, and will also allow tracking of actual expenses incurred in performing various functions called for in the project agreement. The evaluation can then make recommendations on the relative merits of various strategies for meeting MIDAS' objectives. Financial indicators would be grouped into categories such as portfolio management, profitability, quality of assets, capitalization, and collection performance. Comments can be made on costs incurred and pricing of services.

The loan application can give valuable insights into a client profile and determine how closely the target portfolio profile approximates the actual profile. At a minimum, for the purposes of evaluation the loan application should include:

- . Experience of entrepreneur in this kind of business

- . Sex of entrepreneur
- . Formal schooling (literacy, skills in book-keeping, technical training)
- . Legal status of business
- . Business activity
- . Location of enterprise
- . Ownership/partners in enterprise
- . Assets of the enterprise
- . Previous loan history (bank references)
- . Financial statements
- . Number and gender of employees

The loan application process should not be unnecessarily complicated by gathering of evaluation information, since this information would normally be required in a standard application form.

As part of training of staff, reports should be placed in the file regarding training inputs in terms of number of trainees, type of training, skills, competencies achieved, etc. The measure of the success of such programs will be the staff's ability to perform new functions, such as working with the MIS and originating loans. Indicators of performance should be designed as part of the training plan and used as the basis for evaluation of the training program. Useful indicators are billing efficiency, number of requests processed, number of loans per loan officer, volume of loans per loan officer, and recovery rate of loans.

### Feasibility Studies Cost Sharing Program (FSCSP)

In both the 1985 Amendment to the Cooperative Agreement and the PID for MIDAS II, a FSCSP is called for. It is to be modelled after the AID/PRE program.

The team leader of the present MIDAS evaluation team was, coincidentally, the team leader on the evaluation of the AID/PRE FSCSP in 1985. The conclusion of the evaluation of the AID/PRE FSCSP was that the program had critical design flaws that resulted in no new investments stemming from the FSCSP. The recommendation was that the program be redesigned and administered in an LDC financial institution, instead of continuing as a Washington-based program. The following program approach is based on the findings of the AID/PRE FSCSP.

### The Role of the Feasibility Study

There is no standard feasibility study. The value of a study is linked to the interests of a specific investor. Feasibility studies play a role in capital formation, but their importance should not be overestimated.

In order to address this matter clearly, we need to define the following terms:

Business Plan. This is a document that outlines the proposed line of development of a business. Based on certain assumptions as to the market, economic conditions, and productive capabilities, results are forecast in the form of generally understood financial statements. On reading a

business plan, an investor is able to determine if the proposed activity is compatible with his or her portfolio parameters. Investors are also unable to judge, based on business experience, if the results appear feasible given the stated assumptions. A business plan is usually prepared by the entrepreneur, although professional assistance may be needed to put it in terms and language that would be acceptable to the investor. A business plan may represent a substantial investment of the entrepreneur's time, but cash expenditure should be modest. Since the ability to draw up a business plan is an elementary test of managerial ability, many professional private-sector investors would look askance at a plan that was not prepared by the management team.

Restricted feasibility study. This is an expert opinion, prepared by a specialist accredited by the investor, attesting to the validity of a key assumption in the business plan. A business plan will contain many assumptions. Most will be accepted or rejected by the investor without special verification, based on experience. Others may be resolved by a reconnaissance mission. Only a few questions justify the expense of outside expert opinion. Depending upon the nature of the question, the cost of a feasibility study may range from a few thousand dollars to millions.

Background paper. This is a document, usually compiled through library research, presenting supplementary information relevant to an investment situation. Typical subject matter might be the economic condition of a country, a political history, or a description of sectoral development. Also in this category are descriptions of non-proprietary industrial or agricultural processes.

Impact paper. This document proposes to describe the effect of a specific endeavor on the economic or physical environment. Primarily of interest to government organizations, the impact paper ordinarily attempts to justify a venture in terms of political objectives of interest to specific groups.

Investment justification paper. This is a document used to justify an investment "for the record." It may contain features of the business plan, a reconnaissance mission report, restricted feasibility studies, background papers, and impact papers. This document is of interest primarily to governmental and commercial financial agencies.

The important point is that the kind of investment/feasibility papers required are dependent on the needs of the investor or lender. The source of finance must be located before any investment/feasibility papers are drawn up. It would be foolish for MIDAS to encourage an entrepreneur to go to the time and expense of doing a feasibility study unless it were required by the investor/lender; then it should be done for the requirements of the investor/ lender by someone recognized by the investor/lender as being expert in the particular area. A feasibility study should not be done on the speculative hope that the study will attract the favorable attention of a lender/investor. A feasibility study is not a sales piece!

#### Investment Decision

A typical private sector investment decision for a new project goes through the following stages.

Portfolio suitability. Project lenders usually specialize. They are looking for projects that meet some predetermined criteria. The perusal of a well-presented business plan is sufficient for an investor to determine quickly whether a project meets these criteria. Rarely will professional investors stray from their portfolio parameters.

Management capability. Given a project that matches the profile for a portfolio, the lender next judges the capability of the managers. This ordinarily involves interviewing, checking references, and evaluating experience. Many lenders will not bother with proposals unless the promoters are introduced by someone whose judgement they respect. The sophisticated lender knows that without proper management, other features of a project are irrelevant. A marginally attractive project with excellent management is preferable to an excellent project (perhaps elaborated by skillful consultants) run by poor managers. In order to save time, the appraisal of management capability comes early in the process.

"Seat of the pants" evaluation. The next step in project evaluation is to form a preliminary impression as to whether the concept makes sense. The professional lender will be influenced by experience with similar projects, the results of a quick reconnaissance mission and informal consultation with experts to whom the lender has easy access. Most lenders will eliminate over 95 percent of all projects presented on the basis of portfolio suitability, management capabilities, and seat-of-the-pants evaluation.

Restricted feasibility studies. Once a lender feels that there is a high probability of proceeding with a project, it may wish to test some key assumptions in the business plan in

order to reduce the risk. The private sector lender is apt to be more skeptical of the value of feasibility studies than public sector lenders.

Formal investment papers. Once the investment decision is reached by the lender, subsidiary investment papers may be drawn up to satisfy others participating in the process: background and impact papers, investment justification papers, and investment prospectus. The lender will only prepare those documents necessary in the given situation.

A major difference between public and private sector investment decisions is the importance given the qualifications of management. If the Government decides to build a hydroelectric project, it assumes that management can be found to implement the plan. In private investment, the entrepreneur-owners and management are usually the same people, and not easily changed once the financing is given. Therefore, management is the first consideration.

By matching the different kinds of studies against the steps in the private investment prices as shown in Table 11, it is possible to avoid unwarranted funding of complete studies.

Since the purpose of the FSCSP is to aid Bangladesh entrepreneurs in raising capital, it makes sense to weed out those proposals that have little chance of attracting financing. Two criteria quickly focus on this issue.

- Management qualification. Who are the project managers? What proof can they offer of managerial ability? Are they reputable? How committed are they to this project? Do they have the necessary technical qualifications?

Table 11. Investment Steps

Investment step	Type of study needed	Cost
Portfolio suitability	Business plan	Low
Management capability and seat-of-the-pants evaluation	Reconnaissance mission	Low
Restricted feasibility	Restricted feasibility study	Medium-high
Formal investment papers	Background paper Impact pap Justifica Prospectus	Medium-high

- Investor qualifications. If not the same as the managers, who are the proposed investors? To what degree have they already investigated the project? Do they have access to the financial resources needed? What is their opinion of the project and its management? What questions would they like to see answered in a feasibility study?

The primary value of an FSCSP would be for larger investments that might involve a foreign partner. Such a partnership might work as follows. A Bangladesh entrepreneur comes to MIDAS with a good idea that might interest foreign partners. Some of the FSCSP money might be used by MIDAS to help the entrepreneur develop a business plan that would be readily comprehensible to a foreign investor. MIDAS would send the plan to the foreign investors known to have an interest in such projects. If a serious interest is indicated on the part of the foreign investor, the FSCSP money would be

available to pay the expenses of a foreign investor making a reconnaissance visit. If there is still serious interest on the part of the foreign investor, he or she might want a limited feasibility study done to verify key assumptions of the business plan. The FSCSP would partially finance such a study. If the decision is made to go forward with the investment, the expenditures made under the FSCSP would be built into the project finance and repaid to MIDAS. If the project does not go forward, half of the expenses are forgiven. Several other options are available in this basic process.

Since MIDAS concentrates on projects in the under \$200,000 category, the value of an FSCSP would be very limited. A number of other key elements for the success of such a program are not present in the contemplated MIDAS II program. It is recommended that FSCSP not be included as part of MIDAS II at this point. The option of developing a FSCSP at some point in the future should be held open.

#### MIDAS Business Plan

In order for MIDAS to determine in greater detail just where it is going, a business plan covering the next five years should be drawn up. A major planning exercise of this nature should provide answers to questions such as:

What capital funds are going to be required from the donors? What capital funds can come from repayments and earnings?

What shape, form, and numbers of personnel should the enterprise have during the five years? What does the personnel plan suggest in terms of recruiting, promotions opportunities, management development?

- . What kind of network or branches outside of Dhaka will be appropriate?

The answers to these questions and a host of others should come out of a disciplined planning exercise.

The starting point has to be the underlying programs. There are many indications as to what these programs should be in the current and amended Cooperative Agreement with USAID. However, this Cooperative Agreement is certainly going to be altered substantially by the five-year USAID program whose dimensions are being worked out at this time. The new Cooperative Agreement should have substantial input from MIDAS. This Agreement will spell out in broad outline what form MIDAS activities are going to take in the next five years. These mutually agreed goals and objectives will have to be translated into well defined programs. The programs will include numbers and types of technical assistance projects, sectoral studies, and consulting assignments; expected numbers of loans with estimates of maturities, repayment patterns, expected write-offs, and collection experience; and other such indicators.

From these very basic activity programs, MIDAS will have to develop and describe the supporting programs -- i.e., people and facilities required. The next step is to translate the programs into the numerical language of projected financial statements, balance sheets, profit and loss statements, and sources and applications of funds.

The process described will involve the whole MIDAS organization over a period as long as six months, but it would

be well worth the effort. With the business plan in hand, MIDAS management could make intelligent assessments of its ability to reach any new Cooperative Agreement goals and could determine on a factual basis what resources it will require to reach the goals.

### Structuring the MIDAS II Program

#### Technical Assistance

Outside technical assistance will be required in a number of different areas by MIDAS. The largest single need is in marketing. This is both to identify export markets and to assist in strengthening the marketing sections on feasibility studies. Other areas that will require assistance are revising the accounting system, restructuring an employee incentive program, computer applications, MIS, and technical appraisal of production technologies.

A mix of local and foreign advisors may be used. In the accounting system, it would be advisable for a foreign advisor to work with the local accounting firm on a short-term basis. The marketing advisor should have knowledge of export channels and would likely be foreign.

Assistance should be available throughout the five-year period of MIDAS II and should have continuity so that different advisors do not give conflicting advice thus negating each other's efforts. To use resources made available from USAID more effectively and to leverage other donor resources, it is recommended that technical assistance be front-loaded.

Intermittent technical assistance would be advisable, since MIDAS is a sophisticated organization that does not need continual assistance in a given area; a marketing advisor may spend an initial six to nine months working with MIDAS and, in following years, would be available on demand for one to three months per year.

#### Outputs and Inputs

A series of activities mentioned in the PID should be re-evaluated; i.e., perform 10-15 subsector studies per year, arrange finance for 30-50 entrepreneurs per year, arrange five joint ventures per year, start a feasibility studies cost-sharing program, provide joint finance with banks, and cover recurrent costs on consultancy services. There is a question of whether some of these can be done; for others it is questionable whether they should be done.

Unless interpreted broadly to include contracts, contract manufacturing, or other similar arrangements, setting up five joint ventures per year is not a useful target. A total investment level of \$200,000 in a joint venture operation is tiny by international standards. It is doubtful that many foreign firms would seriously consider equity investments in a Bangladesh venture on this order of magnitude. Such an investment would be merely a good faith gesture. More important would be access to technology, marketing channels, advisory services, etc.

A recommended strategy to derive more realistic targets would be for USAID to provide program objectives for MIDAS; the MIDAS organization would propose a work plan consistent

with program objectives. Negotiations and revisions between USAID and MIDAS would proceed until the work plan was approved, triggering a fresh release of funding. The activities derived from such a process would be more useful than the sometimes whimsical activities suggested in the PID.

### Capital Base

The capitalization model constructed in the PID is highly theoretical with regard to assumptions on inflation, bad debts, returns on funds, etc. It is therefore highly suspect in approximating reality. A recommended strategy would be to require MIDAS to develop a business plan for the five-year period. This would involve setting realistic program targets and attaching budget figures to these program targets. The capital base estimate that would derive from this business plan, although subject to other miscalculations, would be more realistic than the figure developed in the PID.

It is recommended that USAID hold open the possibility of providing additional capitalization for MIDAS in about the third year of the grant. The assumption in the PID is that the loan portfolio will have an average maturity of three years. Based on experience to date, an average maturity figure of five to six years is more realistic. Thus, to extend the anticipated number of loans, the capital base may have to be doubled. Also, the capacity of MIDAS to originate bankable projects may evolve more quickly than anticipated.

USAID should consider the possibility of using new authority under the Food Security Act of 1985 for using PL480 Title I or Section 416 commodity proceeds for providing capitalization for MIDAS.

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#### IV. CONCLUSIONS & RECOMMENDATIONS

##### MIDAS' Mandate

The mandate for MIDAS is a mix of development objectives and commercial objectives, which has translated into negative consequences for operations in both areas.

A distinction needs to be made between MIDAS activities that can be reasonably expected to become self-sustaining commercial operations and those that are developmental in nature and should be financed from development assistance funds.

The cost accounting system of MIDAS needs to be revised and developed to a point where costs for different types of operations can be traced.

USAID should change its orientation from providing subsidies to the MIDAS organization to providing subsidies for development functions that MIDAS performs.

The USAID criteria that all projects financed by MIDAS must be financially and economically viable should be abandoned, since this does not allow the financing of protected infant industries.

USAID should simplify and clarify its expected program criteria for MIDAS, since overly numerous and overly specific performance standards have led to internal inconsistencies and diverting of MIDAS from its intended purpose.

MIDAS should maintain technical assistance operations, perhaps taking the form of a long-term consulting contract with USAID providing for the development of specific technical capabilities and their delivery to target groups specified by USAID. There is a particular need for services by female producers to be ensured by elaboration and monitoring of qualified gender-defined output targets.

#### MIDAS' Capabilities

MIDAS is developing credible administrative, loan disbursement and recovery, and technical assistance capabilities that are unique in its orientation to SME in Bangladesh.

USAID should continue to support the development of MIDAS' operations capability.

MIDAS should focus on developing the means for delivery of services to the small enterprise sector. MIDAS should coordinate its technical services to SME with specialized credit agencies operating in the sector.

In structuring any additional assistance to MIDAS, USAID should carefully craft its program criteria in a manner that provides positive incentive for MIDAS to work with SME.

The loan approval process should be streamlined, with USAID delegating authority to approve individual loans and

projects to a technical assistance advisor provided to MIDAS on contract by USAID.

Loan supervision needs to be improved through closer involvement and follow-up of higher level professional staff, regular reporting of necessary loan performance data, and establishment of write-off procedures.

Flexibility should be introduced into the loan appraisal and approval process to allow MIDAS and the entrepreneur to adjust to changing market conditions.

MIDAS should take positive steps toward identifying and hiring female technical analysts who are qualified on the basis of commercial experience, rather than because of prior involvement in female-oriented social welfare activities.

#### Focus on SME Sectors

The development aspects of MIDAS will have the greatest impact by focusing on industry sectors that have substantial upstream linkages to SME suppliers or downstream linkages to SME users of products and/or services.

MIDAS should continue research into the characteristics of industry sub-sectors that show the greatest promise of providing linkages.

The industry sectoral studies and research performed by MIDAS should be done on a work order basis, with funds provided by USAID.

Twenty-five percent of the planned sectoral and sub-sectoral studies should involve areas that derive a significant amount of their raw materials from sectors in which female producers have a major presence.

A specific proportion of the total loan fund should be allocated for disbursement to medium/small industries whose principal non-mechanical inputs are produced by economic sectors in which female producers play a significant role.

MIDAS should seek to engage representatives of organizations working with small-scale male and female producers in a voluntary, advisory capacity.

#### Technical Assistance

Technical assistance is needed to consolidate the administrative and technical capacity of MIDAS and to assist in the development of a coherent plan for rational growth.

A foreign long-term technical advisor should be hired by USAID to provide a more market-driven orientation and help identify export markets.

Short-term technical assistance is needed on an intermittent basis to work with the accounting section and the MIDAS auditing firm in restructuring the accounting and management information systems.

USAID should provide assistance in developing a capability to use microcomputers in accounting, MIS, and research.

Assistance is needed in designing a personnel system that is performance-based and that integrates the loan origination,

loan supervision, and technical assistance functions of MIDAS.

