

PDCBA 729

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
Dhaka, Bangladesh

File
388-0067
Evaluation

September 25, 1988

MEMORANDUM

TO: Colette Chabbott, PRO
FROM: *[Signature]* Donald Reese, PDE
SUBJECT: Evaluation Summary: Enterprise Policy Reform Project

The evaluation summary was reviewed and approved on the basis of a draft report provided by the consultants. However, it was decided not to send the summary to Washington until the final report had been received. We just received the final report which is Attachment II to the summary.

Please send the attached summary to Washington.

Attachment: a/s

Drafted: PDE: DReese: 9/25/88
Doc. 0252E

A.I.D. EVALUATION SUMMARY PART I

(BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS)

IDENTIFICATION DATA

A. REPORTING A.I.D. UNIT: <u>USAID/Bangladesh</u> <small>(Mission or AID/W Office)</small> (ES# _____)	B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN? yes <input checked="" type="checkbox"/> slipped <input type="checkbox"/> ad hoc <input type="checkbox"/> Eval. Plan Submission Date: FY <u>88</u> Q <u>II</u>	C. EVALUATION TIMING Interim <input checked="" type="checkbox"/> final <input type="checkbox"/> ex post <input type="checkbox"/> other <input type="checkbox"/>			
D. ACTIVITY OR ACTIVITIES EVALUATED (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report)					
Project #	Project/Program Title <small>(or title & date of evaluation report)</small>	First PROAG or equivalent <small>(FY)</small>	Most recent PACD <small>(mo/yr)</small>	Planned LOP Cost <small>('000)</small>	Amount Obligated to Date <small>('000)</small>
388-0067	Enterprise Policy Reform Project	85	6/90	3,000	3,000

ACTIONS

E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR <p style="text-align: center;">Action(s) Required</p> <p>See Attachments -- "Summary of Recommendations and Required Actions," Report by Robert Bush and Jan van der Veen.</p>	Name of officer responsible for Action	Date Action to be Completed
(Attach extra sheet if necessary)		

APPROVALS

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION: mo <u>3</u> day <u>22</u> yr <u>88</u>				
G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS:				
	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Signature Typed Name	 C.S. Briam	 A.M.A. Rahim	 C. Chabbott	 P. Boughton
	Date: <u>6/20/88</u>	Date: _____	Date: <u>7/1/88</u>	Date: <u>7/4/88</u>

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H. EVALUATION ABSTRACT (do not exceed the space provided)

See ATTACHMENT III.

"Evaluation of Bangladesh Enterprise Policy Reform Project (388-0067)"

Despite some delays in implementation, the Economic Census (Phase I) clearly will achieve its major purpose: to serve as a sampling frame for all economic units in Bangladesh. The Economic Policy Component (Phase II) having just begun, it is premature to offer judgements on its effectiveness. The relationship between Phases I and II has been the subject of considerable dispute. One purpose of the joint interim evaluation is to help improve that relationship. The evaluation report offers several recommendations which are imbedded in the text of the summary and recommendations section.

ABSTRACT

I. EVALUATION COSTS

1. Evaluation Team Name	Affiliation	Contract Number ^{QB} TDY Person Days	Contract Cost ^{QB} TDY Cost (US\$)	Source of Funds
Robert Bush	U.S. Bureau of the Census	3/12/88-3/23/88	\$ 5,000 (estimate)	PASA IBD-0067-P-CA-5087-01
Jan van der Veen	AID/PPC/PDPR/RP	3/28/88-3/28/88	\$ 4,000 (budgeted)	Mission OE funds

2. Mission/Office Professional Staff Person-Days (estimate) 7

3. Borrower/Grantee Professional Staff Person-Days (estimate) 1

COSTS

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A.I.D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS (Try not to exceed the 3 pages provided)

Address the following items:

- Purpose of activity(ies) evaluated
- Purpose of evaluation and Methodology used
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office: USAID/Bangladesh

Date this summary prepared: June 17, 1988

Title and Date of Full Evaluation Report: Enterprise Policy Reform Project Evaluation, March 1988

See ATTACHMENT II

"Evaluation of Bangladesh Enterprise Policy Reform Project (388-0067)"

SUMMARY

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K. ATTACHMENTS (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier)

ATTACHMENTS

- ATTACHMENT I - Summary of Recommendations and Required Actions, Draft Report by Robert Bush
- ATTACHMENT II - Summary of Recommendations and Required Actions, Draft Report by Jan van der Veen
- ATTACHMENT III - STATE 196437, dated June 17, 1988: "Evaluation of Bangladesh Enterprise Policy Reform Project (388-0067)"
- ATTACHMENT IV - Final Evaluation Report - Enterprise Policy Reform Project

L. COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRANTEE

Mission comments: The evaluation team fully met the demands of the scope of work. The evaluators were qualified, knowledgeable and objective. The evaluation team's work greatly helped the Mission and Bangladesh Bureau of Statistics in terms of:

- Clarifying the respective roles of the Enterprise Policy Reform (EPR) Project and the related Employment and Enterprise Policy Analysis (EEPA) activity.
- Improving management of EPR and EEPA by providing a better understanding of the relation between the two activities.
- Determining what data are to be provided under the EPR according to the original project design, and devising a realistic timetable for provision of that data.
- Proposing solutions to technical and data processing issues.

MISSION COMMENTS ON FULL REPORT

SUMMARY OF RECOMMENDATIONS AND REQUIRED ACTIONS
Draft Report by Robert Bush--March 1988

Assessment of
Enterprise Policy Reform Project (Economic Census) and
Linkages with Employment and Enterprise Policy Analysis (EEPA):

Below is a summary of recommendations and actions based on the draft report by Robert Bush. The "Action" sections list:

- Whether a particular recommendation has been accepted as of May 5, 1988.
- The responsible agency or agencies.
- The date action is to be completed.

1. Issue: Coverage Control (Census Processing).

Recommendation: Given slow production rates, production should be improved and/or staff increased. BBS staff may be transferred from Optical Mark Reader (OMR) editing to this activity as the new OMRs come on line.

Action: Agreed. BBS. Nov. 30, 1988.

2. Issue: OMR Editing (Census Processing).

Recommendation: Given tight staff resources, use of sampling techniques to speed up OMR editing should be explored. BBS should determine if it is feasible to check only a sample of the forms in a book initially, and undertake further checking only if problems are found.

Action: Resolved. BBS. Aug. 15, 1988.
Due to use of overtime, OMR editing is no longer a problem and should be completed by Aug. 15, 1988.

3. Issue: OMR Splitting (Census Processing).

Recommendation: BBS staff will have to be added to split forms for OMR processing if this work is to keep pace with the new OMR machines.

Action: Agreed. BBS. Dec. 15, 1988.

4. Issue: OMR Reading (Census Processing).

Recommendation: Purchase of a third OMR should be considered as insurance in both the short- and long-term.

Action: Decision pending. BBS/USAID. Jan. 30, 1989.
BBS and USAID will await delivery and installation of two new OMRs before determining whether to procure a third OMR. Before a decision is made, USAID and the BBS must examine the trade-off between obtaining a third OMR versus procuring cartographic equipment.

5. Issue: First Computer Edit (Census Processing).

Recommendation: The staff of 4-5 which carries out this process will have to be expanded to keep pace with the work once the new OMRs are operating.

Action: Agreed. BBS. Feb. 15, 1989 (assuming two new OMRs arrive and are working by July 1, 1988).

6. Issue: Second Computer Edit (Census Processing).

Recommendation: This work will initially focus on larger firms with 10 or more employees to maximize the impact of the work while holding down resource costs. If this approach still demands too much staff, the cutoff for larger firms may have to be raised to reduce the effort required.

Action: Agreed. BBS. March 31, 1989.

7. Issue: Survey of Household and Cottage Industries (SHHCI).

Recommendation:

- The SHHCI should not be combined with the Annual Economic Survey (AES). An appropriate sampling strategy for the SHHI would be very different than that envisioned for the AES. Making a single survey perform both tasks would be inefficient, and the complexity of processing the data would be substantially increased.
- The fieldwork for the SHHCI should possibly be carried out over a one-year period rather than one month. Interviewing should ideally be spaced evenly throughout the year, or perhaps done every second or third month.

Action: Agreed. BBS. Dec. 30, 1988.
BBS has also decided to begin the SHHCI at the same time as the AES, although the two surveys will not be combined.

8. Issue: Advanced Annual Economic Survey (based on 5% Census sample).

Recommendation: Data users and producers should reach a decision on whether to field the advanced AES based on an objective assessment of costs and potential benefits.

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Conducting this survey would stretch scarce management resources, and the quality of Census processing would likely suffer. Implementing the advanced AES is worth this cost only if the information will be used.

Action: Resolved. BBS/Planning Commission.
The BBS and Planning Commission have agreed not to conduct an advanced AES.

9. Issue: AES Questionnaire.

Recommendation:

- The AES questionnaire should not include the same information as the Census of Manufacturing Industries (CMI) questionnaire. The CMI questionnaire is overly complex and is currently being revised to raise response rates and speed processing. The economic units covered by the AES will be even less able to provide information on their activities which is asked of larger firms covered by the CMI.
- Information on the statutory and actual incidence of actual policies is not possible within the framework of the AES. This type of information is better collected in more in-depth interviews.
- Alternative approaches to obtaining information on construction and transport sectors should be examined, rather than attempting to include this information in the AES. One approach for obtaining partial transportation data would be to use bus and truck registrations to locate owners. The AES sample design is not appropriate for collecting data from households.
(Measuring construction and transport activities implies the need for household data because these functions are handled primarily by private individuals in Bangladesh. The AES will include only construction and transport data from permanent establishments, a small proportion of the total activity in these sectors.)
- Other issues of AES questionnaire content (such as suggested categories of labor) should be ironed out between data users and producers in an environment of mutual respect for each other's needs and expertise. The BBS has both the expertise and experience in judging what information respondents can and can not provide in the framework of the AES.

Action: Agreed. BBS/Planning Commission. Dec. 30, 1988.
BBS, the Planning Commission and other data users will discuss the content of the AES questionnaire. Given BBS expertise and experience, the BBS will make the ultimate decision regarding questionnaire content.

10. Issue: Data User and Producer Roles.

Recommendation: The larger issue of the respective roles of data users and producers must be understood and respected if Phases I and II are to complement one another and achieve their goals. In general, the data user must define his needs, while the data producer has the knowledge and experience to define the appropriate strategies for meeting those needs. Most important is a continuing awareness that no single data collection strategy or survey can meet all user needs.

Action: Agreed. BBS/Planning Commission/other data users. Ongoing.

11. Issue: Phase I Outputs.

Recommendation: The expected timetable for activities carried out under the Enterprise Policy Reform project is provided in the evaluation report. Data requests that deviate from this timetable should be resolved through established mechanisms. Substantial alteration of data outputs listed in the timetable would involve project re-design.

Action: Agreed. BBS/Planning Commission/USAID. Ongoing.

12. Issue: National Accounts Support.

Recommendation: The BBS has identified National Accounts as an area of priority concern and has identified possible means of assistance for improving current methodologies. One of these means involves an executive level study visit to the U.S.

Action: Under consideration. BBS/USAID. Oct. 30, 1988. The current project training program has incorporated a one-month U.S. study tour for the BBS Director General to explore National Account issues, as well as data user/supplier relations from the U.S. perspective.

(Issues 13 - 15 below involving the CMI (Census of Manufacturing Industries) are outside the purview of the Enterprise Policy Reform Project. However, since they affect economic data collecting in Bangladesh, they were included in the evaluation and should be brought to the attention of the BBS.)

13 Issue: Fielding of the CMI.

Recommendation: Because the Economic Census will not be completely processed by October, when CMI forms are normally mailed, the BBS should consider mailing out forms on a flow basis, beginning in September. Alternatively, the BBS should examine whether it makes sense to field the CMI this year, given the existing coverage problems.

14. Issue: CMI Response Problems.

Recommendation: Low CMI response rates must be dealt with. Where response problems exist (such as in the undervaluation of capital stock), alternative approaches to obtaining important information should be explored and field-tested before the new CMI is fielded. The BBS has taken some steps to improve response rates, such as simplifying the questionnaire, looking into the possibility of using pre-coded range responses, and examining mail-out and follow-up procedures. The BBS may need to take further steps as well.

15. Issue: CMI Processing.

Recommendation: Processing speed needs to be increased. Given the substantial improvements envisioned for the CMI, BBS should concentrate on processing these new data as quickly as possible and not wait for the backlog to be processed. One strategy would be to apply additional resources, with one processing group focusing on the new work, and a second smaller group cleaning up the backlog. The BBS could also consider the option of not processing back data.

SUMMARY OF RECOMMENDATIONS AND REQUIRED ACTIONSDRAFT REPORT BY JAN VAN DER VEEN - MARCH 1988

Below is a summary of recommendations and actions based on the draft report by Jan van der Veen. The "ACTION" sections list:

- Whether a particular recommendation has been accepted.
- The responsible agency or agencies.
- The date action is to be completed.

1. Issue: Work Plan Review USAID/HIID/S&T/BDG.
Recommendation: Conduct an in-house review of the work plan, followed by full review in Dhaka with representatives from HIID, S&T, BDG and USAID.
Action:
 1. Arrange inhouse meeting in May 1988 - PROG/ECON.
 2. Arrange BDG review in early July 1988 - PC.
2. Issue: Project Location.
Recommendation: Project needs to be transferred to the Planning Commission - Done.
Action: Resolved. In May 1988 Project was transferred to the PC.
Amend PIL accordingly - Done.
3. Issue: Project Steering Committee.
Recommendation: Creation of project steering committee.
Action: Remains to be determined whether it is desirable to form a steering committee or not. USAID/PC July '88.
4. Issue: Use of CMI Data.
Recommendation: Conduct field test of reliability and coverage of the CMI data base.
Action: Agreed, provided BBS releases names and addresses of the establishments covered under CMI. PC/BBS. Fall '88.

5. Issue: Use of proposed 5% AES Sample Frame.
Recommendation: Limited usefulness of advanced AES on the basis of a 5% census sample.
Action: Agreed.
6. Issues: Usefulness of combining the AES and the SHHCI.
Recommendation: The Report recommends that they not be combined.
Action: Agreed.
7. Issue: Extension of Phase II.
Recommendation: Extend the PACD for the EEPA project by 1 year and consider establishing a long-term (2 to 2 1/2 year) retainer contract.
Action:
1. Agreed to extend the PACD by one additional year.
2. However, the retainer contract should be further discussed. USAID July '89.
8. Issue: Advisory role of the Phase II advisor to the Planning Commission.
Recommendation: The advisor should devote the bulk of his energy and research resources to field based surveys and other studies.
Action: Agreed.
Reflected in the revised Work Plan.
9. Issue: Ad-hoc Data-Users' Group.
Recommendation:
1. PC to formally constitute the Data-Users' Group.
2. Group to include an active member of the PC and select its own chair/spokesperson.
3. Inappropriateness of an expatriate consultant to serve as chair/spokesperson.
Action: PC to be informally told about the above recommendations. USAID, May '88.

10. Issue: Survey: Responsiveness of small enterprises to policy changes.
- Recommendation: Phase II advisor to conduct his own survey.
- Action: Agreed.
USAID to amend contract to fund the additional survey work July '88.
11. Issue: Research Sub-Projects.
- Recommendation: The Work Plan revision should take into account technical recommendations made by HIID, Evaluation Report and by the Mission. Sub-projects and budgets should be restructured accordingly.
- Action: Agreed.
Revised Work Plan submitted May '88.

RA/mm
PC-JAN

BANGLADESH:

ENTERPRISE POLICY REFORM PROJECT
EMPLOYMENT/SMALL ENTERPRISE POLICY PLANNING SUBPROJECT

JOINT INTERIM EVALUATION

by

Bob Bush
US Bureau of the Census

Jan van der Veen
US Agency for International Development

US Agency for International Development

July 1988

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PREFACE

The evaluation team is grateful to the many people who freely, openly and sometimes passionately gave their time and their knowledge about the past, current, and proposed activities discussed in this report. The team hopes that the results of this report will be deemed useful in furthering the joint objectives of the Bangladesh Bureau of Statistics, the Bangladesh Planning Commission and USAID/Dhaka, and, more generally, of the Governments of Bangladesh and the United States.

The evaluation team is uncomfortable with the use of the word "evaluation" to describe all of the tasks we have tried to perform. We make clear our understanding of the tasks we were assigned in the Introduction of this report.

This report reflects our best judgments given the information at hand in March, 1988. We left draft versions of sections of this report with USAID/Dhaka upon our departure from Bangladesh at that time. Although we have added some new material and modified some of our views since then, this final report is faithful to the drafts we left behind. We apologize for the four months delay between March and July, the date of this final report.