USAID should explicitly recognize that the MIDAS II project is an institution-building program and should structure assistance to provide long-term continuity, as opposed to a short-term work order orientation.

A management audit is needed to assist in developing a strategy for organizational growth, sequencing of technical assistance components, and specifying scopes of work for technical assistance.

#### Staff Development

Staff development should be a priority in MIDAS, in order to enhance its ability to meet performance goals.

Salary levels, particularly at the junior professional levels, need to be upgraded, and a workable system of promotion instituted.

Once MIDAS is clear on its mandate and scope of work, an incentive system for rewarding good performance among the professional staff should be implemented.

MIDAS should provide training for promising members of its existing staff in preference to hiring new staff, to build overall capabilities.

Project management training and technical assistance should be contracted on a short-term basis for the benefit of senior and mid-level management personnel.

As staff development takes place and the MIDAS staff demonstrates its consistent ability to originate bankable loan projects, the Board should gradually disengage from the loan approval process.

The MIDAS Board should oversee and direct the development of a strategic organizational development plan by the staff that specifically addresses growth of MIDAS coverage and services.

MIDAS should make a special effort to acquire female personnel for middle-level technical functions.

#### Target Sector Services

MIDAS needs to consider the special needs of its targeted sectors and make provisions for developing a line of services to meet these needs. The decision regarding services offered should be made independently of whether the services can be offered on a full cost recovery basis or concessional terms.

The purpose, structure and format of feasibility studies should be reformulated to serve the needs of entrepreneurs.

Marketing, market identification and product development are critical to successful small enterprise and should be given special attention in developing MIDAS' capabilities.

MIDAS should continue to work with NGOs as a means of indirectly reaching the smaller enterprises.

USAID and MIDAS should jointly undertake a program aimed at strengthening the ability of NGOs to work effectively with SSEs.

MIDAS should monitor its activities to identify obstacles to NGO and SSE access to its services. Condition for access to services should be made compatible with the conditions and possibilities of intended beneficiary groups.

MIDAS' Standing Among Donor Organizations

MIDAS has gained a reputation among other donors as a responsible and technically qualified organization in selected industrial sectors.

MIDAS should continue to diversify funding sources at a rate that does not jeopardize the effectiveness of the organization.

MIDAS should continue its research and development of sub-sectors with growth potential in Bangladesh, and not be limited to the sectoral agendas of its various donors.

USAID should take advantage of the opportunity to leverage its own resources with other donors by increasing MIDAS' capacity to be a responsible contractor for development services.

USAID and MIDAS should jointly address the issue of MIDAS entering new lines of business such as contracting with other donors and/or USAID for project implementation.

APPENDIX A

EVALUATION SCOPE OF WORK

AID 1350-1  
(10-79)

UNITED STATES INTERNATIONAL  
DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR  
INTERNATIONAL DEVELOPMENT

1. Cooperating Country  
Bangladesh

Page 1 of 12 Pages

PIO/T

PROJECT IMPLEMENTATION  
ORDER/TECHNICAL  
SERVICES

2. PIO/T No.  
598-0249-3-60011

3.  Original or  
Amendment No. \_\_\_\_\_

4. Project/Activity No. and Title  
PD&S Funds -(MIDAS Evaluation/Bangladesh)  
Enterprise Development Project Paper Design

DISTRIBUTION

5. Appropriation Symbol  
72-1161021

6. Allotment Symbol and Charge  
QDA-86-27388-43-62

7. Obligation Status  
 Administrative Reservation  Implementing Document

8. Project Assistance Completion Date  
(Mo., Day, Yr.)

9. Authorized Agent  
M/SER/AAM

10. This PIO/T is in full conformance with PRO/AG  
Date \_\_\_\_\_

11a. Type of Action and Governing AID Handbook  
 AID Contract (HB 14)  PASA/RSSA (HB 12)  AID Grant (HB 13)  Other

11b. Contract/Grant/PASA/RSSA  
Reference Number (If this is an  
Amendment)

12. Estimated Financing (A detailed budget in support of column (2) is attached as attachment no. \_\_\_\_\_)

Maximum AID Financing	A. Dollars	(1) Previous Total	(2) Increase	(3) Decrease	(4) Total to Date
		37,500		37,500	
B. U.S.-Owned Local Currency					

13. Mission  
References

14a. Instructions to Authorized Agent

M/SER/AAM is requested to execute a work-order under Contract  
No. DAN-1090-C-00-5124-00 for the attached Scope of Work.

14b. Address of Voucher Paying Office  
Controller Office  
G.P.O. Box 2593, Jiban Bima Bhaban, 5th Floor  
10, Dilkusha Commercial Area, Dhaka, Bangladesh

15. Clearances—Include typed name, office symbol, telephone number and date for all clearances.

A. The project officer certifies that the specifications in the statement of work are technically adequate PDE/GWVanderhoof <i>GWV</i>	Phone No. 310	B. The statement of work lies within the purview of the initiating and approved agency program PRO/HRKramer <i>HRK</i>	Date 2/12/86
C. PDE(A)/MCalavan <i>MAC</i> MGT/JGunther <i>JG</i>	Date 2/12/86	D. Funds for the services requested are available Mand. Jewell <i>MJ</i> CONT/BDeBruce <i>BDB</i> DD/BPounds <i>BP</i>	Date 2/12/86
E. PRO/TBethune <i>TB</i> RLA/SAllen <i>SA</i>	Date 2/12/86		

16. For the cooperating country: The terms and conditions set forth herein are hereby agreed to  
See MIDAS letter to 2093  
dated 10 Feb 1986

17. For the Agency for International Development

Signature \_\_\_\_\_ Date \_\_\_\_\_  
Title \_\_\_\_\_

Signature *J. Westley* Date *2/12/86*  
Title John R. Westley  
Director

FUND RESERVID  
 APPROP. 72-1161021  
 QDA-86-27388-43-62  
 37,500  
 02.11.86

Dhaka 0547  
State 389806  
DRAFT SOW FOR  
WID EXPERT

PIOT

4. Project/Activity No. and Title

PD & S Funds (Midas Eval/Enterprise Development PP Design

SCOPE OF WORK

18. THE SCOPE OF TECHNICAL SERVICES REQUIRED FOR THIS PROJECT ARE DESCRIBED IN ATTACHMENT NUMBER A HERETO ENTITLED "STATEMENT OF WORK".

19. SPECIAL PROVISIONS

- A.  LANGUAGE REQUIREMENTS (SPECIFY) \_\_\_\_\_  
(IF MARKED, TESTING MUST BE ACCOMPLISHED BY AID TO ASSURE DESIRED LEVEL OF PROFICIENCY)
- B.  ACCESS TO CLASSIFIED INFORMATION  WILL  WILL NOT BE REQUIRED BY TECHNICIAN(S).
- C.  DUTY POST(S) AND DURATION OF TECHNICIANS' SERVICES AT POST(S) (MONTHS) (See Attachment A)
- D.  DEPENDENTS  WILL  WILL NOT BE PERMITTED TO ACCOMPANY TECHNICIAN.
- E.  WAIVER(S) HAVE BEEN APPROVED TO ALLOW THE PURCHASE OF THE FOLLOWING ITEM(S) (COPY OF APPROVED WAIVER IS ATTACHED) . N.P.
- F.  COOPERATING COUNTRY ACCEPTANCE OF THIS PROJECT (APPLICABLE TO AID/W PROJECTS ONLY)
  - HAS BEEN OBTAINED  HAS NOT BEEN OBTAINED
  - IS NOT APPLICABLE TO SERVICES REQUIRED BY PIOT
- G.  OTHER (SPECIFY)

20. BACKGROUND INFORMATION (ADDITIONAL INFORMATION USEFUL TO AUTHORIZED AGENT)

(See Attachment A)

21. SUMMARY OF ATTACHMENTS ACCOMPANY THE PIOT (INDICATE ATTACHMENT NUMBER IN BLANK)

- BS DETAILED BUDGET IN SUPPORT OF INCREASED FUNDING (BLOCK 12)
- \_\_\_\_\_ EVALUATION CRITERIA FOR COMPETITIVE PROCUREMENT (BLOCK 14)
- \_\_\_\_\_ JUSTIFICATION FOR NON-COMPETITIVE PROCUREMENT (BLOCK 14)
- A STATEMENT OF WORK (BLOCK 18)
- \_\_\_\_\_ WAIVER(S) (BLOCK 19) (SPECIFY NUMBER)

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AID 1350-1 (10-79)	1. Cooperating Country Bangladesh	2. PIO/T No. 398-0249-3-60011	Page 3 of 12 Pages
	4. Project/Activity No. and Title PD&S Funds (Midas Eval/Enterprise Development PP Design)		

22. Relationship of Contractor or Participating Agency to Cooperating Country and to AID

A. Relationships and Responsibilities

See Attachment A

B. Cooperating Country Liaison Official

MIDAS Executive Director - Badruddin Ahmad

C. AID Liaison Officials Gary Vanderhoof, PDE

LOGISTIC SUPPORT

23. Provisions for Logistic Support	IN KIND SUPPLIED BY		FROM LOCAL CURRENCY SUPPLIED BY		TO BE PROVIDED OR ARRANGED BY SUPPLIER
	AID	COOPERATING COUNTRY	AID	COOPERATING COUNTRY	
A. Specific Items (Insert "X" in applicable column at right. If entry needs qualification, insert asterisk and explain below in C. "Comments")					
(1) Office Space					X
(2) Office Equipment					X
(3) Housing and Utilities					X
(4) Furniture		N/A			
(5) Household Equipment (Stoves, Refrig., etc.)		N/A			N/A
(6) Transportation In Cooperating Country					X
(7) Transportation To and From Country					X
(8) Interpreter Services/Equipment	X	X			
(9) Medical Facilities					X
(10) Vehicles (official)					X
(11) Travel Arrangements/Tickets					X
(OTHER SPECIFY)					
(12) Local Hotel Reservations	X				
(13)					
(14)					
(15)					

B. Additional Facilities Available From Other Sources

APO/FPO

PX

COMMISSARY

OTHER (Specify, e.g., duty free entry, tax exemption)

EVALUATION SCOPE OF WORK  
USAID/DHAKA PROJECT DEVELOPMENT OFFICE  
MIDAS EVALUATION/BANGLADESH ENTERPRISE DEVELOPMENT PP DESIGN

I. Activity to be Evaluated:

Funding for the Micro Industry Development Assistance Society (MIDAS) is one of several components of the Rural Industries Project (RIP) approved in August 1981. The Bangladesh Enterprise Development Project is the follow-on project to the MIDAS component of RIP. The MIDAS component is the only portion of RIP that will be evaluated under this Scope of Work. The MIDAS Cooperative Agreement was signed in November 1983, and as amended in Project Implementation Letter No. 13 will expire December 31, 1986 and has a terminal disbursement date of September 1987. It provides a total of \$2,193,500 in grant funding under the RIP.

II. Purpose of Evaluation:

MIDAS has now operated for almost four years without a comprehensive evaluation. A series of short studies have served to monitor project performance. The last two years have seen a significant maturing of the organization and ample evidence of its ability to carry out its mandate. This special evaluation is planned because follow-on projects are planned. In May 1985 a PID was approved by AID/W for FY 86 funding that contemplates \$ 8 million in technical assistance and loanable funds to be provided to MIDAS over the next five years. This forms part of the Mission's overall program goal of expanding employment opportunities, and represents one of the direct approaches to job creation as defined in the Fall 1984 Employment and Small-scale Enterprise Strategy Paper.

The evaluation will serve two purposes. The first is to find out how successful MIDAS has been in accomplishing the goals and objectives laid out for it in the November 1983 Cooperative Agreement and its subsequent amendments.

The second purpose is to determine what the follow-on project might look like given what we will have learned about MIDAS' capabilities and performance, and USAID's desire to promote employment opportunities with interventions that will have a broad impact on the economy.

The information generated by the evaluation will be used primarily by two parties. The first is AID, to determine what lessons can be drawn from the project. As the Rural Industries Project progressed USAID continually refined its assistance to MIDAS. The Mission now feels more certain of its approach to promoting employment generating, small-scale industries and is ready to make a long-term commitment to MIDAS. The findings and recommendations of the evaluation will be incorporated into the work for the new Bangladesh Enterprise Development Project. USAID expects that the project design work will be in process at the time the evaluation is undertaken.

The second party to directly benefit from the evaluation will be MIDAS itself. Although the evaluation is primarily for AID's benefit, it is expected that the process of being evaluated will require that MIDAS undergo a thorough self-examination and that the final product itself will be useful to them for both short-term and long-term strategic planning. Thus MIDAS should be considered an important end-user of the information, ranking only just below AID in significance.

In addition to AID and MIDAS, the development community in general will benefit from a thorough examination of the MIDAS experience. This evaluation also forms a part of the Mission's current annual evaluation plan.

#### Project Paper Evaluation Plans:

Since the initial implementation of the Rural Industries Project, MIDAS has gradually and continually shifted its focus away from a primary emphasis on support to NGOs involved in employment generating projects towards assisting individual entrepreneurs. This has been with the encouragement and often at the insistence of AID as new Cooperative Agreements were signed. The Rural Industries PP called for the establishment of a more PVO-oriented MIDAS, but acknowledged the organization's experimental nature. Thus MIDAS must be evaluated against objectives outlined in two amendments to the Cooperative Agreement instead of those defined in the Project Paper.

The timing of evaluations as set out in the implementation schedule has been altered to fit project requirements. The first one was completed as anticipated at the end of year 1 and measured MIDAS' capacity to function independently.

The second one was scheduled for January '84 to assess the progress and future needs of MIDAS. This was completed in the form of a series of reports prepared by Tom Timberg who worked as a long-term consultant during 1984-85. The most recent amendment to the Cooperative Agreement contains a variety of performance targets that were developed both as a result of his reports and his on-going work with MIDAS.

### III. Background

The Bangladesh business/industrial sector is not growing rapidly enough to absorb the projected increase in the labor force of 21.2 million persons during the 1985-2000 period. Recent reforms in government policies, relative political stability and a gradually diminishing level of central planning have sparked hope that a resurgence of private sector activity may have a significant impact on this problem. The most promising source of jobs for new entrants to the labor force is the small business sector.

MIDAS is a Private Voluntary Organization (PVO) established with financial and technical assistance provided through USAID/Dhaka Rural Industries Project and charged with carrying out a wide range of activities aimed at promoting small business development in Bangladesh. Although established with the help of AID funds, the organization is very much an independent one, with all decision authority regarding its operations vested in its Board of Directors. The organization is legally registered as a non-profit organization in Bangladesh. In accordance with its charter, its Board of Directors includes persons from the business community, from private voluntary organizations, and a member nominated by AID. The BDG is represented on the Board by the Chairman of the Bangladesh Small and Cottage Industries Corporation (a parastatal) who has a permanent seat.

It was originally contemplated that the great bulk of MIDAS' work in promoting industrial development would be with and through private voluntary organizations. It soon became clear, however, that focusing too heavily on PVOs would limit MIDAS effectiveness and potential impact on net employment generation. (A basic problem quickly arose stemming from MIDAS view that it should only support projects that are commercially sound and the view of many PVOs that their clients needed assistance on concessional terms). Though providing services to and through PVOs will remain an important and useful component of MIDAS' program, it will be secondary to services MIDAS provides to private firms and individuals.

Although its path has not been smooth, MIDAS' accomplishments (both in terms of establishing itself as a viable institution, and in terms of services provided) during the three and a half years it has been in existence have been impressive. The organization, though still small (less than 20 professional staff members) and still feeling its way, has firmly established itself on the Bangladesh business scene. Its consulting services are widely and frequently sought (and paid for) by a wide range of clients from the public and private sectors. (Total consulting revenues during June 84-June 85 were over \$90,000, making MIDAS one of the largest and most active consulting firms in the country). It is increasingly being used by donor agencies (e.g. the Ford Foundation, the Swiss Development Corporation) as an implementing agency for their business development projects.

Gaining access to project capital in Bangladesh, is, in general, quite difficult. Formal capital markets are essentially non-existent. Most banking is still nationalized and the distortions and irregularities frequently associated with bank nationalization are certainly present in Bangladesh. Lending decisions commonly are made based upon factors other than a project's commercial viability. On average 27 months pass between submission of industrial project loan applications and disbursement of funds. Side payments and fees (frequently reaching 20% of the funds applied for) are commonly required. Also, as banks are heavily dependent upon capital inflows from donors, capital supply is irregular.

MIDAS has achieved a reputation as a professionally competent, scrupulously honest organization. In 1985 it approved 19 projects representing over \$1 million in loans. It has gradually improved both the quality and quantity of loan proposals; and the average time between development of a full proposal and disbursement of funds is 4 to 6 months. The biggest challenge in the near future will be for MIDAS to maintain the integrity of its loan portfolio as it doubles and triples in size, while continuing to expand its consultancy services and overall operations.