SUMMARY AND RECOMMENDATIONS

This mid-term joint interim evaluation reviews the first two of three phases of a complex, policy-oriented set of activities designed to promote labor-intensive, typically small, non-farm enterprises (SMEs) in Bangladesh. In Phase I, USAID/Dhaka agreed to support the efforts of the Bangladesh Bureau of Statistics (BBS) to execute and analyze an economic census, to institutionalize an Annual Economic Survey (AES) and to execute a Survey of Household and Cottage Industries (SHHCI). Phase I, which started in September 1985, provides, inter alia, a long-term resident statistical advisor from the U.S. Bureau of the Census. In Phase II, USAID/Dhaka agreed to support the efforts of the Planning Commission to conduct macroeconomic, sectoral, and other policy studies on SMEs. Phase II, which started in July 1987, provides, inter alia, a long-term resident economic advisor from the Harvard Institute for International Development (HIID). For Phase III, USAID/Dhaka intended to provide resources to facilitate the policy dialogue process between the U.S. Government and the Government of Bangladesh on issues relating to the development of SMEs. Phase III has not yet been designed.

The relationship between Phases I and II has been the subject of considerable dispute. The dispute was caused primarily by differences in the expectations of persons involved in Phase I compared to the expectations of persons involved in Phase II. In the course of this mid-term evaluation, the various participants seem to be moving toward a common view of the intended relationship between Phases I and II. That common view consists of four key elements:

- The results of the Phase I economic census will become available around January, 1989; those results will be broadly descriptive and of limited value for analytical purposes;
- A sampling frame of economic units, developed from the full economic census, also will be available around January, 1989;
- The results of the AES will be available on a monthly flow basis beginning around December, 1989; the results of the SHHCI will be available around December, 1991; and
- The economic advisor will have to generate much of his own information through qualitative and quantitative field-based research studies.

The participants should continue working hard to reduce further the differences between them.

Phase I: Accomplishments and Current Status. Despite some delays, the economic census clearly will achieve its major purpose: to serve as a sampling frame for economic units of all kinds and all sizes throughout Bangladesh. The census also will contribute substantially to an updated and improved list of Census of Manufacturing Industries (CMI) firms. At present, the CMI covers less than 25 percent of the relevant firms (essentially firms with 10 or more employees).

The coverage of the census, as revealed in the preliminary analysis of the Post Enumeration Check, was a bit disappointing: 91 percent for households and 85.1 percent for establishments. But delays in the enumeration of the census and in the procurement of the optical mark readers (OMRs) are more troubling.

The census itself was delayed from the scheduled March 1986 enumeration date to the actual enumeration in December 1986. The causes of the delay were largely outside the control of those charged with implementing the project. The delivery of some enumerator supplies was delayed until May. In addition, the Bangladesh Government postponed the enumeration due to (a) presidential elections, (b) a concern with the effects of monsoon weather, and (c) an unexpected "review" of its participation in the project.

Census data processing is being substantially delayed by problems in the procurement of the two optical mark readers. There were some delays in the submission of the procurement documents; however, the real problems arose in the execution of those documents. It is estimated that over 18 months will have elapsed between the submission of the PIO/C and the installation of the OMRs in the BBS. It is not likely that the new OMRs will be in place and functioning before the first of August, 1988. Assuming maximum reasonable operation (three shifts or 15 hours per day, 6 days per week) and assuming that no major problems arise (an heroic assumption), data processing for the census will not be completed until late January, 1989.

We recommend the procurement of a third OMR as short-term insurance in case one of the two OMRs already ordered breaks down. The addition of a third OMR also will prove beneficial in the long-run.

Phase I: Future Activities. Given the delays just discussed, the annual economic survey based on a sample drawn from the full census could be fielded no earlier than April, 1989. That April date could slip rapidly if there are any further problems relating to census data processing.

CMI data are collected on a fiscal year (July 1 to June 30) basis. Since it is desirable that the CMI and the AES data collection activities have common reporting periods, we recommend that the AES (based on a sample drawn from the full census) start on July 1, 1989.

There has been some discussion of modifying the sample design of the proposed AES to capture the economic activities of households. The AES originally was intended to survey permanent establishments not otherwise covered by the CMI. Household activities originally were to have been surveyed in the Survey of Household and Cottage Industries. Modifying the sample design of the AES to include coverage of household activities would lower the precision of the estimates for both households and establishments and would substantially increase survey resource requirements. We recommend that the sample design of the AES not be so modified and that Phase I stick to its original sample design concepts.

There also has been some discussion of moving the SHHCI forward to coincide with the start of the AES. Getting a new survey off the ground is a strain on any statistical institution. The BBS plans to launch the AES and the revised CMI at the start of FY 89. An additional survey would compound the burden on already thin management and staff resources. Extending the length of the SHHCI from one month to twelve months (as we recommend in the following paragraph) would further strain those resources. We recommend that the SHHCI not be moved forward and that Phase I stick to its original SHHCI start date.

The SHHCI originally was scheduled for January, 1990. It was originally intended to be a one-month survey. We are concerned about seasonality and about the ability of respondents to provide accurate information for a one-year reference period. Ideally, interviews would be evenly spaced over the year. Suitably modifying the survey would require additional field staff and would delay the availability of survey information by a little less than a year. In light of these and related considerations, we recommend that USAID/Dhaka and the BBS reexamine the approach to the SHHCI originally identified in the Phase I project documents.

The CMI is a vital companion of the AES. Eventually, the Phase I census results will have a marked impact on the very low coverage rates of the CMI. At present, the BBS plans to distribute to respondents the FY 89 CMI questionnaires in October, before the census results are completely processed. Accordingly, the FY 89 CMI would not benefit from the existence of the new (census-based) and dramatically expanded list of CMI industries. We recommend that the BBS explore alternatives to its normal CMI data-gathering procedures for FY 89. One alternative might be to mail the questionnaires on a flow basis, rather than in a batch all at once, beginning in October, 1988. The BBS is discussing or is already addressing several other problems with the CMI. Comments on these activities are beyond the scope of this report.

Phase I: The Proposed Advanced AES. In trying to be responsive to requests by the Planning Commission to produce useful data as quickly as possible, the BBS opened discussion on an "advanced AES." The proposed advanced AES would be a survey of permanent establishments not otherwise covered by the CMI based on a sample itself drawn from the existing 5 percent preliminary sample of the economic census. While not providing estimates at the same level of statistical reliability as the census-based AES, the advanced AES would be a statistically valid survey yielding results of measurable validity. The proposed advanced AES is not without cost. That cost is best measured in terms of the opportunity cost of alternate uses of existing BBS resources. Implementing the advanced AES may be judged worth this cost only if the resultant information will be used. Such a judgment can only be made jointly by the users and the producers of the data. We recommend that the data users and the data producers jointly reach such a judgment based on an objective assessment of the costs and of the potential benefits involved. We also note that the Planning Commission, the primary user, already has forcefully expressed its views. According to the Planning Commission, the data generated by the advanced AES will not be useful to, nor used by, the Planning Commission. If these views prevail, the BBS should not implement an advanced AES.

Phase I: Additional Assistance Recommended. Short-term technical assistance in four areas is rather thin. We recommend that USAID/Dnaka consider providing additional resources to Phase I to fund specialized technical assistance in four areas. These are:

-- mathematical statistics, to help develop the preliminary sample design for the AES;

- mathematical statistics, to explore in-depth various sampling alternatives for the CMI (this technical assistance would be needed if the BBS decides to use sampling techniques to lower the CMI workload by covering medium-sized firms on a sample basis and to increase the coverage rate by using the AES to capture firms missing from the original CMI list);
- mathematical statistics, to help develop the estimation procedures for the SHHCI; and
- cartography, to help develop a microcomputer-based cartographic system for the AES.

In addition, Secretary Rahim of the BBS has initiated discussions on the needs of the BBS in the area of national accounts. He has identified three complementary strategies with the goal of improving the current program in the BBS. He has asked if USAID/Dhaka would be interested in supporting such a goal. This support, if provided, would fall outside the scope of Phase I.

Phase II: Accomplishments and Current Status. The economic advisor arrived in Bangladesh on August 1, 1987. Unfortunately, the Bangladesh Government was able to provide only minimal (and unofficial) logistic support. Under the circumstances, the Phase II economic advisor has accomplished a great deal in a very short time. He serves on a number of committees and groups, provides technical advice on the preparation of the Fourth Five-Year Plan (4th 5YP) and on the social accounting matrix (SAM) and the computable general equilibrium (CGE) model that lie at the core of that plan. He also has prepared a detailed work plan describing his Phase II project research and gives bi-weekly seminars on the results of that research.