#### IV. Statement of Work:

The evaluation team will specifically address the following questions:

##### Economist:

- 1) What have been the primary and secondary effects of MIDAS' lending/investment activities, on the sector in which the loan was made and on related industries, in terms of productive employment and income?
- 2) To what extent are the businesses supported by MIDAS part of the target group defined by the Cooperative Agreement? How many have been replicated by other entrepreneurs? Why did they come to MIDAS for its services?
- 3) Within the framework of MIDAS' overall organizational structure and AID's program focus how can MIDAS' impact on productive employment be increased? Should the loan-size be altered? Or the capital intensity? Or the emphasis on linkages to other, more labor-intensive firms? How should other, (e.g., PVO-related) employment generating activities be supported by MIDAS, if at all?

##### Financial Analyst:

- 4) Extent to which MIDAS' lending practices (i.e. proposal analyses, financial structure of agreements, repayment schedules, loan agreements, etc.) are adequate to achieve the objectives in the Cooperative Agreement and how these practices can be improved.
- 5) Extent to which MIDAS' project monitoring activities are successful in: 1) identifying problems in project implementation and loanee performance, 2) playing an active role in resolving problems and ensuring loan repayments are made on a timely basis.
- 6) Extent to which MIDAS can/should expand the range of services and the number of financial instruments employed beyond what it currently maintains, and if so, what would be the nature of this expansion.

### Management/Organizational Specialist:

- 7) The extent to which MIDAS' organizational structure, approval processes, salary levels, staffing patterns etc. are adequate to achieve USAID and MIDAS objectives, and what changes and/or improvements (if any) should be adopted given an expanding program.
- 8) In order to facilitate the fulfillment of its role, to what extent can MIDAS' relationships with other Non-governmental Organizations, the business community and the government be improved, and how? How will an expanded MIDAS program be viewed by these groups? How successful has it been in generating support from other donor agencies?

WID Expert: Under a separate Scope of Work, a WID expert will respond to the following questions. It will be responsibility of the Team Leader to integrate the results of the WID report into the final report.

- a) Extent to which MIDAS can serve as a vehicle through which USAID can promote activities of women entrepreneurs in small-scale industries.
- b) What changes and/or improvements in MIDAS would be necessary for it to play a greater role in reducing barriers to women entering into business?

For each of these questions the consultants will be required to provide in a final report the following:

- their findings;
- their conclusions [their interpretation of the evidence and their best judgement based on this interpretation];
- their recommendations based on their judgements.

### V. Methods and Procedures:

The team should arrive in Dhaka O/A 14th March allowing for one day in the U.S. to review relevant documents. They will depart on the 4th of April allowing 18 days to complete the evaluation, including Saturdays if necessary. At a minimum, the team will be expected to follow the USAID work schedule, that is Sunday to Thursday.

After an initial review of available documents and this Scope of Work, each consultant will outline their approach by the end of the first three working days for USAID concurrence before proceeding with the study.

Most of the work can be completed in Dhaka and adjoining areas but short field trips will be required. Translators will be available when necessary.

Relevant AID internal documents such as past evaluations and consultancies, policy papers, Rural Industries PP, Bangladesh Enterprise Development PID and a sample MIDAS Project Proposal will be made available. The team should be familiar with them before arriving in Dhaka. MIDAS and USAID will make available any documents relevant to completing the scope of work.

At least one senior staff member from MIDAS will be assigned full time to coordinate the team's activities with other MIDAS staff and assist the team in gathering information, conducting interviews, performing analyses, etc. He will be an experienced member of MIDAS staff with an Economics or Financial background and be familiar with both MIDAS' history and most of its current operations. The Team Leader will make every effort to incorporate him into the evaluation process. The USAID Project Officer will also be available to assist the team and will actively participate in the evaluation process to the extent possible.

The WID expert will prepare a separate report that will be integrated by the team leader into the final report. She will be a part of the team and will coordinate her activities to the extent necessary with those of the rest of the team.

It is anticipated that the team will divide its time approximately as follows:

<u>ACTIVITY</u>	<u>DAYS</u>
Document review in U.S.	1
MIDAS interviews/document review	5
Entrepreneur interviews/field trips	4
AID/BDG and Industry Interviews	3
Analysis/Writing	4
Presentation of Results	1
	---
	18

This schedule is only intended as a general outline and should not restrict the team's activities in any way.

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## VI. Composition of Evaluation Team

The team will be composed of six members; one from MIDAS, one from USAID, a WID expert and three others. The three contractors who will perform this SOW will have the following backgrounds:

- A. Team Leader/Economist: Will have prior experience leading evaluation teams and be capable of integrating the work of the other members and his own into one comprehensive report. Specifically he/she will have experience in micro-economic analysis and in measuring the impact of successful small-scale credit schemes in LDCs.
- B. Marketing/Financial Expert: Experience analyzing small-scale lending institutions or will have prior banking experience. He/she will have conducted financial and marketing analyses for small business loan proposals and be familiar with state-of-the-art lending practices in small-scale enterprise promotion schemes
- C. Management/Organizational Specialist: Prior experience preferably in Asia analyzing the organizational structure of PVO's in an LDC context. Must be familiar with the structures of small-scale lending institutions in general.

The roles and responsibilities of USAID and MIDAS representatives will be refined in the planning stages of the evaluation when the team arrives in Dhaka.

## VII. FUNDING:

This SOW will be funded from three sources. Mission PD&S funds will provide the bulk of the resources. USAID will also participate on a "buy-in" basis in a S&T/RD centrally-funded project called ARIES which is designed to support MIDAS-type institutions. (See State 389806) The WID expert will be funded under a separate PIO/T. A detailed budget is provided in Appendix B.

## VIII. REPORTING REQUIREMENTS:

1. Format of Report, : written report should contain the following sections:

- Executive Summary. Two pages, single spaced;
- Statement of Conclusions and Recommendations; Conclusions should be short and succinct, with the topic identified by a short sub-heading related to the questions posed in the Statement of Work. Recommendations should correspond to the conclusions; whenever possible, the recommendations should specify who should

take the recommended action.

- Body of the Report. The report is to include a short description of Bangladesh and provide the information (evidence and analysis) on which the conclusions and recommendations are based.

Appendices. These are to include at least the following:

- the Evaluation Scope of Work.
- A description of the methodology used in gathering and analyzing the information.
- A bibliography of documents consulted and a list persons/agencies interviewed.

2. Submission of Report: Draft outlines will be submitted to USAID for review and comment one week prior to departure. A preliminary draft of the report will be presented to the Mission and to MIDAS before departing Dhaka. A final report will be submitted to Project Development Office/Asia, Near East Bureau, AID/Washington no later than two weeks after departing post. The team leader will be responsible for seeing the report through to a timely, professional completion.

3. Debriefings: The team leader will meet weekly with and brief the USAID Project manager on the progress of the evaluation. There will be two formal debriefings. One will be given to AID staff and other professionals interested in small-enterprise promotion. This will take place on the final day and will last from one to two hours. The second debriefing will be given to MIDAS staff and Board members and be similarly timed. All members of the evaluation team will take part in both debriefings.

PD&E/GVanderhoof:anam  
02/10/86

ATTACHMENT B

ILLUSTRATIVE BUDGET

Salary \$220 X 18 days X 3 persons	=	11,880
Fringe \$220 X 18 days X 3 persons X 30%	=	3,575
Per Diem \$88 X 25 days X 3 persons	=	6,600
Travel Per Diem \$100 X 4 days X 3 persons	=	1,200
Air Fare \$3000 X 3 persons	=	9,000
DBA Ins. 2.67% X Salary	=	325
In-Country travel \$50 X 5 trips + local transportation	=	350
Secretarial Services	=	200
Overhead (87% X Salary + Fringe)	=	13,450
Fee 10%	=	4,650
		<hr/>
		51,230

\* Funding Structure:

USAID PD&S Funds	\$37,500
ARIES Project Funds	\$14,500
	<hr/>
Estimated Cost	\$52,000

ARIES PROJECT (Small & Micro-Enterprise Development)  
Field Service Agreement (FSA)

1. FSA 4 PIO/T: 398-0249-3-60011 Country: Bangladesh
2. Government (S&T/RD/EED) Estimate of Workdays:  
Management and Organization Specialist 6 days  
Economist 6 days  
Marketing and Financial Specialist 6 days
3. Period of Performance: From: April 3, 1986 (or later, upon completion of work prescribed in FSA-2) To: April 22, 1986
4. Statement of Work: (Attachments) See Dhaka 2425
5. Position Descriptions for Above Positions: (Attachments)  
See FSA-2 and Dhaka 0547.
6. Criteria for Satisfactory Completion of the Work:  
  
O/A April 22, 1986: Team will present report to USAID/Bangladesh with significant design implications for the Mission's enterprise development project and related project paper, including development impact, technical assistance needs, information and monitoring needs and increased usefulness of the feasibility study for the project.
7. Funding Citations:  
Project Title: PD&S Funds (MIDAS Evaluation/Bangladesh) Enterprise Project Paper Design  
Project Number: 388-0066  
PIO/T No.: 398-0249-3-60011  
Appropriations: 72-1161021  
Allotment Symbol: GDAA-86-27388-AG-62
8. The costs of this assignment are not to exceed: \$9,720.  
Amounts may be shifted among line items, to the degree consistent with the ARIES contract.
9. Other Conditions and Requirements: None

Prepared by: Ross V. Bigelow  
S&T/RD/EED, Ross V. Bigelow  
Project Manager

Authorized by: Edward H. Thomas  
M/SER/AAM/ST, Ed Thomas  
Contracts Officer

Accepted by Robert R. Nathan Associates

Date: APR 11 1986

-- Amended Budget for Bangladesh ARIES Contract  
 -- Concerning the Design Implications of  
 -- Bangladesh Enterprises Project.  
 FSA-4

-- ITEM	AMOUNT IN DOLLARS
-- SALARIES and WAGES	
-- Management and Organization	
-- Specialist	
-- Russ Webster (6 days at dollar 111.54) (a)	669
-- Economist	
-- Wes Weidemann (6 days at dollar 235.96)	1,416
-- SUBTOTAL (Salaries and Wages)	2,085
-- Fringe (24.2 per cent)	505
-- SUBTOTAL	2,590
-- Overhead (47.8 per cent)	1,237
-- SUBTOTAL SALARIES and WAGES	3,827
-- OTHER DIRECT COSTS	
-- Consultant	
-- Marketing/Financial Expert	
-- Pulver (6 days at dollar 261.31)	1,568
-- Per diem (88/day x 21 days in Bang. and 100/day x 4 days en route)	2,248
-- Local Travel	200
-- D.B.A. Insurance (2.67 per cent)	98
-- Secretarial Services	255
-- Photocopy, telex, supplies	100
-- SUBTOTAL OTHER DIRECT COSTS	4,469
-- SUBTOTAL PROJECT	8,296
-- G and A (11.53 per cent)	956
-- SUBTOTAL	9,252
-- Fee (5.06 per cent)	468
-- TOTAL PROJECT COST	<u>9,720</u>

Amounts may be shifted among line items, to the degree consistent with the ARIES contract.

REB:4/8/86, W-33790

UNCLASSIFIED  
Department of State

INCOMING  
TELEGRAM

DPAGE 01 DHANA 02425 030432Z 0422 03257J A:01056

DHANA 02425 030432Z

0422 0325:3

ACTION AID-00

3

SECTION OFFICE STRB-01

INFO AMAD-01 AMMS-01 CMGT-05 SASI-01 RELO-01 TELE-01 STNR-01

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INFO LOG-00 MEA-07 /007 W

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OFM AMEMBASSY DHANA

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QAIDAC

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OFOR: AID/ST/RO: ROSE RIGELON

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OE.O. 12356: N/A

OSUBJECT: AGES TEAM MIDAS EVAL CUM ENTERPRISE DEVELOPMENT

DESIGN ACTIVITY

0

OREFTEL: STATE 46719

0

01. PRELIMINARY FINDINGS AND RECOMMENDATIONS OF  
DEVAL/DESIGN TEAM CURRENTLY WORKING IN-COUNTRY WILL  
HAVE SIGNIFICANT DESIGN IMPLICATIONS FOR THE PP.  
TEAM IS AVAILABLE IMMEDIATELY AND WILLING TO RESPOND TO  
MISSION'S NEED FOR ADDITIONAL DESIGN WORK.

0

02. MISSION REQUESTS ST/RO AMEND ORIGINAL WORKORDER  
OTO PERMIT TEAM TO STAY IN DHANA FOR FIVE TO SIX  
ADDITIONAL DAYS

3. TEAM WILL RESPOND TO THE FOLLOWING QUESTIONS;
- A. HOW CAN THE GOAL OF FINANCIAL VIABILITY OF MIDAS BE RECONCILED WITH THE GOAL OF PROVIDING A DEVELOPMENT IMPACT IN THE PROJECT? WHAT ARE THE ORGANIZATIONAL AND STAFFING IMPLICATIONS AND HOW CAN THEY BE IMPLEMENTED?
  - B. WHAT ARE THE TECHNICAL ASSISTANCE NEEDS IN MANAGEMENT, MARKETING, FINANCIAL ANALYSIS, ORGANIZATIONAL DEVELOPMENT STAFF TRAINING AND OTHER AREAS WHICH WILL BE REQUIRED BY MIDAS TO MEET THE OBJECTIVES OF THE PROJECT AND HOW SHOULD THEY BE PROVIDED?
  - C. WHAT ARE THE INFORMATION NEEDS FOR MONITORING AND MEASURING THE IMPACT OF PROJECT? (DESIGN AND DESCRIBE A MONITORING AND EVALUATION SYSTEM FOR THE PROJECT.)
  - D. HOW CAN THE FEASIBILITY STUDY ITSELF, AND THE PREPARATION AND APPROVAL PROCESS BE IMPROVED SO AS TO BETTER SERVE THE REAL NEEDS OF THE ENTREPRENEUR.

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APPENDIX B

METHODOLOGY

## METHODOLOGY

The methodology used in this evaluation effort involved the following six steps:

1. Review of available documents; gathering relevant information
2. Interviews with key individuals; developing hypotheses
3. Internal team discussions of observations and hypotheses
4. Testing of hypotheses during follow-up discussions with key individuals
5. Deriving conclusions based on hypotheses
6. Checking conclusions for internal consistency and revising accordingly

The team's strategy in carrying out the MIDAS evaluation was initially to gather, through review of documents, a wide range of information, then -- within the scope of work prescribed for the evaluation -- narrow this down into a set of critical issues. These became the focus of the evaluation and provided insight for making follow-on recommendations for the design and implementation of MIDAS II. As suggested in the scope of work, questions to be addressed were concerned with how well MIDAS has fulfilled its goals and objectives, how effective its management and operations have been, what has been the economic impact of its programs on employment and the development of SSEs in Bangladesh, and, through the participation of a WID specialist on the team, what MIDAS has done for women in Bangladesh.

Several sources of information were tapped. By far the most valuable resources were the people affiliated with MIDAS, past and present. A significant amount of time was spent by all team members interviewing persons in the following groups:

- . MIDAS staff -- from JPMOs on up
- . MIDAS Board
- . USAID staff
- . Representatives of NGOs
- . Entrepreneurs having existing MIDAS loans
- . Entrepreneurs awaiting approval for loans

A complete list of names appears in Appendix D. The purpose of these discussions was to elicit opinions and recommendations on (1) MIDAS' present program, (2) the needs of small scale entrepreneurs and other NGOs in Bangladesh, and (3) what role MIDAS could or should play in providing support services to the small and medium scale sectors in Bangladesh.

Each evaluation team member focused on a specific area, outlined in the SOW. Frequently, two or more team members were present at meetings to stimulate cross-fertilization of ideas. The team met once a day at a minimum to compare notes and review recommendations for the MIDAS follow-on.

A listing of documents used in the evaluation appears in Appendix C. In addition to an overall literature/file review for gaining an historical overview of MIDAS, written materials were used in evaluating:

- . Performance of MIDAS loan portfolios
- . The project proposal and approval process
- . MIDAS project monitoring and MIS systems
- . Internal accounting procedures, and
- . Personnel policies, salaries, and incentives

The financial analysis was based on standard methods for determining loan performance and evaluating accounting methods, both in monitoring loan activities, and in maintaining internal MIDAS project accounts. Because of the lack of economic data, a thorough economic analysis was not possible; however, some comments were developed based on what data was available.

Analysis of MIDAS' impact on women was based largely on observations made about the beneficiaries of MIDAS. Beyond this, the purpose was to draw attention to ways in which MIDAS should be addressing female entrepreneur and employment issues through its normal programs in the follow-on project.

The methodology used in completing the organizational design and management analysis portion of the evaluation was based on two strategies: first, to assess the managerial efficiency of the existing MIDAS structure by looking at decision making processes, lines of authority, job descriptions, and the degree of compartmentalism in task undertakings; second, to review policies in MIDAS that determine staff performance and human behavior in the working environment.

APPENDIX C  
RESOURCE DOCUMENTS USED IN EVALUATION

RESOURCE DOCUMENTS  
USED IN EVALUATION

AID Papers

Blayne/Otero. Small and Micro Enterprises Study. November, 1985, Washington,

Liedholm, C. Small Scale Enterprise Credit Schemes. 1985, East Lansing.

Mead, D.C. Subcontracting Systems and Assistance Programs: Opportunities for Intervention. 1984, Dhaka.

PISCES Experience. April, 1985, Washington.

A Manual to Evaluate Small Scale Enterprise Development Projects. AID/PPC/CDIE, January, 1985.

Private Voluntary Organizations and the Promotion of Small-Scale Enterprise. AID Evaluation Special Study No. 27, July, 1985.

Report on the Workshop on Private Voluntary Organizations and Small-Scale Enterprise Development. AID Program Evaluation Discussion Paper No. 22, July, 1985.

ARIES Strategic Overview Paper. Draft, February, 1986.

Introduction to Project Manager's Reference Guide. (Draft). AID/PPC/CDIE. February, 1986.

Rural Industries II. USAID Concept Paper, 1986-90.

Bangladesh Employment and Small-Scale Enterprise Strategy Paper, USAID.

MIDAS Project Evaluation Summary (388-0045-2). USAID, September 1, 1981

MIDAS Project Evaluation Summary (388-0045-2). USAID, January 25, 1982

IDAS Project Evaluation Summary (388-0045-2). USAID, August 13, 1982.

Yangas, Bob. Evaluation of MIDAS. USAID, August 9, 1982.

- Bangladesh Women in Development Strategy, USAID Dhaka. n.d.
- Cooperative Agreement No. 388-0042-A-00-4002-00 (MIDAS-USAID).  
Dhaka, 1983.
- Cooperative Agreement No. 388-0042-A-00-4002-00 (MIDAS-USAID).  
Amendment No. 4. Dhaka, 1985.
- Rural Industries I Project Paper. 1981, Dhaka.
- List of Disbursements to MIDAS. Dhaka, March 1985.
- USAID Cable addressed to Dhaka Mission on "sustainability,"  
"women" and "environment." March 1986, Washington.
- Bangladesh Country Development Strategy Statement. USAID,  
FY 1986.
- Bangladesh Enterprise Development (386-0066) PID. USAID.  
Dhaka, 1985.

United Nations Organization Papers

- Bangladesh: Employment Opportunities for the Rural Poor -- A  
Feasibility Report. The World Bank, 1985.
- Grameen Bank. Mid-Term Evaluation Report. IFAD. 1984, Rome.
- World Bank. The Impact of Technology Choice on Rural Women in  
Bangladesh. Washington, 1985.
- Review and Analysis of Programmes for the Rural Poor in  
Bangladesh. FAO. Rome, 1985.

Other Papers

- RISP Case Study #4, Institutional Financing for Rural  
Industries in Bangladesh. BIDS. Dhaka, 1981
- Survey Report on Small Industries. BSCIC. Dhaka, December,  
1981.
- Small Industry Investment Schedule. BSCIC. Dhaka, 1981.  
BSCIC.
- Cottage Industry Investment Schedule. BSCIC. Dhaka,  
December, 1982.

Cottage Industry of Bangladesh. BSCIC. Dhaka, October, 1983.

MIDAS Documents:

Professional Staff Job Descriptions  
Scale of Pay  
Personnel Rules  
C.V.s of Professionals  
Provident Fund Policy

Quarterly Reports, December 1985 and February, 1986.  
Evaluation and Monitoring System Recommendations,  
January, 1983.  
Evaluation of MIDAS (by MIDAS). October, 1985.

Draft Report on Market Study of Existing and Potential Markets  
for Traditional and Nontraditional Products Produced Under  
Women's Programmes at Sarsha Upazila, Jessore. Dhaka, 1986.

Prefeasibility Project Profile on Urban-Based Women's  
Development Project. Dhaka, 1985.

Annual Report, 1983-84. Dhaka, 1985.

Annual Report, 1984-95. Dhaka, 1985.

Checklist for Sponsors. Dhaka.

. Suggestions for Improving Feasibility Reports.  
Dhaka, 1985. (Muni).

Inspection Reports, Dhaka (Mujib Rahman):  
Krishi Club, February, 1986 MAWTS, February, 1986  
Adi Resom Prathiston, February, 1986

Financial Statements, February, Dhaka, 1986.

Covering letters for Feasibility Studies, Dhaka:

Industrial Hand Gloves, January, 1986  
Lil Nasikko, August, 1985  
Industrial Hand Gloves, April, 1985  
Wire heald, December, 1985  
Malleable Iron, December, 1985  
Sanitary Napkins, January, 1986  
Fast Food, November, 1985  
Industrial Adhesive, August, 1985  
Bicycle Saddle, August, 1985  
Superior Footwear, December, 1985  
Bamboo Basketry, November, 1985  
Morter Toys, February, 1986  
Verc Ceramics, March, 1985

Feasibility Studies, Dhaka:

Imitation Jewellery, 1986  
Towel Manufacturing, October, 1985  
Ghora Mara Silk, January, 1985  
Morter Toys, January, 1986

Organigramme and List of Personnel, Dhaka, 1986

Policy on Consultancy Fee, 1986, Dhaka.

Loan Agreements, Dhaka:

Silicon Village, April, 1985  
Krishi Club, February, 1985

Share Purchase Agreement (Silicon). Updated,  
unsigned, Dhaka.

Dhaka Subcontracting Exchange Project Proposal, 1985.

Memo from Tom Timberg commenting on Subcontracting  
Project, February 6, 1985.

Consultancy "Report on Family-Based Income Generating  
Activities under WVB DHAKA SHISHU Programme,"  
October 10, 1985.

Consulting "Report on the Feasibility of Cooperative  
Handloom Marketing and Spinning Mills to be Set up  
by Cooperatives," March, 1985.

Report on Rural Industrialisation Plan for Upazila  
Shailhupa, Jhenaideh. December, 1984. Dhaka.

Memoranda, Communications, Drafts:

- John Schneider memo regarding MIDAS. June 8, 1983.  
Follow-up June 15, 1983.
- Bob Barnes memo regarding continued support for MIDAS.  
June 16, 1983.
- Tom Timberg memo regarding MIDAS impact and innovation.  
September 12, 1984.
- Jim Novak (TAF) memo regarding Asia Foundation view of  
MIDAS evaluation. August 9, 1982
- TAF comments on Tangas evaluation of MIDAS.  
August 12, 1982
- B. Ahmed draft of USAID/MIDAS Cooperative Agreement.  
October 16, 1983.
- Comments on non-USAID supported MIDAS projects. No  
author. January 23, 1985.
- Scheme for MIDAS special feasibility studies. No author.  
No date.

Other Publications, Reports, etc.:

- Schaffer, T.C., Profile of Women in Bangladesh. Dhaka,  
1986.
- Blanchet, T., Rural Women, Savings and Credit: An  
Anthropological View. Dhaka, 1986.
- Berger, M., An Initial Assessment of the Women  
Entrepreneurship Development Program. Washington,  
1985.
- Dey, J., Country Profile on Bangladesh. IRRI. 1985.
- Westergaard, K., Pauperization and Rural Women in  
Bangladesh. Comilla, 1983.
- Abdullah, T.A. and S.A. Zeidenstein, Village Women of  
Bangladesh -- Prospects for Change. Oxford, 1982.
- Ahmed, J.V., Labour Use Patterns and Mechanization of  
Rice Post-harvest Processing in Bangladesh. IRRI.  
1983.

Haye, H.A., Mechanization in Agriculture and Women in Bangladesh. n.d., mimeo.

Chen, M., Poverty, Gender and Work in Rural Bangladesh. New Delhi, 1985.

Rahman, R.I., New Technology in Bangladesh Agriculture: Adoption and its impact on Rural Labour Market. 1980.

Universities Research Center, Rural Poverty in Bangladesh: A Report to the Like Minded Group. Dhaka, 1986.

APPENDIX D

PERSONS AND AGENCIES CONTACTED

PERSONS AND AGENCIES CONTACTED

Ahmad, Badruddin -- Executive Director, MIDAS

Ahmed, Khaled Salahuddin -- Managing Director  
Silicon Village

Alam, Syed Nurul -- Deputy Director, Save the Children

Bethune, Turra -- USAID Economist

Calavan, Mike -- USAID

Chabbott, Collette -- USAID Training Officer

Chowdhury, Mariam -- Travelogue (BD) Ltd. (Femme  
Enterprise)

Chowdhury, S.H. -- Managing Director,  
Square Pharmaceuticals Ltd. (MIDAS Board)

de Ruiter, Ing M. -- Senior Consultant,  
Ten Cate Consultants b.v. (Dutch Textile Consultant)

Frans, Dirk R. -- Health Education, and Economic  
Development

Hamja, Amir -- Managing Director  
Jut-Tex Services Limited

Hirji, N.R. -- Technical Director  
Dacca Refractories Ltd.  
Chittagong Fireclay & Silica Works Ltd.

Hirji. Roshanally M.H. -- MIDAS Board

Huda, Mirza Najmul -- Project Mgt. Officer, MIDAS

Husaib, M. Mobassar -- Chief Project Management  
Officer MIDAS

Ikramullah, Mohammed -- MIDAS Board

Islam, Amirul -- Director, Associated Builders  
Corporation Limited (MIDAS Board)

Jayasingha, Harry -- Director, Bangladesh International  
Voluntary Services, Inc. (MIDAS Board)

Khan, Abu Yusef -- Bangladesh Enterprises  
Khan, Nurul Huda -- Investment Analyst, MIDAS  
Kramer, Bob -- USAID Program Officer  
Lynch, Lowell E. -- Food for Peace Officer  
USAID Bangladesh  
Maloney, Clarence -- Bangladesh Handloom Board  
Marshall, Ken -- Program Officer, Ford Foundation  
Pati, Joya -- MIDAS Board  
Peterson, H. Patrick -- Chief, Office of Food  
and Agriculture, USAID Bangladesh  
Pounds, Bonnie -- USAID Deputy Director  
Reece, Don -- USAID/PDE  
Schaffer, Teresita -- WID Consultant, Dhaka  
Schofield, Peter -- First Vice President  
General Manager, American Express Bank Ltd.  
(MIDAS Board)  
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APPENDIX E

MIDAS, FEMALE ENTREPRENEURS  
AND FEMALE EMPLOYMENT

MIDAS, FEMALE ENTREPRENEURS  
AND FEMALE EMPLOYMENT

Introduction

One of the conclusions of the Evaluation Report is that MIDAS has not had a significant effect upon female production and employment. This is attributable in part to design problems in specifying quantifiable targets in the early period of the Project -- and to a clear change in Project orientation away from smaller-scale producers in the later period. The limited effect that MIDAS might have had upon the attainment of WID objectives in the Project's later stages was further reduced by lack of clarity with regard to objectives, confusion with regard to financial targets, multiple and possibly conflicting target criteria, and inadequate communications between USAID and MIDAS.

Part of the progressive reduction of the actual and potential impact of the Project upon WID objectives derived from the elimination of those objectives from the operational goals of the MIDAS organization -- except in the most self-evidently "tokenistic" sense. Perhaps more important, however, was a shift in the underlying conception of what constituted a viable and effective economic strategy in Bangladesh. This shift led to a restructuring of MIDAS' general operations involving an inevitable reduction in ability to address the constraints faced by female producers. It would be incorrect to identify the basis of this shift as arising from MIDAS' experience. MIDAS did experience difficulties in the early stages of its life. However, there is no evidence that this was subject to systematic analysis involving clear identification of causes and possible remedies. The change in orientation in fact arose from a "cosmic" view of appropriate economic strategy. As far as can be ascertained, this was not derived from any systematic analysis of the national economy. On the contrary, it expressed the most abstract understanding of the functioning of market economies -- dwelling upon the

putatively dynamic role of medium-size entrepreneurs, and the benefits to be anticipated from the functioning of the so-called "trickle-down" mechanism.

There is little doubt that this theoretical innovation emanated from Washington rather than from reflection upon the history of economic development in Bangladesh. Indeed, it must be counted ironic that the re-organization of MIDAS (in mid-course) around the trickle-down principle should coincide more or less exactly with the development of a consensus within a large segment of the international donor community in Bangladesh (particularly among the Like Minded Group) -- that development in the country could only go forward on the basis of delivery of productive resources directly into the hands of small producers.

This Appendix has two objectives: to provide an evaluation of MIDAS more heavily weighted towards WID concerns than is possible within the framework of the main Report; and to outline a path of future development for MIDAS that would be more consistent with the objective of tapping the economic potential of female producers. Both of these objectives require that MIDAS be placed against the background of the structure of economic activity in Bangladesh, and the place and possibilities of women within it. No amount of targeting, etc., will yield fruit if operations and objectives are fundamentally inconsistent with the real possibilities of the situation. Consequently this Appendix is divided into three major sections: Part I provides a schematic outline of women's economic activities and the probable overall path of development of production in Bangladesh; Part 2 reflects upon the path pursued by MIDAS; Part 3 offers recommendations oriented to directing MIDAS towards activities which are both more supportive of female producers and more consistent with real opportunities for economic expansion in Bangladesh.

#### The Position of Female Producers and Prospects for Economic Expansion

As elsewhere in the world, women in Bangladesh have played a central role in production, being fully integrated into a household-based cycle of production-processing-consumption. Women have not typically been field workers in this overwhelmingly agricultural economy. Their activities have been concentrated spatially within the domestic compound and functionally within processing (of the staple -- rice), although women have also engaged directly in

production of meat and dairy products, some household artifacts, etc. Women, although very rarely emerging as wage labor, have constituted important and active members of the rural labor force.

The course of economic transformation in Bangladesh, however, is progressively undermining the viability of traditional economic roles. Women's activities have been household based -- processing household produced agricultural products for household consumption -- but the household economy as a largely independent structure is itself in crisis. Rising landlessness and the declining average size of farms implies falling access of women to household inputs for their traditional activities. Either female labor is underutilized in this process (i.e., it operates below historical rates of productivity), or it must seek insertion into the economy outside the household. The female contribution to the domestic economy has always been vital, and this is no less the case in the present. What has changed is female access to means of production: whether in independent or wage-based activities.

The alternatives facing women as producers in Bangladesh are the traditional "closed" domestic economy, independent household production for the market using purchased inputs, and wage labor. The closed domestic economy is less and less viable. Integration into the market economy has become a sine qua non of economic activity.

The immediate prospects for the development of significant opportunities for wage labor for women are not encouraging. Although the slow spread of High Yield Variety rice and irrigation has somewhat increased the demand for wage labor in field activities, this expansion has been below the rate of population increase, and probably below the rate of displacement of labor from independent household production. Moreover, the integration of women into the field-labor force has not been great. The prospects for the expansion of female activity and productivity must lie outside agriculture proper.

#### Prospects for Employment in Modern Industry

The industrial sector in Bangladesh is far from dynamic. Internal markets are limited and government policy is contradictory, with the result that capital tends to seek profitable outlets in trade and real estate rather than

industry. In the context of limited internal markets, it has been suggested that Bangladesh industry might profit from labor surplus to expand export activities based on cheap labor, i.e. the very factor limiting internal markets might be turned to advantage in penetration of external markets.

This strategy has very severe limitations. On the production side, strategies based purely on the cheapness of local labor are both import-intensive and relatively capital-intensive. In order for cheap labor to be put to work in modern industry, it must have means of production. In the Bangladesh context this typically involves imported means of production. It also involves significant capital outlays. The implications are clear: such a strategy is limited by both national foreign exchange availability (and policy relative to its distribution), and is exploitable in practice only by entrepreneurs having access to significant volumes of capital. It is certainly not a strategy that can be adopted by small entrepreneurs/producers.

The "ripple effect" of adoption of this strategy by a small number of entrepreneurs is probably limited. On the one hand, access to capital is a factor limiting replication. On the other hand, backward-linkages to smaller, more easily organized producing units are problematic. The essential point here is that labor-intensity is characteristic not of an industry, but of a process or processes within an industry. The fact that an industry may have one highly labor-intensive process does not necessitate that other processes within the same industry are equally labor-intensive. An important case in point is the garment industry. Under current technological conditions, garment assembly is relatively labor intensive. It is subject to a high level of division of labor, but it is not highly mechanized. This is as true of mass production as it is of short order runs. However, the inputs into the assembly process are markedly less labor intensive. This is clearly the case for mass-market textile production, but it is also the case in the garment sector proper: mass-market size standardization has allowed for a high degree of capitalization of cutting processes capturing significant economies of scale. In effect, what this means is that the establishment of a labor-intensive export-oriented industry (which by definition has few if any forward-linkages) in no way guarantees the development of significant backward-linkages based on cheap labor.