The limited amount of work that the economic advisor is doing in support of the 4th 5YP is justified under his contract as helping build the analytical capacity of the Planning Commission. But the significantly larger amount of time and effort that the economic advisor might usefully devote to this work were not anticipated in the design stage of the Phase II activity. USAID/Dhaka may wish to take advantage of the niche that the economic advisor has carved for himself in the Planning Commission. We recommend that the USAID explore whether it wishes to direct a larger portion of the economic advisor's energy to the development of SAMs, CGEs, and other sophisticated models that provide the foundations of the planning process in Bangladesh. We believe that, should any

such increase in USAID support be forthcoming, it remain secondary to the original conception articulated in the Phase II statement of work and should emphasize a special policy concern for employment in SMEs.

Phase II: Future Activities. The economic advisor's work plan incorporates some of the false assumptions regarding the availability of data from Phase I activities and may have to be redrafted. The work plan does not clearly state whether some of the data needs identified in the workplan are to be filled by surveys and studies conducted as part of Phase II activities. These and other topics must be discussed in a close review of that work plan. The review must be thorough and comprehensive. We recommend that USAID/Dhaka conduct a preliminary in-house (to include the economic advisor) review of the work plan, followed by a full review. The full review should be conducted by representatives of the USAID, HIID, AID/W's S&T Bureau, BBS, and the Planning Commission. The Phase I statistical advisor should be present during the full review as well. A concensus on the work plan is essential to the smooth progress of both Phases I and II.

The Phase II activity still does not have an institutional "home". Accordingly, the economic advisor does not have legal standing as an advisor to the Planning Commission. His work is severely constrained. We recommend that USAID/Dhaka press the Government of Bangladesh to identify Phase II as an activity of the Planning Commission as soon as possible.

The project steering committee for the Phase II activity has not yet been created. This committee was designed as the key conduit through which recommendations pass to policy makers in the Bangladesh Government. The existence of this committee takes on even greater significance in light of the negotiations between the government and the World Bank on how best to strengthen the Employment Policy Unit of the Planning Commission. We recommend that USAID/Dhaka initiate discussions on the creation of the project steering committee immediately after the Bangladesh Government has formalized the placement of the Phase II activity in the Planning Commission.

The economic advisor is relying heavily on CMI data. These data are notoriously weak, and are widely thought to be biased in favor of larger firms within the CMI category. The budget for the economic advisor contains a line item of over \$200,000 much of which was intended to support data collection and analysis and descriptive studies on various aspects of SMEs and microenterprises. The project designers probably

underestimated the resources needed to generate and analyze survey data, collect other qualitative and quantitative information on economic issues, and generally meet the research needs of the Phase II activities. In addition, since the economic advisor has used these funds primarily not to generate new data but to analyze data from existing sources (especially the CMI), supplemental funds are required. We recommend that USAID/Dhaka consider providing additional resources to Phase II to fund data collection and analysis. These resources may help the Planning Commission mount data collection exercises of its own. Details on subject matter and on levels of additional support may be determined during the full work plan review (for example, it appears that additional resources will need to be devoted to the generation of data to be used in the first three research subprojects identified in the work plan).

Subproject 6 (on the analysis of subsectors) of the work plan suggests that the economic advisor has adopted a long-term, data-intensive approach to identifying potential policy reform measures. A less data-intensive approach may be warranted. We believe that more immediate policy advice should be forthcoming. We recommend that the economic advisor emphasize research methods that will enable him to generate useful policy recommendations on SMEs in the near-term. At an appropriate time in the future (perhaps early in 1990), USAID/Dhaka may wish to explore the possibility of an extended, intermittent contract to conduct a data-intensive analysis of subsectors along the lines proposed by the economic advisor in subproject 6 of his work plan.

1. Introduction.

This joint interim evaluation reviews the first two of three phases of a complex policy-oriented set of development assistance activities designed to promote labor-intensive, typically small, non-farm enterprises (SMEs) in Bangladesh. The first phase, implemented by the Bangladesh Bureau of Statistics (BBS), was financed through the Enterprise Policy Reform Project. It provided for the execution and analysis of an economic census (as well as information on population, housing, and disabled persons), the institutionalization of an Annual Economic Survey (AES), and the execution of a Survey of Household and Cottage Industries (SHHCI). The second phase, implemented by the Planning Commission, was financed through a subproject of the Technical Resources Project that, in turn, funded a "buy-in" to the centrally-funded Employment and Enterprise Policy Analysis (EPA) Project. This phase was to provide a resident economic advisor and other technical assistance to conduct macroeconomic, sectoral, and other studies leading to policy recommendations designed to stimulate small- and medium-scale enterprises. The third phase, intended to build on Phases I and II, was to provide resources to facilitate the dialogue process between the U.S. Government and the Government of Bangladesh on issues relating to the development of small- and medium-scale enterprises. The third phase has not yet been designed.

This report should be considered informal because of the past involvement of the team members in Phase I and the fact that it is far too early (less than eight months into the activity) to conduct an "evaluation" of Phase II. This report serves a different purpose: to identify and help resolve a number of problems that (1) may inhibit the successful completion of Phase II activities, (2) have strained the professional relationship between the Phase I and Phase II advisors, and (3) have contributed to increased tensions in the relationship between the PRO and PDE offices in USAID/Dhaka. It is imperative that the miscommunication and misunderstandings that now characterize these relationships not adversely affect the cooperative relationship between the BBS and the Planning Commission.

2. Overview and Background.

The intended relationship between Phase I and Phase II, as originally conceived (see Table: Chronology, page 5, below) is best described in terms of four key elements:

-- The preliminary and final results of the Economic Census were to be made available to the Phase II economic advisor. Those results would be broadly descriptive and of limited value for analytical purposes. CURRENT STATUS: Due in part to the OMR procurement problem, those results will be available approximately 18 months following the arrival of the Phase II economic advisor in Bangladesh. This is a delay of about one year. Final results will be published on a flow basis from June 1989 to April 1990.

-- A sample frame of economic units was to be developed from the Economic Census information and made available to the Phase II economic advisor. According to the timetable set out in the project paper, this sampling frame would have been available approximately 8 months after his arrival. CURRENT STATUS: We believe that this sample frame will be available approximately 20 months after the date the Phase II economic advisor arrived in Bangladesh. However, a sampling frame based on a 5 percent preliminary sample of the economic census is available now. This 5 percent preliminary sampling frame is suitable, from a statistical perspective, for conducting an economic survey (herein called an advanced [annual] economic survey, or Advanced AES). The AES sampling frame is not suitable for conducting a survey of household and cottage enterprises (a function of the Survey of Household and Cottage Industries) and therefore of important industry groups such as those in the transport and construction sectors.

-- Neither the results of the Annual Economic Survey (AES), nor those of the Survey of Household and Cottage Industries (SHHCI), would be available to the Phase II economic advisor. CURRENT STATUS: Even if the advisor's contract were amended to cover a third year (to July 1990), the results of these two Phase I surveys would not be available to him (however, if the BBS were to conduct a 12-month advanced AES using the sample frame based on the 5 percent sample of the census, then the results of that advanced AES would become available by November, 1989. This is roughly 8 months before the end of the third year of the hypothetical amended contract of the Phase II economic advisor).

-- The Phase II economic advisor would generate much of his own information and would engage in qualitative and quantitative field-based research studies.* CURRENT STATUS: The Phase II

* The Statement of Work included in the Phase II contract refers to research studies to be performed under Phase II. The word "studies" may be ambiguous. This ambiguity may have led the Phase II advisor to believe that most of these funds were to be spent on the analysis of existing data. However, the

budget contains a line item of over \$200,000 (prorated from an annual average of \$125,000 per year) much of which was intended to support data collection and analysis and descriptive studies on, e.g., the institutional, legal and financial context for small and medium enterprises (SMEs) and, especially, informal (or unregistered) enterprises. The advisor has hired his technical staff and local consultants (primarily to analyze existing scattered data sources) against this line item. The original project designers probably underestimated the resources needed to generate and analyze survey data, collect other quantitative and qualitative information on economic issues, and generally meet the research needs of the EEPA subproject.

In short, the intended link between Phases I and II was to consist exclusively of a sample frame, unfortunately delayed, to be provided to the Phase II economic advisor. It was anticipated that the Phase II economic advisor would rely heavily on information generated during the course of his own work in a manner similar to that followed by the HIID Trade and Industrial Policy Reform project sponsored by the IBRD; it was not anticipated that the Phase II advisor would rely heavily on Census of Manufacturing Industries (CMI) data, or on other existing data bases.

There is inevitably some tension between the needs of data users and the feasibility and resource constraints faced by statistical agencies. Some data are better collected using a more in-depth case-study approach, rather than a broad sample survey. Inevitable compromise is required if user needs, resource constraints, and data integrity are to be served simultaneously. If this issue was not anticipated, its existence should certainly not be a surprise.

It is useful to clarify the intended relationship between the Phase I and Phase II activities and to clarify the intended role of the Phase II economic advisor. Misunderstandings and false expectations, especially those related to the four points discussed above, have contributed to the increased tension that recently has characterized the relationships of the advisors

(footnote continued from previous page) Statement of Work does stipulate that at least some studies will involve the development of "... appropriate research designs and data collection techniques to carry out the proposed research activities." Descriptive and institutional studies involving field research also were specified. HIID clearly understood the need for field research to collect data (see letter, Snodgrass to Sahota, 18 March 1988).

and a number of USAID/Dhaka officers. Moving toward the acceptance of a common view of the intended relationship between Phase I and Phase II already has resulted in a marked reduction in that tension. It is in the best interests of all concerned to look forward; the key question is: where do we go from here?

3. Phase I: Enterprise Policy Reform Project.

Section 3 of this report is divided into four subsections. These subsections discuss, in turn, the accomplishments and current status of Phase I activities, future activities to be conducted under Phase I, a proposed advanced annual economic survey, and recommendations for additional assistance.

3.1. Accomplishments and Current Status.

Subsection 3.1 of this report is divided into two parts. The first discusses the implementation of the first economic census ever undertaken in Bangladesh, and the post enumeration check conducted as an integral part of that census. The second discusses census data processing, focussing on the problems related to the slow procurement of the optical mark readers.

3.1.1. Census Implementation and Post Enumeration Check (PEC).

It is important to discuss the implementation of the economic census and the post enumeration check together as the PEC is the evaluation of the census. What information we have about the quality and coverage derives largely from the PEC. Fortunately for this evaluation, a preliminary review of the results of the PEC was just completed (by David Megill, a mathematical statistician from the Bureau of Census).

The census itself was delayed from the scheduled March 1986 enumeration date to December 1986. This delay can be attributed to several causes, largely outside the control of the project implementors. The first large procurement for census forms and related enumerator supplies was forwarded to Washington under a very tight time schedule; there were only 8 months between the project signing and the required delivery date. Despite this, the forms started arriving in Chittagong in February 1986.

Unfortunately, the receipt of the related enumerator supplies was further delayed until May, forcing an initial postponement of the census. The census was again postponed from May to December due to presidential elections, concern about monsoon weather, and a Government of Bangladesh "review" of its

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TABLE I: CHRONOLOGY

<u>Event</u>	<u>Phase I</u>		<u>Phase II</u>	
	<u>PP</u>	<u>Actual/Expected</u>	<u>PIO/T</u>	<u>Actual/Expected</u>
Census Enumeration	03/86	12/86	-	-
OMRs Functioning	05/86	08/88a	-	-
Arrival of Phase II Economic Advisor	-	-	12/86	07/87
Economic Census Fully Processed	07/87	01/89a	-	-
First Annual Economic Survey	7/88-6/89	7/89-6/90a	-	-
Departure of Phase II Advisor b	-	-	11/88	07/89a
AES Results Available c	1/90-6/90	12/89-11/90a	-	-
Survey of Hhold & Cottage Industries d	01/90	1/90-12/90a	-	-
SHHCI Results Available	N/A	12/91a	-	-
.....				
			<u>Proposed</u>	
Departure Phase II Advisor e	-	-		07/90
"Retainer" Contract, Phase II Advisor	-	-		8/90-12/92

a Projected as of 3/88 by authors

b Current funding expires 2/89. Mission is committed to fund through 7/89.

c The proposed Advanced AES could be conducted during the 7/88-6/89 period. Results would be available on a flow basis beginning five months after the monthly enumeration. Complete results would be available by 11/89. However, we recommend that BBS not conduct the advanced AES (see text, page 16).

d Discussions continue on the usefulness of combining the AES and the SHHCI. If combined, the data on both would be available on a flow basis during the 12/89-11/90 period. However, we recommend that they not be combined (see text, page 12).

e The mission always intended to fund the Phase II economic advisor for three years. Should subsequent events so suggest, the mission may wish to consider a "retainer contract" to take effect after the termination of that third year (for a brief discussion of this concept, see text, page 12).

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participation in the Enterprise Policy Reform Project and in the implementation of the census itself.

The coverage rates for the census itself, based on the preliminary analysis of the PEC, are somewhat disappointing. The estimated coverage rates are 91 percent for households and 85.1 percent for establishments. The rate for households was significantly lower than that achieved during the last population and housing census, and the enterprise coverage was even lower. To some extent, this performance may have been a result of combining the censuses, but the magnitude of this effect is unclear, and the enumerators would have had to "knock" on every door even if they were only seeking establishments. More important were the delays in the census, the lack of a census holiday to publicize the census, and the fact that the BBS had no Secretary during the important period immediately preceding the enumeration (lowering discipline among the fieldworkers). The fact that the enumerators felt they were underpaid probably made the discipline problem worse. It should also be pointed out that this was the first national economic census conducted in Bangladesh. In retrospect it may have been better to provide more time for publicity and to stabilize the leadership of the BBS, but it is hard to fault the decision to proceed, given the history of delays and wavering support. USAID/Dhaka was also anxious to move forward with the project.

The quality of the PEC is equally important as it provides a basis for adjusting the census results. A PEC is an intensive reenumeration of a sample of the areas covered by the census. Generally, the interviewers are instructed to be much more careful in locating and interviewing households and economic units. The differences between the coverage and questionnaire content of the census results and the PEC are then evaluated through a matching procedure. The PEC was carried out 2 weeks after the census to minimize the problem of distinguishing between nonmatches due to the normal movement of the population and those due to coverage problems. It is to the credit of the BBS that they were able to mount the PEC this quickly. The matching procedure is the other critical area of the PEC. The procedures used by the BBS were well conceived and thorough. Every match was independently verified and differences were adjudicated by a supervisor. Although the evaluation of the PEC is only partially completed (this work will continue over the next 2-3 months), the characterization of the PEC as a quality effort will certainly stand.

Perhaps most important is the ability of the census to serve as a sampling frame for economic units, its major purpose, given the coverage figures outlined above. The economic census

clearly will achieve its major purpose: to serve as a sampling frame for economic units of all kinds and all sizes throughout Bangladesh. The census will certainly support the area sampling strategy envisioned for the AES and SHHCI. The differentials in coverage among the various strata are known and can be taken into account in designing an efficient sampling scheme. The census also will contribute substantially to an updated and improved list of census of manufacturing industries (CMI) firms. It is important that this list be as complete as possible, yet it is estimated that the current CMI list misses more than 75 percent of the relevant firms. The PEC indicates that the list obtained from the census misses 15 percent of the firms, which is certainly better than what now exists. Furthermore, large establishments are likely to be missed less frequently than the overall 15 percent miss rate. Coverage control procedures are also being used in the processing of the census forms that are designed to identify and include in the census firms that had been previously missed. By comparing the firms enumerated in the census with various lists of firms maintained by the BBS and various agencies in the Government of Bangladesh, the census-derived list will be substantially improved. The updated CMI list and the area sample frame, derived from the full census, are scheduled to be available around March 1989.

3.1.2. Census Processing.

Using reasonably optimistic estimates, the census processing will be delayed by over 18 months from the schedule established in the Project Paper, and by 10 months if the delay in the census enumeration is taken into account. This delay has been almost exclusively a product of the time it has taken, and continues to take, to procure two optical mark readers (OMRs) for the BBS. As discussed above, the submission of the procurement was somewhat delayed, due to project uncertainties and the shift from a sole source to a competitive procurement. Nevertheless, the real problem was in the execution of the procurement documents. It is estimated that over 18 months will have elapsed between the submission of the PIO/C and the installation of the OMRs in the BBS.

The contract for the two new OMRs is reportedly in the final stages of negotiation (according to Census staff in Washington, the clock started running on the 90-day delivery requirement around March 3). Assuming that this information is correct, the vendor has 90 days to deliver the equipment to Bangladesh. Customs clearance and delivery of the machines to the BBS will likely take 1 month, and the contractor has 1 month to install the machines and make them operational. It is not likely the new OMRs will be in place and functioning before the first of

August. The realities of the procurement process and contractor performance provide no basis for a more optimistic schedule.