The possibility of export-oriented industry constituting a major growth sector with significant linkages back to smaller-scale operations is, thus, to say the very least, problematic. Moreover, it offers few benefits for the rural areas in which the overwhelming majority of Bangladeshis live. Export-oriented industries must have access to international transport and communications. And, given the nature of the capital applied in them, they must have good and regular access to industrial power supplies (particularly electrical power). In Bangladesh this would necessarily involve location in Dhaka and Chittagong. Export-led industrialization offers little immediate benefit to the rural areas. Should such industrialization overcome obstacles to growth, it is possible that it might offer some attraction to rural migrants (albeit it is clear that this sort of employment generation would be unlikely to make significant inroads into the huge surplus of unemployed and underemployed labor in the rural areas). However, it should also be noted that it would also form the basis for the development of an entrepreneurial interest group opposed to the development of alternative employment opportunities in the rural areas -- lest this reduce the supply of very cheap labor to the export sector.

The structure of consumption in Bangladesh is also not such as to offer encouraging prospects for a highly diversified and modern industrial structure. A continuing high level of subsistence production and an extremely low level of income (Bangladesh is arguably the poorest country in the world) determine that the market for industrial products be both relatively narrow and shallow -- with the exception of activities involving elementary food processing, such as rice husking. Moreover, the expansion of such activities cannot be seen as necessarily positive from the perspective of employment and income generation -- or, indeed, from that of sustained economic growth. On the other hand, it is far from clear that it is necessarily more economic than domestic-based processing. The cost advantages of large scale mills in the rice husking process for example are almost certainly considerably less in economic than in financial terms -- because of privileged access to institutional credit on terms dramatically softer than those enjoyed by domestic processors, and use of (at least until recently) highly subsidized energy inputs. Furthermore, inability to mechanize all stages of rice processing indicates that industrialization of husking must be accompanied by simultaneous expansion of domestic based activities in drying and parboiling.

The limited benefits to be expected of export-led industry, and the questionable economic of existing relatively large scale rural based industry -- combined with a low level of agricultural wage labor opportunities relative to supply -- indicate an important role for small, household-based industries. From the macroeconomic perspective, they represent a low-capital cost, low-foreign exchange cost alternative to frequently subsidized large-scale operations. Moreover, they are viable alternatives to complete unemployment for a large segment of the population. This is the case particularly for women. With a declining ability to operate within a "closed" domestic economy on a productive base, and with restricted access to non-domestic wage labor, women are increasingly turning to domestic-based production for the market as a means of gaining productive activities -- essentially turning services and products originally produced for consumption within the household into marketed commodities. It should be noted, however, that whereas small, household-based production has the greatest relative importance among female economic activities, small, rural non-agricultural production units represent a major sector of activity for the Bangladeshi population as a whole.

The World Bank has come to the conclusion that given doubts about the employment and replication effects of larger-scale industry, and the limited expansion of agricultural employment, small rural production units constitute the most viable and effective area of intervention to expand production and income in the country. This is almost certainly correct. Activities to improve the productivity of small rural industry can have a double effect: (i) they can have a positive impact upon general income and employment conditions; and (ii) they can be particularly beneficial to female producers because of the concentration of their economic activities in this area. Orientation to support for small rural enterprises address the problem of low female productivity and employment at source -- not by virtue of any special orientation to women, but by virtue of orientation to a sector in which women have a particular presence. A strong reason for WID support of such a strategy is that it is based not upon social equity grounds, but upon possibilities for enhancing productivity -- thus "decoupling" the issue of support for female producers from a welfarist perspective, and inserting it directly into the general strategy for economic development.

Having asserted the particular relation between small rural business support strategy and female interests (which is equivalent to recognizing the importance of support to

female producers for the development of the small business sector as a whole), it must be noted that a "general" small business support strategy will not necessarily be supportive of increase in female activity and production. This will, in part, be dependent upon differentiated support facilities for women within a general support strategy.

This in no way puts support for female producers in a class apart from normal support interventions. Any well-informed production support strategy offers differentiated services according to differences in requirements among groups within its target population. To the extent that gender gives rise to differences in assets and needs, sensitivity to gender must be a part of any properly targeted activity. This has absolutely no implications for whether services are offered on an "economic" or "non-economic" basis, but it does affect the content of services. The perspective that services to women must be differentiated from normal economic services because of the "necessary" welfare/charity orientation of the former must be considered not an integral part of women-targeted activities, but the reflection of a misunderstanding - that women are dependent and non-productive members of society. While this might be an ideal in many parts of the world, it has little correspondence to reality -- not least in Bangladesh.

#### Requirements of the Micro- and Small-Scale Production Sector

The small- and micro-scale business sector in Bangladesh is a major source of income and employment. Its productivity, however, is low. It could be much higher--at low economic cost. The following description of constraints on income and production in the sector is oriented to those bearing upon female producers. This stems from the fact that the most accessible accounts of constraints have been produced by commentators describing the condition of women in Bangladesh--who have been obliged to address the small business sector precisely because of its significance for female economic activity. The structural issues, involved, however, are not radically dissimilar for men and women, with the implication that support strategy will typically involve giving more or less of the same type of service to men and women, and will not necessitate the development of quire separate activities and programs.

### Credit

It seems clear that in Bangladesh a great deal of small business activity expresses the rupture of a closed circle of production and consumption. Activities that previously used household produced agricultural inputs for eventual domestic consumption are now increasingly based upon acquisition of inputs from outside the household and consumption of the product also outside the household. That is, productive inputs are purchased, and outputs are sold. Whereas the scale of the processing activity was previously determined by the production of agricultural products by the household, it is now determined by the ability to purchase inputs. Processing activity (employment and income) is a direct reflection of access to capital, particularly working capital.

It is evident that in Bangladesh access to capital is a crucial practical constraint upon production, not least at the lowest level. Some indication of this is given by the experience of a particularly successful example of credit operations among the rural poor, the Grameen Bank. Analysis of its operations indicates that the repayment rate is very high (between 96% and 100%), and beneficiaries report a major increase in income on the basis of the use of loan capital. The implication is clear: opportunities for expanded production and income exist, but small producers are denied access to them because of lack of capital. The reasons for this lack of access to capital are complex. Extremely low levels of initial capitalization and low cash incomes from wages obviously inhibit the process of expanded accumulation on even the pettiest scale. On the other hand, institutional and political factors also have a significant influence. The prevailing consensus in the development community suggests that credit ostensibly targeted at the rural poor has not in fact reached them. The reasons for this are clear enough: the control exercised over rural institutions by more substantial members of the rural community has channeled resources to their own use, which was the twofold effect of expanding their own immediate resource base and maintaining the dependence of the poor on the wealthy for informal credit (as very high rates of interest) and employment (at very low rates of remuneration).

This general characteristic of rural society is even more pronounced for women. Because of lack of political influence and lack of independent property, access to institutional credit has been negligible -- with the exception of a small number of pathbreaking schemes which have

attempted to operate independently of local power structures, and which base credit activities less upon existing assets than upon probable ability and willingness to repay (e.g., BRAC and Grameen Bank activities). While it is reported that there are informal "women's circuits" of credit at the village level, it is likely that the volume of credit available is restricted, and that prevailing interest rates are at least as high as those in the "male circuit." It may be the case that the scope of female operations is restricted by male attitudes towards their economic activities. But it is equally plausible the "pettiness" of female activities is an expression of their minimal access to working capital. In those areas where women have succeeded in expanding production, income, and savings attitudes towards female economic activity are considerably more supportive than where those activities are perforce marginal.

The role of expanded credit effectively delivered to small-scale producers will be a major component of any sectoral support strategy. Given the low level of collateral offerable by women, it is likely that credit will have to be unsecured -- as is the case in the Grameen Bank (where repayment rates are very high). On the other hand, most men engaged in small scale industry have few assets, so the collateral issue should not be a major issue differentiating credit supply to males and females. More important, perhaps, is the establishment of mechanisms to ensure that locally available credit is not simply appropriated by men, which might involve the development of a system of gender specific loan targets and even parallel gender-specific distribution mechanisms (e.g, male and female local level savings and credit groups). Again, the issue is not a need to develop specific safeguards for female beneficiaries because their activities are inherently less economically viable or less profitable, but a need to secure mechanisms resistant to the influences that determine low levels of female access irrespective of the possible and probable returns to investments.

Several experiments in Bangladesh have indicated that small loans to small rural non-agricultural producers can significantly increase income (and, presumably, production) and enjoy an unusually high rate of repayment. At least on the surface of things, such loan operations can be run on a commercially viable basis. It is also evident, however, that such operations are constantly exposed to the danger of incurring disproportionately high administrative costs. The Grameen Bank addressed this issue by relying heavily upon group responsibility in loans. Individual loan applications

are not reviewed for viability on an individual project basis. Rather recovery is secured on the basis of development of peer pressure for repayment. The point here is that just a collateral requirements can create an obstacle to channelling funds to promising economic activities at the small-scale end of the credit market, so conventional loan feasibility analysis can represent a crippling overhead charge: the standard operating procedures involved in large loans are not commercially feasible in small loan operations. However, if the case of the not commercially feasible in small loan operations. However, if the case of BRAC and Grameen loan schemes are indicative, theses operations are not essential to the attainment of satisfactory recovery rates in the case of small loans. It should further be noted that in the Grameen Bank apparently satisfactory performance has been linked to a clear, single purpose definition of objectives: i.e., the provision of credit facilities to the poorer members of the rural community. The success of credit facilities to the poorer members of the rural community. The success of credit schemes involving the smallest producers has often been compromised in the past by a confusion of functions, and inclusion of non-essential activities. This technical assistance overheads may be factored into operating costs -- effectively reducing the independent financial viability of institutions irrespective of the viability of the loan operations standing along.

The Grameen Bank experience indicates that small producers can pay for credit -- at effective rates higher than those nominally charged by national development finance institutions. It is not clear that they can cover the costs of "technical assistance". Nor is it entirely clear why they should. In the first instance, technical assistance should be differentiated between what benefits the loanee and what benefits loan institutions. In the case of "project feasibility studies" essentially designed to satisfy financial institution requirements rather than materially contribute to the improvement of project design, it can be legitimately asked if operations are hindered by the perhaps irrelevant requirements of the credits institutions themselves -- whether such costs are strictly necessary costs. In the case of technical assistance that does materially contribute to project design and assists effective implementation, one perspective is that such are legitimate development outlays and should operate on a subsidy basis in much the same way that extension services are provided in the agricultural sector -- as activities contributing to overall social capacity.

Loan and technical assistance operations should be separated financially. If financial institutions can be reasonably expected to be self-sustaining, they should be judged on their financial performance in the loan business. Technical assistance is another issue altogether. It has different objectives, and, perhaps, it should be judged according to different criteria. The issue is not simply financial. There exists the strong possibility that the sort of organization that is effective in the small loan business is not so effective in providing technical assistance (and vice versa). The loan business is oriented to individual loans and recover; technical assistance towards social/sectoral dissemination of information and technique. Experience in the agricultural sector indicates that the two functions can and do conflict with, for example, extensions agents concentrating efforts on the most bankable farmer rather than engaging in broader outreach activities.

#### Technical Assistance

The above discussion of the relation between credit and technical assistance refers to pressing issues in the field of small business, and small-scale female activities in particular: they need a lot of technical assistance, and the way in which the relation is established has a far reaching impact upon attainment of both technical assistance and credit objectives.

Grosso modo, the emergence of small business from subsistence production encompasses both continuity and change. Activities become dependent upon market transactions, but the material content of production remains unchanged. Thus a major emergent small business sector among women is rice processing -- traditionally a domestic, non-commercial activity. The reasons for this carry over of activities into the commercial phase are quite straightforward: (i) women have the appropriate equipment (which will be used for both domestic and commercial purposes); (ii) it involves the use of existing skills; and (iii) it can serve clearly identifiable and understood local markets (the process by which some households are forced into commercial processing is the same that creates surpluses beyond domestic processing capabilities in a limited number of households). Although this is probably characteristic of all emergent very small scale business activity in Bangladesh, it is particularly prevalent among female producers because of: a. minimal access to capital to acquire new/different means of production; b. low female access to formal education and vocational training; and c. low female access to

non-local markets because of restrictions on spatial mobility.

These "natural" limitations have direct long-term implications for income and employment among small businesses: there will tend to be overdevelopment of a restricted range of activities relative to the absorptive capacity of local markets. This is clearly a pressing danger in rice processing, for example. While it may be the case that women do earn income from household based commercial rice processing (particularly in the drying and parboiling stages where there is no direct competition with more mechanized operations), and that credit to individual women may allow the expansion of the scale of their operations (generating higher individual income), it is also the case that continued expansion will sooner or later lead to excess capacity and declining income. Where credit operations are on a restricted scale this may be a major problem, but it is certainly an issue that must be faced by larger scale credit activities. The long term basis for income and employment generation in the small-scale enterprise sector must involve a combination of sectoral diversification and market expansion. It is possible that technical assistance of the right kind might play a crucial role in this.

There are perhaps two major, and interconnected areas, in which technical assistance can play a supportive role in creating the conditions for sustained small-business sector expansion: production and marketing. With regard to production, the long-term viability of the sector will be dependent upon technical innovation raising the productivity of labor. In the Bangladesh context this involves a clear commitment to the development and dissemination of intermediate/alternative technologies capable of raising productivity without major capital inputs. The requirements of the non-agricultural sector in this regard are comparable to those of the agricultural sector, and it is to be lamented that the need has not begun to be adequately met. There is, of course, some activity in this field in Bangladesh, but there are two fundamental objectives that are not being met: (i) research and development is being conducted on a fragmented uncoordinated basis (i.e., research activities are wasteful in the sense that unnecessary duplication of efforts is common, and that there is no well established collective learning process; (ii) research is not well focused on the practical problems of commercial operation. The latter issue is of crucial importance. There is a tendency to explore production

possibilities with little reference to the viability of production from the marketing perspective.

From a strictly commercial point of view, the marketing issue should be addressed prior to engagement in research in production. That is, expanding market niches in which small-scale production might play a profitable role should be identified, and then there should be an attempt to improve small-scale production processes serving the specific market sectors. It is evident that not everything that can be produced on a small-scale unit basis can be produced profitably by a large number of small producers -- either because of limitations of market sizes or because of the superior cost efficiency of large-scale production processes in that particular branch of production.

Any technical assistance program designed to service a large number of producers must identify the major potential areas of profitable expansion. In pursuing such a course it is evident that technical assistance services should not play a merely passive role -- i.e., they should not simply respond to established individual demand, but should positively seek out both new sectors and new means of production. Such a demand-leading rather than demand-following modus operandi implies that costs could not be covered on the basis of individual user charges but should be considered service to the small-scale sector as a whole (not least because informal emulation effects spread the benefits of effective technical assistance far beyond the immediate recipient) -- indicating the clear need for a source of income separate from user charges for technical assistance.

Technical assistance, then, should involve a higher level of coordination than is presently the case, and it should be focussed on areas of sustainable small scale business operation. It should also, perhaps, be focussed on the development of production "packages" (a coherent set of inputs necessary and sufficient to raise productivity) allowing easy replicability of proven project designs. It is clear that market analysis and identification is a sine qua non of effective technical assistance. It is also clear, however, that there exists a role for technical assistance and support in "making" markets for small-scale producers. Income and output in the small-scale sector are frequently depressed by the absence of commercial and productive facilities effectively providing access to markets. This is clearly the case in dairy production, for example, where the existence (or absence) of appropriate processing and distribution structures plays a determining

role in establishing viable levels of downstream production. A positive support strategy for small-scale producers would, therefore, involve not only provision for direct improvement of small scale production, but also development of crucial upstream facilities (not necessarily small-scale in themselves) establishing secure outlets for production.

Medium and small scale operations should not be considered mutually exclusive options in employment expansion strategy. They can be complementary. The relation depends very much upon the approach to medium-scale development. Excessive attention to "innovation" in the medium-scale sector defined in terms of new products geared to international markets can obscure the potentially far greater benefits of a different sort of innovation: one defined in developing new activities related to serving existing patterns of production and demand. The latter is certainly less "glamorous", but it may have a broader impact. Expansion from existing skills, production, and markets almost guarantees strong productive and commercial linkages. More adventurous innovation has entirely more problematic effects, and by definition involves expansion where established capabilities and advantages are weakest.

As in the case of credit, market identification, appropriate technology, and the development of ancillary activities are requirements of all forms of small business in Bangladesh. A general strategy in these areas would not, however, necessarily address female producers. This is not, again, because the areas of concentration of female producers promise few returns. Rather, there exists the possibility of "starvation" of necessary services simply on the basis of gender bias rather than economic significance.

This has clear indications for any strategy oriented to maximum exploitation of productive potential. In a situation where existing resource flows do not, in fact, correspond to economic benefits, intervention strategies must specifically target areas of female activity, must be set clear criteria for delivery of services to these areas, and must be effectively monitored to gauge performance.

It should be noted that the effective point of reference is "areas of activity where women predominate" rather than women per se. Women gain income and employment from activity in particular sectors, not qua women. The point of entry for income and employment generations support is the activity rather than the person. Thus, technical assistance supportive of exploitation of female productive potential

would be mandated to address, e.g., the development of food processing and diary sectors. There are sectors in which women play a role, and from the improvement of which women could be expected to draw benefit. Viewed from this perspective there is absolutely no necessity to carve out activities relating to women and establishing them separately as "Women's Programs". Quite the contrary, the separation of Women's Programs from sectoral support activities tends both to weaken the level of services offered and to implicitly distinguish "Women Activities" from Economic Activities, with further negative impact upon services. The WID issue is not one demanding separate programs, but special attention to women's activities within general programs -- the need for the special attention not being derived from the "uneconomic" nature of female activities, but from a persistent tendency to make female production weaker by denying it the same level of support enjoyed by male producers -- to the detriment of overall economic performance and female welfare.