Assuming the new machines operate for three shifts (15 hours) per day, 6 days per week, with an effective throughput of 3,600 forms per hour, beginning August 1, the task still will take until late January 1989 to complete. This also assumes no major problems will be encountered. For example, if one of the OMRs were to break down shortly after its arrival and could not be repaired, the processing period would be lengthened by 2 1/2 months, even if the remaining machine was in production 18 hours per day, 7 days a week. We recommend procurement of a third OMR, as short-term insurance. The addition of a third OMR will prove beneficial in the long run. The BBS is strongly committed to the use of OMRs for data entry. These machines will soon be used to process the next population and agriculture censuses. Breakdowns are inevitable, and the presence of a "backup" machine will certainly prove useful. A third machine may also help to encourage the BBS to move data entry for some of its simpler surveys to the OMR, speeding the processing of those surveys.

To gauge the impact of the delay in procuring the two OMRs originally intended as part of USAID/Dhaka's support to the BBS, it is necessary to first describe the major steps in the census processing system established by the BBS and the resources required in each step (see Table II below). Not including data tabulation, there are seven major steps in the processing system. They are:

-- The coding of the forms. This major activity currently occupies approximately 100 staff members during the day and 37 during the evening. This activity has been well controlled since its inception. The coding was initially verified on a 100 percent basis until acceptable error rates were achieved.

An ongoing 10 percent verification ensures that performance is maintained. In addition, the stringency of this 10 percent verification has been increased. This job is over 50 percent complete and, although production could probably be increased somewhat, is going well. It is difficult to maintain a sense of urgency in a staff that is months ahead of the critical bottleneck, the OMR. At current staffing levels, this effort will likely be finished in late November of this year.

-- Coverage control. The importance of this activity in improving the census as a sampling tool has been discussed previously. With 19 staff members working during the day, and recently 13 in the evenings, approximately 14 percent of this

TABLE 2: STAFF REQUIREMENTS FOR ECONOMIC CENSUS PROCESSING

ACTIVITY	RESOURCE AVAIL ASSUMPTIONS	DAY STAFF	NIGHT STAFF	START DATE	ZONES/WK	UNCOMPLETED ZONES	END DATE
CODING	CURRENT	101	37	18 3 88	30	1059	20 11 88
	LIKELY *	79	29	18 3 88	24	1059	26 1 89
	HIGH **	95	35	18 3 88	28	1059	6 12 88
COVERAGE CONTROL	CURRENT	19	13	18 3 88	14	1750	10 8 90
	LIKELY *	53	36	18 3 88	39	1750	26 1 89
	HIGH **	63	43	18 3 88	47	1750	6 12 88
OMR EDITING	CURRENT	131	104	18 3 88	60	1630	24 9 88
	LIKELY *	79	63	18 3 88	36	1630	26 1 89
	HIGH **	95	75	18 3 88	43	1630	6 12 88
OMR SPLITTING	CURRENT	11	9	18 3 88	15	1820	15 7 90
	LIKELY *	30	24	18 3 88	41	1820	26 1 89
	HIGH **	36	29	18 3 88	48	1820	6 12 88
OMR READING	CURRENT	3	3	18 3 88	10	1860	11 10 91
	LIKELY *	6	12	1 8 88	65	1660	26 1 89
	HIGH **	6	12	1 8 88	91	1660	6 12 88
FIRST COMPUTER EDIT	CURRENT	4	0	1 8 88	30	1660	23 8 89
	LIKELY *	9	0	1 8 88	65	1660	26 1 89
	HIGH **	12	0	1 8 88	91	1660	6 12 88
SECOND COMPUTER EDIT	CURRENT	7	7	1 8 88		1660	
	LIKELY *	7	7	1 8 88	65	1660	26 1 89
	HIGH **	7	7	1 8 88	91	1660	6 12 88
TOTAL	CURRENT	269	166				11 10 91
	LIKELY *	256	165				26 1 89
	HIGH **	307	194				6 12 88

LIKELY * allocates staff and projects completion dates assuming existing staff levels and two new OMRs begin operation on August 1 on a 3 shift, 15 hrs per day, 6 day per week basis.

HIGH ** allocates staff and projects completion dates assuming existing staff levels are increased by 20% and two new OMRs begin operation on August 1 on a 3 shift, 18 hrs per day, 7 days per week basis.

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task has been completed. At current staff levels and production rates, it will take until late in 1990 to finish this job. Clearly, this is an area where either improved production and/or an increase in staff is required. The original plan called for the transfer of staff from OMR editing to this activity as the new OMRs came on-line.

-- OMR editing. This has been a major problem area. The combination of an old OMR, paper that is less opaque than desirable, and the common marking problems have forced this group to darken every mark on every form. Until approximately 1 week ago, the 130 staff members working in this area had processed only 24 percent of the forms. Fortunately the BBS was able to substantially increase the processing rate of this staff by adding an evening shift of 105 people and by implementing OMR editing appropriate for a "functioning" machine. They were able to do this as they now have enough forms fully marked to carry them through the arrival and installation of the new OMRs.

This has been a tremendous waste of resources. If the new machines had been available from the outset, the forms would be 70 to 80 percent edited by now, given the same staff input. Even further improvements are possible in this area. Interviewers that make marking errors tend to do so fairly consistently. It is possible and very effective to apply sampling techniques to speed the process. Only a sample of the forms in a book would be checked initially, and further checking undertaken only if problems were found. As staff resources are tight, an exploration of this approach is recommended.

-- OMR splitting. The census questionnaires were originally bound into books to control their loss. They have to be removed from the books before they can be read by the OMR. Eleven staff members have been working in this area and an evening shift of nine was added in March. To date, slightly over 15 percent of the work has been completed. Although it is likely that individual production rates will increase as a result of the increased pressure from the new OMRs, staff will have to be added to this task if this work is to keep pace with the new machines.

-- OMR reading. Running a single shift until early March, the single OMR machine was able to read less than 12 percent of the census forms, due to constant breakdowns and the problems with the forms described above. As important is the difficulty of maintaining a sense of urgency, when the staff is clearly well ahead of the production of this key unit.

-- The first computer edit. This edit checks the industry codes and numbers of employees for valid values and consistency with other items on the form. Problems found are referred to a staff of 4-5 which checks the original forms to resolve the problems. This staff does not appear fully occupied, but once the new OMRs are operating, it will have to be expanded to keep pace.

-- The second computer edit. This edit performs broader consistency checks of the data once the industry codes and employment figures have been checked. This work just began, and it is impossible at this time to do more than speculate on the staff requirements of this effort. This, the preceding edit, and the coverage check are of vital importance in ensuring the quality of the final census results. This work will initially focus on larger firms (those with 10 or more employees) to maximize the impact of this effort while holding down resource costs. If this approach still demands too much staff, the cutoff can be raised, thus lowering the effort required.

3.2. Future Activities.

Subsection 3.2 of this report is divided into three parts. The first discusses the Annual Economic Survey. The second discusses the Survey of Household and Cottage Industries. The third discusses the Census of Manufacturing Industries.

3.2.1. Annual Economic Survey.

Data collection for the annual economic survey was originally scheduled to begin in July 1988. This survey will collect data throughout the year. The processing of this survey will be done on a flow basis, with a 4-5 month lag between the close of a reporting period and the availability of initial tabulations. As originally scheduled, data collection for the first AES would have been completed in June 1989, and the initial tabulations from the full year's data would have become available around October/November of 1989. This schedule is no longer feasible.

The AES will use a sampling strategy which combines the use of a list (for large firms not covered by the Census of Manufacturing Industries (CMI) and an area sampling frame to capture smaller firms. Both the list (in part) and the area frame (entirely) will be based on the results of the economic census. It will take at least 2 months after the completion of census processing to draw this sample and get this survey into the field. It is reasonable to assume that this survey could be fielded no earlier than April 1989, assuming no major

problems will be encountered. Further, the Bangladesh fiscal year runs from July 1 to June 30. Most enterprises that keep records do so on this fiscal year basis. Historically, the CMI has used the fiscal year as its reporting period and will continue to do so. It is desirable that the two data collection activities have common reporting periods. Starting 3 months early would just generate 3 months data in isolation (outside the reference period). We recommend that the AES, based on a sample drawn from the full census, start on July 1, 1989. Accordingly, data collection for the first AES would be completed in June, 1990, and the initial tabulations from the full year's data would be available around October or November, 1990.*

The AES will gather information on permanent establishments not otherwise covered by the CMI. The sample will be designed to optimize the efficiency of the survey in covering this universe. Modifying the sample design to capture, for example, economic activities in households would imply lowering the precision of the estimates for permanent establishments or substantially increasing the survey resource requirements. We recommend that the sample design of the AES not be so modified and that Phase I stick to its original sample design concepts.