### Conclusion

In sum, the situation in Bangladesh would suggest the utility of effective support for small enterprises not least in the field of technical assistance and market development. From the WID perspective, this would be beneficial given that female producers tend to cluster in the small-business sector. Within the context of prevailing biases, female access to sectoral support services would be strengthened by, in the case of technical assistance, precise identification of viable areas of female activity and rigorous stipulation of performance targets with regard to female-dominated sectors. Assistance requirements fall into three areas: (i) technical and market information generation; (ii) information dissemination; (iii) provision of means of access to improved means of production and market channels (e.g., credit). The fact that these three inputs are required does not necessitate that they be provided by the same institution. Indeed the operational efficiency of institutions involved in these different functions requires different structures and different practical objectives.

In the Bangladesh context, there are already models of viable institutions for distributing (and recovering) credit to micro-producers including women. While existing coverage is very far from adequate, problems of replication are more closely determined by the availability of funding than by design issues. The case is very different in the area of sectorally-oriented technical assistance designed to produce

replicable models of improved micro-scale production and marketing.

### Conception and Evolution

#### Project Design Issues

MIDAS was originally conceived as a means of expanding employment and income in small- and micro-scale, rural industry. Although the project was designed with a loan/grant component built-in, the intent was not to create yet another credit scheme. The aim was the expansion of technical assistance capabilities to develop production and marketing innovations that could be replicated on a broad scale by small enterprises. The credit component entered the project as a means of facilitating innovations within actual production units (which might otherwise find difficulty in finding finance), on the assumption that once an innovation was "proved" in practice it would be adopted on a far wider basis -- without the need for MIDAS financial involvement. MIDAS was to be an organization that:

- . Pooled and disseminated technical information (including market information)
- . Actively developed new information and technology on the basis of its assessment of sectoral requirements as possibilities
- . Extended some credit assistance to micro-producers attempting to put new productive and commercial alternatives to work

At its inception, MIDAS was conceived of as working in close association with NGOs in Bangladesh (which had played an active role in expressing demand for such a project). Such an orientation could be justified on a number of grounds, inter alia:

- . NGOs were in fact working with small- and micro-enterprises in rural areas, and thus represented a ready made conduit for the dissemination of technical findings such as a MIDAS could not possibly develop without major (and impractical) outlays on extension efforts at the local level (detracting from the information collection and generation focus)

- . Although NGOs were active in the field of technology and, to a lesser extent, marketing, their activities were piecemeal, uncoordinated and incomplete -- with the implication that their effectiveness could be substantially improved by an institution pooling information and furthering its development through concentrated research

MIDAS was to act as an institution assisting the NGO community in developing technical information, and, to a lesser extent, as a mechanism to aid NGOs in setting up pilot/demonstration projects for the testing and dissemination of new technologies.

In many ways, MIDAS responded to many of the needs identified in Part I of this Appendix, albeit the original design was flawed by a number of ambiguities that would contribute to (but not determine) extremely problematic performance in relation to its objectives. Among these were:

- . Insufficient clarity with regard to sectoral versus entrepreneur requirements. In particular, it seemed as though MIDAS as an institution was to respond to both requests for aid to particular projects suggested by the NGOs and to what it should identify as broad sectoral requirements. In essence this involved the assumption of both demand-led and demand-leading roles.
- . Inadequate definition of the role and objective of the credit/grant component -- given that MIDAS was not conceived as a credit project, what goals and purposes was MIDAS credit to achieve, and how did these relate to its major objectives?
- . Inadequate specification of financial objectives. Although MIDAS was assigned clearly "developmental" goals in establishing an infrastructure of information dissemination and production, there were also muted requirements for eventual self-sufficiency with regard to loan operations, and, more problematically, to technical assistance costs.

- . Inadequate performance targets and indicators -- allowing for substantial drift among the unweighted objectives of the project (not least with regard to female producers').
- . Inadequate conceptualization of the issues involved in establishing a mutually satisfactory working relationship with NGOs.

All of these factors came to have definite implications for MIDAS's performance with regard to effective support to the small- and micro-industry sector, which, in turn, affected MIDAS' relevance to the task of providing the means of realizing female productive potential. It should be noted, however, that MIDAS's "sin" with regard to poor performance in relation to female producers was "original" while the original design for MIDAS made frequent reference to the needs of female producers, it did not specify the means by which MIDAS would specifically and measurably address them. A further potential problem was that MIDAS could not control the composition of the ultimate beneficiaries of its activities -- because many services would be mediated by NGOS. A certain level of control could have been established in principle by specifying that a portion of MIDAS's activities be oriented to economic sectors effectively dominated by female producers. This was not in fact done, with the implication that services to female producers would have to be incidental rather than "built-in" to the project. A major failing in conceptualization was the original project design effectively failed to make the critical distinction between women qua women and women as producers in particular sectors. This would eventually yield highly paradoxical results: services to female individuals would become indicators of responsiveness to WID concerns in spite of the facts that the sector in which aid was given was not a major area of female activity, and that the pattern of aid was ultimately detrimental to female interests (e.g., the case of promotion of use of semi-automatic hand looms by a group of destitute women in a context where the spread of this equipment involves the marginalization of women in the weaving process). This lack of clarity about what pursuit of WID objectives involved (indeed, what those objectives in fact were) was to give rise to quite erroneous criteria of what constituted an achievement of WID objectives, as is discussed below.

Whatever the shortcomings of the original project design from the perspective of WID concerns, the ultimate

impact of MIDAS was the level of support extended to female producers has been less a function of the specific WID provisions of the project than of the shifting general approach of the project to the issues of employment generation and income expansion. Within the original definition of the project it was improbable that the requirements of female producers would be addressed except in an incoherent fashion (because of inadequate targeting and monitoring). As the project underwent successive transformations it became impossible that such requirements be addressed. This expresses a rather fundamental truth about ensuring responsiveness to WID issues in project design and development: effective action with regard to WID concerns may/will require specific targets of mechanisms in project design, but these are insufficient guarantors of performance. WID concerns must be compatible with the overall project structure and "thrust", necessitating that the WID contribution to design go beyond "add-ons" to address central design issues opening or closing of the "gates" to effective project action with regard to WID concerns.

The relevance of MIDAS to the task of providing the means of raising productivity and employment among female, rural small- and micro-producers was diminished/eliminated by a shift in the orientation of its overall activities involving:

- . A change in primary orientation from NGOs to individual private entrepreneurs
- . An actual distribution of technical assistance resources in favor of individual project requirements at the expense of a sectoral orientation
- . An orientation of the core of activities towards the loan program
- . A theoretical shift towards identifying medium- rather than small and micro-scale producers as the basis for sustained growth in employment and income in Bangladesh
- . A definition of the goal of innovation in terms of export and import-substituting activities quite distinct from traditional forms of production

### The Technical Assistance Dimension

One of the critical elements motivating the evolution of MIDAS was what it perceived to be its unhappy experience in its dealings with NGOs. MIDAS was originally conceived as an organization servicing and cooperating with NGOs in the dissemination, development and operationalization of technical and marketing information relevant to the needs of rural and micro-producers. After little more than a year of operations, the NGO connection was very substantially reduced. This is somewhat paradoxical: on the one hand, the NGO community had been active in developing the MIDAS "concept;" on the other, not long after the inception of operations relations were felt to be so poor that the NGO connection was almost severed. It is hard to identify the significant factors in the process of mutual disenchantment (symptomatically, neither MIDAS nor USAID appear to have produced a formal analysis of the poor relations with NGOs -- in spite of the fact that this was held to justify a dramatic shift in MIDAS orientations and operations), but a frequent assertion made by MIDAS personnel and Board is that NGOs were neither commercially oriented nor particularly interested in taking loans from MIDAS to extend their operations in the sphere of micro-production support.

While there might be some exaggeration on the part of MIDAS it is not unlikely that these were real factors. Whether they justified breaking off relations (with major implications for the future direction of operations is an entirely separate issue, however. That NGOs were relatively uninterested in MIDAS's loan component is not surprising in the Bangladesh context. Rather easy access to grant funding from other sources would make major NGOs disinclined to take on loans from MIDAS (with the possible implications that those who were interested in loans were relatively incapable -- for whatever reason -- of obtaining direct access to grand funds). This, of course, was not directly relevant to MIDAS's primary objective in the area of technical assistance -- and, as far as can be ascertained, there was never an attempt to assess MIDAS's relations with NGOs in this nominal crucial area. At least on the surface of things, the subsidiary financial component became more important than the technical function in MIDAS's thinking about itself. At least in part, this must be attributed to the fact that the lack of quantifiable project goals allowed the financial bottom line to become the project bottom line. This was not only a MIDAS inclination, however. USAID's own comments on relations with NGOs emphasize the financial dimension.

Judged in terms of initial project objectives the absence of satisfactory financial relations with NGOs was not a proper yardstick of project success (or lack thereof). However, financial difficulties did point to much larger issues which were not addressed at the design stage, and which still remain to be "digested" by USAID in spite of their implications for many of the activities in Bangladesh.

In principle, at least, the goal of MIDAS in the technical assistance field was development of improvements in the commercial viability of micro-scale production. Clear demonstration of this in practice would become the basis of widespread dissemination and adoption. Here lies a critical distinction that has not always been observed -- to the detriment of MIDAS's affectiveness in relation to the attainment of its principal goals: the main point was that MIDAS's products be commercially viable, not that MIDAS itself be financially self-sustaining. That MIDAS's loans be "commercial" is in no opposition to this -- the requirement that loans be payed back with interest is a means of ensuring that MIDAS's innovations (financed by the loans) be commercially viable. However, an understanding that MIDAS as a whole should be commercially viable is quite distinct from this, and ultimately antagonistic to the attainment of project goals. The entire rationale for development activity is that it is necessary if producers are to establish higher levels of production and income -- but it is not immediately profitable itself (hence the need for "public" intervention). Indemanding that development activities be profitable, this distinction is obscured to the detriment of the probability that the development functions will be actually performed. MIDAS, unfortunately, has perceived itself to be under co-start pressure to reduce operations that do not yield an immediate financial return.

As far as NGOs themselves are concerned, MIDAS's experience pointed to a different issue -- a relative disarticulation between the objectives and criteria of MIDAS and those of its designated intermediaries (NGOs) in reaching the nominal target group (i.e., rural small- and micro industries). While NGOs are involved in some micro-industry support activities, they do not have the clear objective of establishing the commercial viability of their projects, either because of "social" rather than "economic" orientation or because economic support activities are so inextricably linked on the financial and organizational levels to non-economic activities that it is impossible to effectively estimate the costs and benefits of economic operations alone. It is evident in this regard that MIDAS

must experience some frustration with respect to attainment of its own objective, i.e., the means established in the project to reach the target group made it unlikely that the objectives could be clearly attained. This problem was more fundamental than the loan issue, relating directly to the whole rationale of technical assistance to NGOs and the role of NGOs in replication of successful projects at the micro-level.

It is evident that early experience of this latter problem should have given rise to reevaluation of the effectiveness of the original project design. For instance, if NGOs were considered indispensable intermediaries in reaching the target population, then it might have made some sense to invest in developing NGOs themselves to the point where they could perform a more satisfactory role in the strategy for micro-sector development. Alternatively, an attempt might have been made to identify more authentic representatives of the intended beneficiary groups. However, the lesson drawn from difficulties in relation with NGOs was that the small- and micro-sector could no longer be considered a basis for significant expansion in employment and income expansion in Bangladesh. This was a grossly illogical conclusion.

MIDAS' experience reflected the nature of NGOs rather than the nature of the small- and micro-industry sector -- particularly since NGOs can in no way be seen as directly reflecting the interests or mode of operation of the micro-sector. Quite the contrary, NGOs tend to reflect donor perceptions and needs rather than target group interests and needs. There are few indications that the experience led to a rethinking of NGO intermediation. On the contrary, the response from USAID appears to have involved: (1) a theoretical rejection of the possibilities of the small and micro-industrial sector; and (2) a theoretical affirmation of the potential of medium-scale industry oriented to exports.

In essence, this was a masterly solution to the problem of relations with NGOs. The initial relation of the NGOs was predicated upon identification of the small- and micro-sector as a possible growth area, and recognition that reaching the target group required a system of intermediaries. If, however, these producers did not represent a viable basis for employment generation and income expansion, then there was little point in trying to reach them with support -- and the NGO connection was superfluous. MIDAS could deal directly with the relatively limited number of

middle-level entrepreneurs. Moreover, an alternative theoretical means of disseminating the effects of MIDAS-inspired innovations surfaced -- through the activities of entrepreneurs in setting up backward linkages through subcontracting.

It should be noted that all this involved a substantial rethinking of the course of industrial development in Bangladesh. It must be considered somewhat puzzling that there appear to be no research and analysis papers explicating and justifying the new position -- particularly in the context of a shift in the position of some other bilateral multilateral donors to precisely the economic analysis that MIDAS and USAID were precipitously vacating.

The swing away from NGOs was initially located in the area of loan operations (grants rapidly disappeared from the agenda). However, it is evident that these have come increasingly to occupy center-stage among MIDAS activities. MIDAS's technical assistance capabilities have become increasingly absorbed into servicing loan activities (e.g., feasibility studies for loans) or in for-fee consulting services. In effect, MIDAS's information dissemination activities have withered to nothing, and demand-lending sectoral studies are being conducted only belatedly at the insistence of USAID. This was to be entirely expected in the entrepreneur-oriented phase of MIDAS's existence. The shift to an entrepreneur/medium-scale industry focus also increasingly involved an emphasis upon the commercial viability of MIDAS's own operations. In this context MIDAS was effectively constrained to operate in an extremely conservative fashion. Given that sectors do not commission investigations on a paid basis, it was extremely unlikely that sectoral research would be conducted in a situation where financial returns came to acquire a position of prominence. Moreover, given the importance of the loan program, it was to be expected that technical capabilities be mobilized to ensure the viability of loans.

While it is not evident that there was ever a formal redefinition of technical assistance objectives, the practical result of an increasing emphasis upon the loan program and financial sustainability has led to the de facto abandonment of the technical assistance objectives which were the original major justifications for the MIDAS program. It is true that a very limited number of MIDAS's technical consultancies have involved areas relevant to its original small- and micro-industry objectives (at the behest of international donors and local NGOs), but the lack of a

consistent sectoral focus and the dissipation of technical resources and activities have not allowed the development of major expertise in the area of small- and micro-industries at the level of either production or marketing. These commissioned studies were simply not adequate. They were probably no worse than is available from other research/consulting services in Bangladesh. The point, however, is that they could be considered models of the sort of technical input required to develop and mount replicable success in small- and micro-level economic activities.

Considered from the WID perspective these developments signified disaster. The decision to pull out the financial relations with NGOs may have been a blow. More serious given MIDAS' original objectives was that the organization had been brought to a position in which:

- . It was unlikely to provide technical input into activities in which women mark a significant presence (except at the idiosyncratic behest of other agencies willing to finance consulting activities)
- . It was unlikely to develop any significant expertise in these areas

On the whole, it seems rather improbable that female producers, who are among the smallest and most "illiquid" producers, will ever be able to provide the steady demand for MIDAS' paid consulting services that would be necessary for the organization to develop technical capabilities relevant to their activities. This problem is not unique to "women's sectors." It is the problem of the small- and micro-production sector in its entirety.

The mass of activities not directly linked to the loan program have been directed towards servicing the requirements of commercial organizations which could afford the service. In fact, approximately 60 percent of consultancies have been performed on behalf of but a single client -- the parastatal Sonali Bank. This must be considered highly ironic. USAID's growing emphasis upon the importance of MIDAS' loan program has been justified in part by what has been perceived as the inadequacy of the performance of the existing financial institutions in the country. However, the larger part of MIDAS's "technical consultancies" have been devoted precisely to serving one of these institutions. It is unlikely that MIDAS's activities in this regard had

the "innovatory" character foreseen in the project design. Quite the contrary, these technical services were limited to preparing loan feasibility studies for the Sonali Bank -- i.e., were of necessity oriented to the priorities and criteria of an institution implicitly condemned as not effectively serving developmental interest in general and small and medium business interests in particular.