3.2.2. Survey of Household and Cottage Industries.

The SHHCI originally was scheduled for January, 1990. This schedule is still feasible, although it will create some strain on BBS management, staff, and data processing resources, coming in the middle of the first year of the full AES implementation. As the title indicates, the survey will focus on household and cottage industries. The sampling issues faced in designing this survey are very different from those of the AES. An area sampling approach will be used exclusively and will emphasize residential areas with such activities, rather than commercial areas. A questionnaire appropriate for household and cottage industries would of necessity be simpler than those for establishments. A suggestion has been made to move the SHHCI forward and combine it with the AES. While this is possible, it is not recommended. Getting even one new survey off the ground is difficult, and the BBS will be simultaneously preparing for the full AES and launching the revised CMI. An additional survey would compound the burden on already thin management and staff resources.

* A strategy for making AES data available 1 year earlier, using an area frame drawn from the 5 percent preliminary census sample is discussed later in this report. See Section 3.3, pages 15-20.

The fieldwork strategy envisioned in the original project statement was quite different from that of the AES in that all interviewing was planned for a one month period. This approach should be reexamined. The same concerns about seasonality and the ability of respondents to provide accurate information for a one year reference period, rather than one month as proposed for the AES, exist for the SHHCI. Ideally, the interviewing would be evenly spaced over the year. Perhaps a modified approach could be used, where the fieldwork is done every second or third month. This strategy would require additional field staff and delay the availability of information from this survey by a little less than one year. The cost and benefits of this strategy will have to be weighed; we recommend that the BBS and USAID/Dhaka give serious consideration to a survey strategy that will minimize the impact of seasonality on the results of this survey. In any event, the results of the SHHCI will likely be available no earlier than late 1990.

3.2.3. Census of Manufacturing Industries.

This census has been a part of the BBS program for many years. The problems with the CMI are widely recognized. The coverage of the basic list of manufacturers is estimated to be around 25 percent, and the response rates are approximately 30 percent (i.e., it is estimated that only 25 percent of the manufacturing firms (with 10 or more employees) that exist are on the list; and of those 25 percent, only 30 percent answer the questionnaire). Thus, the CMI covers about 8 percent of the eligible firms. In addition, it has historically taken 4 to 5 years from the close of the reference period to collect, process, and publish these data. There are also reported response problems in such areas as capital stock.

The CMI is a vital companion of the AES. It was the intent of Phase I to assist the BBS in its efforts to improve the CMI. The economic census will be used to update the list of manufacturers covered by the CMI. At a minimum, the coverage will be raised from around 25 to 85 percent. In reality, the improvement should be even more dramatic. The combination of the coverage control process discussed above and the expected tendency of the economic census to achieve higher coverage rates for larger establishments should raise CMI coverage significantly. In addition, the large manufacturing establishments omitted from the CMI frame can be represented through the same area frame used for the AES. Any larger establishment identified in sample areas would be compared with the CMI list. If it were not on the CMI list, a CMI questionnaire would be completed for that establishment and an appropriate weight would be applied to the resultant data. The

detailed analysis of the PEC, scheduled to have been completed in April or May, 1988, will provide a clearer picture of the improvements that can be expected in CMI coverage.

The use of the census results to improve CMI coverage will create some timing problems for the scheduling of the CMI. Normally, the CMI questionnaires are sent to the respondents in October. The idea is that the firms will have just closed the books on the previous fiscal year and will be in a good position to provide information on that period. However, the census will not have been completely processed by October 1988, when the CMI forms would normally be mailed. Fortunately, the areas of Chittagong and Dhaka, where the bulk of the CMI firms are located, have been processed. Because the CMI data cover the whole year, there are no real seasonality issues. We recommend that the BBS explore alternatives to its normal CMI data-gathering procedures for FY 1989. One alternative might be to mail the questionnaires on a flow basis, beginning in October, 1988. This strategy should speed the processing and keep the CMI as close to schedule as possible.

A related issue concerns this year's (FY 1988) CMI. The forms have not yet been sent out. We assume the tremendous focus on the economic census is the major cause of this delay. A question that BBS must address is whether it makes sense to even field the CMI this year, given the existing coverage problems.

The next issue that must be addressed is the low CMI response rate. The BBS is already taking steps to alleviate this problem. The BBS has drafted a simplified questionnaire that should ease the reporting burden. The BBS also is considering the use of range responses to further ease reporting and, it is hoped, make certain questions less toxic (e.g., those related to income). In addition, the BBS is examining its mail-out and follow-up procedures to increase control and respondent accountability.

There also appear to be response errors in the CMI data. For example, capital stock appears to be undervalued by as much as a factor of ten. In large part, this likely represents the difference between the "book value" of assets and their "economic" value. Alternative approaches to obtaining this important information should be explored and field tested before the "new" CMI questionnaire goes to the field. Input from data users is very important in identifying these kinds of problems and in resolving them.

Finally, the speed of processing CMI data needs to be improved. The simplified questionnaire and increased control

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over responses should decrease the lag between the reporting period and the publication of results. Another strategy would shorten the cut-off period before formal follow-up. The use of precoded values and range responses should speed office processing by eliminating office coding where possible and by lowering number of keystrokes required to enter the data from the form (e.g., values grouped in ranges can be entered with one or two keystrokes rather than the actual value), but additional resources in the manual processing may be needed. One additional problem is the existing backlog. Given the substantial improvements envisioned for the CMI, it would seem desirable to focus on processing these data as quickly as possible, not waiting for the backlog to be eliminated. One strategy would be to focus the CMI processing staff on the new work and institute a smaller second group to clean up the backlog, implying additional resources. Not processing the back data is an option, but this report will not comment on the feasibility of this always difficult decision in Bangladesh.

3.3. The Proposed Advanced AES.

Although not envisioned in the original project design, the Phase II economic advisor (and by implication the Planning Commission where he is working) has repeatedly asked that Phase I produce AES data as quickly as possible. In trying to be responsive, the BBS has opened discussion of an option that would field a smaller version of the AES. The sample for this survey would be drawn from the 5 percent preliminary sample of the economic census. The survey would be carried out in 1,000 enumeration areas, as opposed to 4,000 enumeration areas in the full AES. While a proposed AES (the "advanced AES") drawn from the 5 percent sample would not provide estimates at the same level of statistical reliability as the full survey, the former would be a statistically valid survey yielding results of measurable precision.

Mounting the advanced AES will not be without cost. It is likely that the staff to design and implement this survey will have to be drawn from the staff currently working on the economic census and, as discussed earlier, they are fully engaged in this large task. While it is unlikely the speed of the census processing would suffer greatly if the advance AES were undertaken, the quality of the census would probably suffer. Scarce management resources would have to be stretched to cover a second major activity, and staff would be diverted from the important efforts to improve data quality (the coverage check and resolving the computer edit rejects).

Implementing the advanced AES may be judged worth this cost only if the resultant information will be used. Such a

judgment can only be made jointly by the users and the producers of the data. We recommend that the data users and the data producers jointly reach such a judgment based on an objective assessment of the costs and of the potential benefits involved.

We also note that the Planning Commission, the primary user, already has expressed its views. According to the Planning Commission, the data generated by the advanced AES will not be useful to, nor used by, the Planning Commission. If these views prevail, the BBS should not implement an advanced AES.

The views of the Planning Commission may or may not prevail. It appears, however, that they are heavily influenced by the documented opinion of the Phase II economic advisor. He has circulated widely his opinion that the data produced by the advanced AES would "...not be worth a grain to an analyst". Based on the comments of the Phase II advisor, it appears that he may not sufficiently understand this option to make an informed judgement on the utility of the resultant data. Since several of his objections would apply equally to the full AES, it is important that any misunderstandings, misconceptions, and other issues be resolved.

To at least begin the process of resolving these issues, this section of this report will focus on the data requirements outlined by the Phase II advisor in his January 1988 work plan. We also will discuss some of the specific objections raised by the Phase II advisor. He has largely couched his data needs in terms of input-output model requirements.

-- "The economic survey ...[should be]... so designed as: (1) to provide adequate coverage for each of the planned I-O sectors (e.g., for 2-digit Bangladesh Standard Industrial Classification (BSIC) industries)";

Discussion: In his recent report entitled "General Considerations for Designing Sample for the Bangladesh Annual Economic Survey," David Megill stated that the advanced annual economic survey could provide national estimates for economic groups up to the 3-digit BSIC level, and district estimates at the 1- or 2-digit level. He indicated rare categories would not be covered at this level of precision. This means that only industries that are relatively unimportant in Bangladesh or highly concentrated (all production carried out by relatively few large establishments or in relatively few geographic areas) will not be estimated with reasonable precision. It should be possible to devise some strategy to obtain information

from highly concentrated industries, and unimportant industries would not seem worth including in an I-O model.