The lesson here is glaringly obvious: commercial operations necessitate following the dictates of the market -- "development criteria" are the concern of the purchaser of technical services, not the seller. Commercialization of technical assistance has made it inaccessible to intended beneficiaries, and has made its content irrelevant to their requirements. MIDAS' technical outreach has shrunk to maintaining a small library, with the post of Information Officer being currently vacant. NGOs indicate that MIDAS is not responsive to occasional requests for information. MIDAS is currently beginning to belatedly develop a range of sector studies at AID insistence, but it is abundantly clear that this is seen as an actual or potential obstacle of earning income from servicing the piecemeal requirements of private buyers of services. Disturbingly, while the shift is justified in terms of financial self-sustainability, it is not all clear that these services are being offered on a truly commercial basis. The lack of internal mechanism for "billing" staff time according of activity raises the strong possibility that USAID-supplied operating funds originally earmarked to support technical services with small-and micro-business orientation are being used to subsidize services to medium-sized businesses and state operations. A legitimate subsidy to finance activities with a broad impact on micro-enterprises may well be effectively entering as a subsidy to nominally commercial operations serving the limited private interests of those who might well be able to bear the full costs of the services they require.

#### The Evolution of the Credit Dimension

Although it has never been explicitly stated (or explained), the burden of justification of USAID's support for MIDAS has fallen upon its loan activities. In the eyes of USAID, at least, MIDAS is supposed to engage in financing medium-scale activities that are innovatory, and hence inherently more risky (which is presumed to restrict access to alternative, more conventional loan sources). Projects receiving loan support should:

- . Be oriented towards export or import  
-substitution
- . Exhibit relatively low cost of employment  
generation
- . Have significant direct employment effects
- . Induce employment through significant backward  
linkages

The policy thrust towards medium-scale businesses has been reflected in actual practice. The average size of loans has risen dramatically, with the largest to date (equity and loan combined) amounting to approximately US \$150,000. This is also a reflection of export orientation: any operation seeking a niche in the international market will have to offer a production capacity of some scale.

It is rather clear that loans of such size are not within the horizon of aspiration of small- and micro-producers -- and that the sorts of operation mounted are not susceptible to widespread replication. To be fair, it is not claimed that this is the case. The rationale is that "adventurous" loans will establish new areas of production with important direct and indirect employment in practice: loans are not "adventurous;" investment is not necessarily "growth" area; direct employment effects are limited; and backward (employment-inducing) linkages are minimal.

The rationale for a bilateral development agency supporting a medium-scale enterprise loan program is that the area holds promise, and that alternative finance is unavailable because of the "risky" nature of innovative enterprises. However, it does not appear that MIDAS' loan operations are particularly venturesome. Collateral policy at present requires that loan applicants offer personal property as collateral equal to the value of the proposed loan -- in addition to which plant, machinery etc. acquired on the basis of loan finance is also held by MIDAS as collateral. In effect, the collateral rate varies between 105 and 200 percent of the MIDAS loan, depending upon the ratio of fixed to working capital in the project. Given the rising average size of loans, this requirement signifies that only those with substantial assets can meaningfully apply for a loan from MIDAS. As one MIDAS loan applicant described the situation. MIDAS is for the "top set" for export. Market analysis in the feasibility study for this loan was insufficient, and MIDAS offered no assistance in

establishing market links. At present the manufacturer is in the unenviable position of relying upon a single market outlet, which also supplies raw materials for production. This cannot be considered a secure basis for expansion, and inattention to the marketing problem casts doubt upon the practical utility of the feasibility studies in which a significant part of technical assistance capacity is tied-up.

The shift towards larger-size loans has not had an immediate positive effect upon employment generation. In the absence of any systematic monitoring effort to measure MIDAS' attainment of the project objective (i.e., employment generation) it is not possible to offer a precise analysis of employment generated -- especially in the context of consistent underperformance of projects relative to the targets established in MIDAS' feasibility studies and the consistent (and perhaps deliberate) overestimation of project employment. It does appear, however, that the larger the loan, the greater the capital cost of generating a job -- with the implication that the shift towards large loans has reduced the direct employment effect of the MIDAS loan fund. This trend would be clearer if the largest MIDAS loan did not involve the generation of a large number of jobs (in electronics assembly). In fact the employment effect of this loan is "estimated" as the factory has not yet entered regular production. Some indication of the sort of assumptions going into the employment generation estimates that produce an acceptable capital cost per job created in the MIDAS portfolio is that the estimated employment figure for the export electronics factory is based upon the assumption that the factory works at full capacity on a three shift/day basis. Given the current state of the order book and the inadequacy of the market links, this assumption has to be considered heroic to say the very least.

Finally, the target of having MIDAS-financed economic activities generate further employment and benefit small- and micro-industries through backward linkages has not been achieved. Industries have not been targeted for their backward linkages. In part, this must be attributed to residual innovation and export orientation goals -- neither can be heavily based on existing activities. However, it is necessary to stress the paucity of MIDAS's achievements in the area of backward linkages. The export electronics venture has no perceptible backward linkages. The sanitary napkin operation will have no backward linkages except for local production of plastic bags for packing. The project profile in this regard is not absolutely uniform, but it is

clear that substantial backward linkages do not appear as effective loan criteria. Enthusiasm for the prospects of export-oriented industry in Bangladesh were fired by the expansion of the garment industry. This example, however, can be equally held up as a cautionary tale: its backward linkages were minimal, and direct employment has been subject to major fluctuations due to variations in market conditions -- not least in the distribution of U.S. import quotas upon which the initial rapid expansion of the sector was based.

MIDAS has, therefore, abandoned the micro- and small-scale industrial sector (without analysis of why its operations experienced difficulty) and has embraced medium scale enterprises. Technical assistance has given way to credit as the focus of activities (and has become decreasingly accessible to small- and micro-producers). Credit is not made available to small, rural producers. MIDAS has not, however, played the sort of innovatory role in the medium-scale sector that presumably justified its swing away from its original target group.

#### The Process of Misdirection

Given the swing away from small- and micro-industry it is most unlikely that the "reformed" MIDAS could have extended significant support to female producers, but is important for the possible future development of the institution to address the issue of why MIDAS failed to live up to "development" expectations even within the vastly reduced horizon of a loan agency serving the medium-scale industrial sector.

It is tempting to place blame squarely, but that is not possible. The most cynical thesis i.e., that MIDAS was captured by the Board for the benefit of producers from a similar social background, is not sustainable. In fact, it should go on record that MIDAS has an enviable for host dealings, and exhibits frustration at the progressive narrowing of its effective sphere of operations. The explanation is considerably more complex and "structural." MIDAS has had no failure -- to obtain its original objectives and to pursue an innovation and developmental path in accord with its new "mid-course" objectives. The latter failure is no small measure attributable to the fact -- that MIDAS has had to try to serve two masters. On the one hand, it has pressured towards a commercial mode of operation (emphasis upon loan recovery and sale of services); on the other hand, it has been instructed to pursue a development

brief taking a more positive role in technical analysis and development, and a more adventurous role in creating new sorts of industries that would have both direct and indirect impacts upon industrial development and employment generation in Bangladesh. The balance between these objectives has not been a stable one, and it is possible that it cannot be stable within the existing institutional framework. Although development objectives have had nominal importance, MIDAS has not been given rigorous performance objectives and criteria in relation to them. Moreover, it has not been explained how possible losses on these sorts of activities would affect USAID's assessment of MIDAS' strides towards commercial viability -- upon which the continuation of MIDAS appears to hang. On the other hand, the success of the commercial orientation can be easily judged in terms of the balance sheet. In this context -- of dual objectives, but a clear performance yardstick in relation to only one -- it is perfectly predictable that the financial performance criterion should come to the fore, especially as the objectives are seen as to some extent mutually exclusive. Again, MIDAS' problem was not that it was adamantly opposed to "development" activities, but that it was unclear how potential loss-making activities in this line would effect its performance in relation to the parallel financial imperative. In fact, there is cause to doubt whether MIDAS actually understands USAID's strategic thinking behind the mid-course correction-- that the role within it. MIDAS appears to approach USAID's guidelines for operations as requirements to be satisfied on a case-by-case basis rather than as principles informing all organizational structure and activities. Moreover, it should be noted that the MIDAS Board's implicit definition of development activities as social activities oriented to deserving groups rather than economic expansion support to promising economic sectors raises important questions about how prepared it is to assume a developmental role in the non-social welfare sense, but the fact remains that this has not appeared a viable possibility in the context of perceived constraints on its operations.

Under these circumstances MIDAS has effectively paid only lip-service to developmental goals as established in criteria for loan activities handed down by USAID. This should not be construed as a radical criticism of MIDAS itself. In effect what it has done is try to pursue what it sees as the path of prudence as well as satisfy USAID's criteria -- requiring a certain creativity in description of activities. Thus, projections of employment generation have been inflated in order to satisfy perceived USAID

requirements -- given that these requirements are unrealistic in the sorts of loans and industries that MIDAS is involved. The requirement for equity participation in enterprises has been satisfied by giving them where they were not asked for -- and on a hidden loan basis. Vestigial requirements relative to orientation to women have recently been satisfied by a decision to accept a woman as signatory on a major loan (although MIDAS's initial inclination was apparently to insist that her husband be signatory -- in spite of the fact that the woman offers her own independent collateral). It might be noted in passing that this particular loan, which is perceived as rather a show-case for MIDAS' involvement with women, exhibits the profoundest misunderstanding of what WID objectives are. It addresses the needs of an individual female entrepreneur rather than the needs of sectors in which women have opportunities for productive expansion. And, as an operation involving production of sanitary napkins, it addresses the putative needs of women as consumers (with the strong "uterine connection" so prevalent in women-oriented strategies in Bangladesh) rather than as producers.

This understandably rather tenuous commitment to AID's development goals and operational criteria on the part of MIDAS has been made possible (if not forced) by USAID itself. The effects of lack of quantifiable objectives and clearly separate provisions for noncommercial activities have already been referred to. These ambiguities and tensions have not been resolved on an informal basis by consistent USAID oversight. On the one hand, monitoring of activities by USAID has been weak; on the other, there has been no regular clarification of USAID objectives and requirements in the ongoing process of operations and resolution of the problems and alternatives that arise from them. This has created a situation in which MIDAS sees itself as "second guessing" USAID in context of inconsistent "signals" and requirements. While there is a prima facie justification for USAID's "hands off" policy in the desire to establish an increasingly independent institution, this is hardly a reflection of the true situation. The survival of MIDAS as an institution in the foreseeable future is in fact dependent upon USAID's support, and MIDAS corresponding to attentive "signals" from USAID. However, because of the objectively false position that MIDAS is/should be independent, USAID fails to provide adequate directives. Moreover, MIDAS' commitment to USAID's operational criteria must necessarily be undermined by USAID's own rather problematic relation to them. If USAID does not seriously take up the question of backward linkages from industrial projects in

its review of loans approved by the MIDAS Board, and if it does not question the conservatism of loan policy, then it can hardly be expected that MIDAS would be any more enthusiastic.

One of the problems in USAID's relation to MIDAS is that the former's objectives seem to have shifted -- albeit in a piecemeal fashion and without full and coherent explication. Another issue is the lack of "institutional memory" in USAID: constant changes in staff and consultants dealing with MIDAS have hindered the development of appreciation of and considered response of significant operational issues. The result is that issues are not brought into the open and fully addressed. Problems arising from this are not reserved to development objectives. For example, USAID's opposition to multiple loans to the same recipient may have significant effects on the performance of MIDAS' loan portfolio. In the context of start-up industries, lack of access to new sources of working capital may have a crippling impact upon financial viability -- yet MIDAS is not allowed to address this issue. MIDAS may not extend supplementary loan facilities -- and, at the same time, blocks access to alternative sources of funds, not least by holding such extensive collateral against its own loan. Poor communications between MIDAS and USAID are hampering the effectiveness of a wide variety of actual and potential activities, and it is to be acutely regretted that USAID has not yet had meaningful communication with MIDAS about the latter's functions in any follow-on project.

Implicit conservatism in loan policy also extends to the equity participation that USAID has mandated. Although this was conceived of as a means of entering higher risk areas, the MIDAS perspective is somewhat different -- because returns to equity are unsecured, equity participation must be restricted to the "safest" opportunities. This is, of course, quite the reverse of what USAID apparently intended. MIDAS is not engaging in a venturesome loan operation. Nor is it self-evident that it is providing a source of finance which covers a gap in the existing financial structure. Reasons given for applying for a MIDAS loan emphasized not that alternative sources of funding did not exist (on the contrary, it was alleged that cheaper loans with lower collateral requirements were available elsewhere), but that MIDAS (with an overall application-to-disbursement time of approximately 11 months) is faster in handling applications. In putting up high collateral and accepting a nominal high rate of interest, MIDAS loanees are buying time. It could be argued that a more

comprehensive solution to this bottleneck in the financial system might involve assistance to the banking sector in streamlining its procedure -- rather than concentrating upon a small loan program with miniscule impact in the country.

There are no indications that MIDAS loans are oriented heavily towards growth areas, thus the possible imitation effect of MIDAS-supported enterprises must be considered weak. There are certainly no studies identifying growth points in the economy that might guide loan policy, nor does the MIDAS loan portfolio demonstrate the existence of even an implicit set of sectoral targets. MIDAS does not seek out loanees as part of a sectoral development strategy. It is heavily reliant for its clientele upon informal contacts by Board members, which tend to be somewhat restricted to Dhaka Rotary Club circles. Some indications of the marginality of the "growth sector" imperative is given by two recent loan approvals/loans by MIDAS. One involved extending a loan to a fast-food operation located in a geographical zone of foreign resident concentration, the other approving a loan application by a would-be manufacturer of sanitary napkins. Putting aside the issue of the commercial viability of these ventures (which is not the immediate concern of this appendix), it should be noted that neither of these operations addresses a significant market niche in Bangladesh, and neither can be considered demonstration project establishing the viability of new industrial or service sectors. The induced effects of these activities are negligible.

Involvement in financing and fostering new types of export industries might represent a more meaningful growth sector strategy. However, MIDAS offers few services to aid the success of venture in this field. This is particularly the case in relation to marketing, which is a crucial dimension of the establishment of export industries. MIDAS's largest loan is to a new manufacturer of electronic components.

### Conclusions

MIDAS started out life as an organization devoted to technical and loan assistance to innovative activities. Its objective was the generation of rural employment in micro- and small-scale enterprises through the direct and demonstration effects of its activities. NGOs were designated as indispensable intermediaries between the organization and its ultimate beneficiaries. Although its orientation to micro-enterprises made it of potentially great relevance to

the expansion of female employment and productivity, the lack of female-directed targeting and performance criteria was such as to reduce its potential impact considerably. Potential impact was also restricted by a tendency on the part of MIDAS to view the female-oriented components of its activities in terms of social welfare services to particular women or women's groups -- and not as economic activities liberating the economic potential of sectors in which female producers are concentrated. In the context of prevailing prejudices and misconceptions about women's actual and potential roles in the Bangladesh economy, the absence of sectoral goals and targeting must be considered a crucial failure in the original design.

The design to shift the focus on MIDAS to the loan program, and to identify immediate beneficiaries as medium-scale industries obviously had major implications for whom was to be directly affected by MIDAS activities. NGOs were cut out the project, and neither finance nor technical assistance were to be provided to small- and micro-enterprises. Female producers suffered along with the rest of the small- and micro-sector. Given the low level of capitalization of female producers, MIDAS's reorientation to medium-size producers and entrepreneurs with substantial personal assets, it is certain that women would not have a substantial presence among the new beneficiary population and that any successes marked by MIDAS-supported enterprises would not be replicable by female producers. Although it is conceivable that the formation of groups of female producers might overcome the size barrier to participation in MIDAS operations, the high collateral requirements and general conservatism of MIDAS's policy were such as to discount this theoretical possibility.

Possible effects of the revised MIDAS project on women were:

- . Expansion of direct employment
- . The development of backward linkages expanding markets for micro-enterprises

In spite of USAID's stipulation that MIDAS loans generate significant direct employment effects, the tendency has been for large loans to produce ever fewer numbers of jobs. Those industries in which entry requirements include substantial capital are also industries with a relatively

high capital:labor ratio. The direct employment impact of MIDAS activities has not been significant.

Industries have not been targeted by MIDAS on the basis of their backward linkages. The type of innovation fostered by MIDAS has few connections with traditional productive activities, and in general backward linkages are either low or nonexistent.

The objective of MIDAS -- the generation of employment of rural industry -- has not been furthered by MIDAS's activities. The movement to more highly mechanized operations has removed any possibility of effectively promoting rural industry. The second phase strategy (within MIDAS I) has not had significant employment effects -- either direct or induced.

It is possible that a properly targeted medium-scale industry program might have generated expanded markets for small- and micro-producers -- especially if these had received technical and marketing assistance in servicing this demand. However lack of USAID insistence upon such targeting, and MIDAS's inclination to ensure its future by concentrating upon safe commercial operations (in the context of confusion over how commercial and developmental activities might be financially separated) voided the possibility -- as did withdrawal from the sphere of sectoral technical support.

There is no strong reason to believe that current policy would yield significant results in terms of project objectives if more resources and time were at the disposal of the organization. It may be true that the formation of a functional institution with some technical capacity, a relatively solid loan portfolio, and a reputation for honest dealing can be considered something of an accomplishment. However, the MIDAS organization is not an end, but a means. It does not currently serve as an effective means to realize the project's goals. The reasons for this are varied. Salient among them are: a contentious (and changed) definition of economic prospects in Bangladesh that deliberated leaves the potential gains from small- and micro-rural producers unrealized -- banking upon the development of new, medium-scale industries which in fact have few backward linkages and uncertain markets; a failure on the part of USAID to conceptually develop the medium-scale orientation from the terms of a theoretical abstraction to a targeted strategy expressive of Bangladesh's real possibilities; and a failure in the relation between USAID and MIDAS

manifesting itself in the fear on the part of the latter that any significant engagement in development activities would undermine its commercial viability and the continued patronage of USAID. Paradoxically, MIDAS has sought to maintain the favor of USAID by ignoring some of the latter's interests -- a strategy made possible by contradictions between, and lack of clarity about, USAID's objectives in the MIDAS project.

At this point MIDAS leaves the massive number of rural small- and micro-enterprises exactly as it found them: without technical assistance in improving production and marketing; without access to credit. Women, of course, are the group with least access to technical assistance and marketing advice -- irrespective of the potential gains. Women are not prominent among the direct beneficiaries of MIDAS's current activities, and even if a number of female entrepreneurs on MIDAS's loan books were increased it would have little to no significance for women in Bangladesh.

The vast majority of women in Bangladesh are not going to become medium-size entrepreneurs. Nor are they -- if the prospects of the sorts of industry that MIDAS is involved in supporting are in any way indicative -- likely to become employees of medium-size entrepreneurs.

The overwhelming majority of women in Bangladesh will continue to earn income from home-based micro-enterprises in a relatively narrow range of activities. Small-scale credit project performance indicates that both women and men can increase income and employment from access to relatively limited credit. It seems highly probable that properly conceived and delivered technical assistance could significantly add to possibilities of improvement -- adding to the self-sufficiency of households on the basis of investments in sectoral capacities. There is very reason to see women as participants in this improvement. Indeed, given the historical lack of access of female producers to means of developing their activities it is not inconceivable that investment in services to female-dominated sectors may yield greater returns than elsewhere.

MIDAS aims at innovation. Perhaps the greatest innovation in Bangladesh -- and the one yielding the greatest and most widespread returns -- would be to expand access at the small- and micro-level to the means of expanded production and improved commercialization. It is commonly observed in the development community that wealth in Bangladesh does not trickle down, it trickles up -- a process consistently

denying those at the bottom of the access to the resources (not least the value of their own production) necessary to expand production and break out of a cycle of dependence that perpetuates low productivity and income. The original MIDAS strategy attempted to break this cycle; the amended MIDAS withdrew from the arena -- without having tried to come to terms with the deficiencies and misconceptions in the original strategy. As an experiment it was a singularly hasty one, and reflection upon results was fleeting, if any. The amended MIDAS removes itself from the field of popular access to improved means of livelihood. Indeed, in the prevailing emphasis upon the inefficacy of investments in the poor as independent producers and upon the necessity of channelling resources to the hands of the well-off, it may be the case that the course charted for MIDAS by USAID is one that has taken it from being a potential contributor to the solution to underemployment and poverty to being part of the problem.

#### A Follow-On to MIDAS I

##### Objectives and Operations

MIDAS has done little-to-nothing to improve productivity and employment among rural women. The original project design offered some possibilities in this regard. They were never realized. There is still a role for the sort of organization that MIDAS was originally conceived as, but this need should not be a pressing concern in relation to design of MIDAS follow-on. Extending MIDAS operations must involve building upon the positive elements of what exists rather than mandating another revolution in goals.

Support for the expansion of medium-scale enterprises is, perhaps, one viable strategy for fomenting economic development in Bangladesh, although it should not be the only one. It is not the sort of experiment that will have profound impact on the goal of improving female employment and productivity, but that is not the current objective. WID input into the MIDAS follow-on must concentrate upon "designing-in" elements supportive of female employment and productivity objectives without subverting the establishment of clear overall organizational goals and operating structures.

MIDAS has accumulated some experience in originating and supervising loans to medium scale industry. This component of its activities should be maintained and even expanded. However, loans to such industries have never been

conceived as ends in themselves. The strategy should be established as the prime criterion for loan disbursement -- in addition, that is, to the requirement that loans be commercially viable. Funds supplied to MIDAS from USAID must be accompanied by the specific provision that loans to industries be granted only in the case of clear demonstration that a high percentage of productive inputs would be sourced from national suppliers. It is possible that such a requirement will occasionally involve MIDAS' participation in loans that are less commercially attractive than loans that MIDAS would be able to originate if it were subject to no restrictions as to the proper "universe of its operations. Allowance for this possibility should be made in financial agreements between MIDAS and USAID, i.e., the possible "cost" of observing development-oriented loan criteria should be factored into MIDAS finances, possibly in the form of USAID countenancing a certain rate of attrition of MIDAS' loan fund on the condition that these criteria are demonstrably being applied to MIDAS' loan operations.

Given the legitimacy of loan targeting, and demonstration of willingness on the part of USAID to countenance the costs of the same without negative implications for evaluation on MIDAS' performance and viability, it should be stipulated that a specific percentage of MIDAS' loan volume should be earmarked for medium-scale industries with backward linkages to sectors where female small-scale producers play a significant role (e.g., food processing industries with strong actual or potential backward linkages to female producers of dairy and poultry products). To avoid over-burdening of MIDAS with a unmanageable array of criteria, there should be no specific stipulation that MIDAS loans be directed to female entrepreneurs. The effect of channelling a few large loans to female entrepreneurs would have a negligible effect upon women's conditions in general. Much more important is that major sectors of female productive activity be provided with stronger forward linkages.

It is evident that the requirement to engage in loan operations observing backward-linkage and sectoral criteria will involve the development of a much stronger capacity in MIDAS to: (1) identify general areas of activity (and their potentials and constraints); and (2) identify entrepreneurs actually or potentially engaged in targeted areas. In short, MIDAS will have to engage in much more positive loan identification and origination activities. Such activities will enter as a specific operational cost of development oriented practices. In order to be sustainable within MIDAS, they will require a specifically identifiable line

within the operational budget -- appearing as a subsidy from USAID to operating expenses demonstrably linked to the requirements to satisfy USAID's loan criteria. Specialists engaged in this work will be explicitly assigned to support the loan program. Although the engagement of such staff in contract consulting work for other clients might appear as an attractive source of independent revenue for MIDAS, there exists the strong possibility that such dual responsibilities would detract from the level of services to the loan program, i.e., to the extent that the operational subsidy from USAID appeared fixed, there would be a strong temptation to divert resources to income-generating activities, even at rates below actual cost. There is some evidence that precisely this took place in MIDAS I.

In order to fulfill requirements MIDAS would have to develop a strong, medium-level cadre of analysts with experience in key industrial sectors -- receiving competitive remuneration. Given an orientation to industries with linkages to female-dominated sectors, the MIDAS technical staff should include women technical analysts at the middle-level. These should be recruited on the basis of technical/commercial experience rather than on the basis of prior involvement in female-oriented social welfare activities.

MIDAS I nominally emphasized support for medium-size industries with backward linkages, not least to small- and micro-level enterprises. The MIDAS follow-on should make such linkages a prime criterion for loans. However, MIDAS should be more active in developing these linkages and in strengthening the capacity of small-scale industries to satisfy the input requirements of medium-size operations. MIDAS should have a technical assistance capability directed towards operationalizing the backward linkages of medium-size industries financed in the loan program. These resources should be directed to smaller input suppliers to: (1) establish and disseminate quality and design requirements for entry into new markets and forward production processes; (2) improve techniques of production, processing, and marketing; (3) facilitate/coordinate vertical links between producers; and (4) refer smaller producers to potential sources of funding for improved operations. Given the special organizational problems involved in originating and administering small-scale loans, MIDAS should not involve itself directly in financing operations in this area. Rather, MIDAS should coordinate its technical activities with the operations of existing specialized loan

agencies engaged in small-scale credit and employment generation.

The development of such a capability will involve the establishment of a special internal unit separate from, but coordinated with, the medium size loan unit and the sectoral/enterprise identification unit working in association with it. The disassociation of technical assistance to upstream suppliers from loan activities, and the developmental character of its activities, will necessitate special grant funding from USAID -- either in the form of a special allocation within MIDAS' operating grant, or in the form of a long-term contractual agreement between USAID and MIDAS to furnish the service. This long-term agreement must be made subject to revocation for nondelivery of specified services. The rationale for including this component within the MIDAS structure rather than making it the subject of a different project is the importance of establishing concrete background linkages to spread the effect of investment in medium-size industries, and the importance of such concrete forward linkages for focusing technical assistance on commercially demanded activities.

It can be anticipated that such technical assistance oriented towards identified outlets for production have a greater effect on female producers than the medium-size loan program, even if this is successfully oriented to some extent towards supply sectors in which female producers mark a significant presence. Given apparently very low levels of information on technology and markets available to women, and the continuing low level of development of the technical capabilities of those organizations serving women's interests and economic needs (including those organizations that have been successful in relatively narrowly defined small-scale credit delivery activities), technical assistance of this sort could be a major asset to female producers -- if provided to women.

It is clear that expanding female production and employment through forward linkages to, inter alia, MIDAS supported medium-sized industries, will require:

- . Development of capabilities in female dominated small-scale sectors
- . Commitment to delivery information to female producers

- . Development of working relations with organizations constantly engaged in delivering information and credit to women, and capable of assisting female producers in exploiting the potential of new markets and techniques by improving access to credit and adoption of somewhat larger-scale production methodology through the formation of groups overcoming the disadvantages of micro-production

On the organizational level, this will involve expansion of capabilities development of quantifiable targets and appropriate monitoring, and extra-organizational links. There will be a requirement for the acquisition of personnel familiar with both technical issues in female-sector production, and with the social issues involved in women's response to economic opportunities and constraints. Again, this will involve hiring female staff at the middle organizational level. The general tendency for service to female producers to receive a low priority will require (as a counterweight) detailed recordkeeping of time devoted to assistance to female producers even within sectors dominated by women as well as the establishment of target contact figures. Ultimately, however, adequate attention to female producers will be secured less by conformity to quantifiable targets than by actual organizational commitment to the area -- which suggests the need for representation of female producers within internal decision-making processes. It is not likely that the representative small-scale female producers will be readily available. However, it is suggested the unit providing technical assistance to small-scale and male producers should be governed by an executive committee in which representatives of organizations that have a significant presence in women's credit and employment generation activities (e.g., BRAC, Grameen Bank, Women's Cooperatives) will account for no less than one-third of total membership. This should serve a double function:

- . It will guarantee that female small-scale producer requirements are constantly present on the policy agenda, and are not relegated to the status of a check-off item
- . It will facilitate links between technical assistance and the credit/extension activities of organizations with the best developed direct connections with female producers

(i.e., it will help direct activities to areas with practical possibilities of assistance from other agencies)

### Targeting and Monitoring

The surest guarantee that project objectives will be met are:

- . An adequate relation between ends and means provided
- . Allocation of means in such a way that organizational interests do not contradict goal attainment
- . A full understanding of, and commitment to, project objectives on the part of management

While appropriate design can assist in reducing difficulties in these areas, well-run, effective projects do not spring fully-formed from the project drawing board. Particularly in relatively innovative activities, it is unlikely that project design will be able to take into account all practical issues affecting success. In effect, there should be an effective information feed-back mechanism indicating practical problem areas in order that ongoing modifications can be made to design. This involves clear stipulation of project goals, stipulation of quantifiable targets for activities, and a monitoring and reporting system capable of rendering timely and accurate information on progress with respect to output goals. In fact, these have a double function: on the one hand, they flesh-out often rather vague objectives; on the other, they indicate practical priorities. Experience suggests that quantifiable output goals and rigorous monitoring of performance are particularly important in the area of provision of support to women. Too often female-related objectives are stated in the vaguest possible way, thereby creating the possibility of drift away from services to women corresponding to local (and international) gender biases. It has been suggested that one safeguard is insistence upon representation of female producers within the directive mechanism of the MIDAS follow-on -- as well as the inclusion of female technical specialists among the middle-level cadre of the project. Nonetheless, it will also be absolutely necessary to stipulate initial quantified targets for the distribution of

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MIDAS resources to female small-scale producers. It is quite predictable that these targets would be modified in the course of the project, but this must be based upon monitoring of effective performance, clear identification of issues affecting activities, and explicit mutual agreement between MIDAS and its source of funding (USAID).

As outlined in this Appendix, the MIDAS follow-on would involve three distinct but complementary activities:

- . Identification of economic sectors with strong backward linkages (involving exploratory work financed by USAID on a non-recoverable basis), and identification and preparation of loan projects satisfying the backward linkage criterion (this should be performed by personnel engaged in sectoral research, thereby establishing a direct link between levels of activity. Loan identification and preparation, however, should be tracked for time expended, and billed to the loan recipient).
- . WID-oriented targeting would involve stipulation that, perhaps, 25 percent of the annual number of planned sectoral and sub-sectoral studies should involve areas of production procuring a significant amount of their raw materials from sectors in which female producers have a major presence. Records should be maintained by a monitoring specialist within MIDAS for presentation to the MIDAS Board and USAID on a semi-annual basis. An equal percentage of total loans originated should be targeted for such areas of production -- with the same reporting requirements.
- . Provision of loans for industries satisfying backward linkage criteria (including the criterion of gender sourcing). The actual distribution of loans will correspond to the results of activity (a) above. However, the loan administration unit will have the responsibility for supervision of a loanee reporting requirement relative to actual sourcing of input by gender of management and operation of major suppliers. Again, this should be subject to semi-annual reporting

and communicated to the loan identification/sectoral study unit to assist the latter in reaching its own gender specific targets. The loan administration unit would also report on any specific difficulties confronted by industries with strong backwards linkages to female suppliers with regard to qualification for, and repayment of, loans. The loan unit will be responsible for preparing a report on a semi-annual basis identifying difficulties (as loanees) faced by such producers -- with the purpose of suggesting to the MIDAS Board such modifications in loan criteria as might be necessary to facilitate this group's access to MIDAS funding.

Technical assistance to small-scale up-stream producers feeding into medium-scale production. This should serve the markets represented by medium-scale producers either financed by MIDAS or identified as growth areas that would substantially benefit from improvement in the quality and volume of raw material supplies. Assistance should address specific demand and not fall outside established markets or markets which are in the process of expanding. It should develop concrete recommendations and work in collaboration with financial/extension agencies in direct contact with small-scale producers. To ensure support for female small-scale producers, perhaps 30-40 percent of activity time should be devoted to the development of processes and marketing relations which are both relevant to female areas of activity and accessible to female producers. Activities should be recorded on a time-expenditure basis with specific designation of direct and indirect beneficiaries. Given inevitable ambiguities about the relevance and "directedness" of such technical assistance activities, activities should be reviewed and evaluated by an executive committee (technical assistance) with strong representation of female service organization interests (see above), which will have the responsibility of providing a rough evaluation of activities to female producers from the perspectives of relevance and accessibility. Given special

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problems in introducing relevant and accessible technical assistance to women, there should be a special system of incentives rewarding work leading to adoption of demonstrably superior production and commercialization techniques by female producers.

Monitoring of project activities should be conducted on an ongoing basis by a specialized monitoring officer answerable to the MIDAS Board. Semi-annual reports on progress should be submitted to USAID. Rational development of MIDAS' activities will not be helped by requiring USAID approval of individual MIDAS activities at any level. However, formal, periodic reporting of achievements and problems will facilitate the development of corrective measures in areas of difficulty. Experience in MIDAS I suggests that changes in USAID's requirements should become operational only after formal discussion and agreement with the MIDAS Board, and should be embodied in detailed documentary form made available to all MIDAS staff and directive organs.

### Conclusions

MIDAS is not a project that takes improvement of the income and employment of female producers as its main objective. However, it is not inconceivable that the interests of the medium-scale activities that MIDAS will serve, and those of small-scale female producers, could be jointly served within an appropriately designed and targeted follow-on. Women play a significant role in the Bangladesh economy, and they have a marked presence in small- and micro-enterprises. Strengthening the productivity of such female producers could have a significant impact upon the success and spread of the sort of medium-size enterprises that MIDAS seeks to promote -- particularly in the case of support directed to those areas of production with actual links to such enterprises. No chain of production is stronger than its weakest link, and failure to fortify upstream producers threatens to undermine the viability of medium-size enterprises or reduce their overall impact by forcing them towards external sources of supply.

Assistance to small-scale, upstream producers should be considered an integral, supportive element of medium-size business development strategy. In the case of small-scale female producers this requires special targeting and

monitoring mechanisms. The justification for this lies not in the special "inabilities" of women, but the common inability of those who implement development projects to grasp women's economic significance (actual and potential) with regard to attainment of project objectives. It is suggested that USAID take steps towards a more rational utilization of national economic resources by insisting upon specific and verifiable levels of support to sectors employing women -- not as part of a social welfare program, but as a normal, economically justifiable, component of an economic development activity oriented towards formation of commercially viable enterprises.