-- "(2) to collect data for pertinent domains such as developed, less developed, and least developed areas; cottage ..., small..., and large industries; and other pertinent domains";

Discussion: As indicated above, the advanced AES would provide 1- or 2-digit level estimates at the district level. As there are 64 districts and the Phase II advisor is only calling for three geographic breaks, estimates at the 2- or 3-digit level should be possible with the caveats cited in the previous discussion.

Regarding the precision of the estimates for cottage, small, and large firms, a strategy for covering large concentrated firms could be devised, although most firms in this class are covered by the CMI and there was never any intent to duplicate this work in the AES. Although the definition of small firms is not clear, it is unlikely there are any particular measurement problems for this class. The Phase II advisor is certainly correct in assuming problems in the coverage of cottage industries. An appropriate sampling strategy for a survey of cottage (and household) industries would be very different than that envisioned for either the advance or the full AES. It was for that very reason that the original project design called for two separate surveys, the AES and the SHHCI. It would be inefficient to try to make a single survey perform both tasks. It would require many more interviewers, traveling to more enumeration areas, carrying more forms, applying different listing and sampling schemes, and much more training. Further, the complexity of processing the data would be substantially increased.

-- "(3) to collect economic variables of interest, ... [the] same as ... [those contained in the old questionnaire of] the CMI (Census of Manufacturing Industries)";

Discussion: It is beyond the scope of this evaluation to get deeply into the content of the AES questionnaire. The BBS has both the expertise and experience in judging what information its respondents can and cannot provide in the framework of the AES. One of the problems with the old CMI was the complexity of its questionnaire. The CMI is currently under revision in an attempt to raise response rates and speed processing. The economic units to be covered by the AES will be even less likely to be able to provide detailed information on their activities than the

larger firms covered by the CMI. Perhaps more importantly, it is planned that the content of the advance AES and the full AES be identical. The only changes would take place where problems were identified in the implementation of the advance AES. Most such problems will be identified in the field trials that will precede this survey. In any event, these are issues to be ironed out between data users and producers in an environment of mutual respect for each other's needs and expertise.

-- "(4) to enable the theory of statistical inference to be applied".

Discussion: As stated above, the advance AES, as proposed, is a statistically valid survey which will produce results of measurable precision. This is all that can be said of any survey, and the data users must judge whether the precision obtained is sufficient for their needs.

-- "The quantification of the incentives and disincentives ... of various policies called 'effective rate of assistance', ... statutory incidence and ... actual incidence";

Discussion: There appears to have emerged a common understanding that this type of information is better collected through in-depth interviews rather than through a survey framework such as will be available through the AES. This should no longer be an issue.

-- "... suggested categories of labor are production workers by skill classes and all other workers or major occupational classes."

Discussion: This is a content, not a sampling, issue. There would be no reason for any difference between the advance AES and the full AES. The issue should be resolved as indicated above for other content issues, that is, through discussions between the data users and the data producers.

-- "It will not cover construction and transport....";

Discussion: Neither AES sample design is appropriate for collecting data from households, as discussed above. Further, construction and participation in transportation (e.g., ownership of a private bus) are likely to be relatively rare events. The ongoing household survey program of the BES has too small a sample to effectively measure these events, and the sample frame for the coming year has already been drawn. A substantial expansion of the

sample of this survey to measure these events would not seem cost effective, but the issue would have to be studied much more closely than is possible in the context of this evaluation.

Some thought should be given to potential alternative approaches. Although we have no basis to judge which strategy would work best in Bangladesh, one example of a possible approach would be to use bus registrations to locate owners. Innovative approaches may be required to meet some of these information needs.

-- "... create duplicate work for the Planning Commission ... [in its preparation of an] I-O table...; [the Planning Commission would have to] ... prepare ... one with the data of the [advanced AES] ... survey and ... one with the data from the full scale survey;"

Discussion: Both AES surveys will be statistically valid. Although differences are to be expected, major differences are unlikely. Assuming that the work in updating the I-O table parameters prohibits doing the work twice, the trade-off is between waiting one year for the revised I-O table and basing the table on the most accurate information feasible. This choice can only be made by the data users. While it is not likely there will be major differences in the parameters derived from the two surveys, there will be some differences.

-- "... monetary cost of \$550,000 requested for it [the advanced AES]".

Discussion: This statement is just not true. Dr. Rahim specifically stated that the BBS would need no additional external funding to implement the advanced AES. The request for \$550,000 in additional resources would improve the ability of the BBS to carry out all remaining aspects of Phase I. This identification of possible resource constraints was provided at the request of USAID/Dhaka.

To repeat, a decision on the desirability of fielding an advance AES needs to be made. There are indeed costs associated with this survey, but they are more in terms of the opportunity costs of the alternate uses of existing resources, rather than \$550,000 in external resources. Specifically, the BBS is already stretching its scarce management and staff resources to complete the processing of the census as quickly and as accurately as possible. The advance AES would require the diversion of some of the staff, currently working on the census, to the AES. This would result in a slowing of the

census processing or a lowering of the quality control standards for the census. This is a decision that should be reached between the data users and producers based on an objective assessment of the costs and of the potential benefits involved.

There is a larger issue that seems to be at the root of the issues outlined above. That issue concerns the respective roles of data users and producers. While there is no firm dividing line between these two roles, in general the data user must define his needs, while the data producer has the knowledge and experience to define the appropriate strategies for meeting those needs. If Phases I and II are to complement each other and achieve their respective goals, an awareness and respect for these roles must be maintained. Most important is a continuing awareness that no single data collection strategy or survey can meet all user needs. While the user sees his data requirement as a coherent whole, the experienced statistician responds with a system of data collection tools and strategies appropriate to the task.

3.4. Additional Assistance Recommended.

The latest version of the Phase I scope of work has lowered the proposed level of short-term technical assistance in the areas of mathematical statistics and cartography to provide funds to cover the extension of the long-term advisor. It has also largely eliminated any flexibility in meeting unanticipated problems through provision of short-term specialized expertise. Although the most critical activities are included in the new version, several important areas of support will be covered only superficially or dropped altogether. We recommend that USAID/Dhaka consider providing additional resources to Phase I to fund specialized technical assistance in four areas. These are:

-- Mathematical statistics, to help develop the preliminary sample design for the AES. The technical assistance for the sample design for the Annual Economic Survey (AES) was reduced considerably. The new scope of work has the AES sample design beginning in February 1989, given that all of the census data should be processed by then. Since the processing schedule may slip further, it is risky to wait until then to begin the complex sample design. Clean economic census data for the 5 percent sample is available now to carry out the preliminary design work; therefore, it is recommended that an additional 3-week mathematical statistics trip be scheduled around October 1988, to develop the preliminary sample design. If the current budget constraints remain, this would have to come out of the contingency trip included in the budget, leaving no flexibility to meet unanticipated problems.

-- Mathematical statistics, to explore in-depth various sampling alternatives for the CMI. The work on sampling alternatives for the Census of Manufacturing Industries (CMI) was combined with the AES sample design trip. There would not be sufficient time for an in-depth study of the CMI requirements, so only general considerations could be reviewed. If a decision is made to use sampling techniques to lower the CMI workload (by covering medium-sized firms on a sample basis) and to increase the coverage rate (by using the AES to capture firms missing from the CMI list), at least one additional technical assistance visit will be required to support the implementation of these strategies.

-- Mathematical statistics, to help develop the estimation procedures for the SHHCI. The sample design trip for the Survey of Household and Cottage Industries was combined with a review of the implementation of the AES design. No technical assistance was included for the estimation procedures for the household survey. It is not certain whether the master sample for the Bangladesh Household Survey Capability Programme can be used for this survey. With the specified level of assistance, the BBS would be without external statistical assistance for the tabulation and analysis of the data.

-- Cartography, to help develop a microcomputer-based cartographic system for the AES. The trip by a cartographer to assist the BBS in developing a microcomputer-based cartographic system for the AES was eliminated. Technical assistance would substantially speed the design and implementation on this important system.

In addition, Secretary Rahim of the BBS has identified national accounts as an area of priority concern in the BBS. He recently constituted a committee to review current national accounts procedures and methodologies, with the goal of improving the current program. In discussing BBS needs in national accounts, three complementary support strategies have been identified. These are:

-- Executive-level study visits: The Secretary, BBS, and two senior national accounts staff members would travel to Washington to learn more about the methods and strategies used by the Bureau of Economic Analysis (BEA) in preparing the national accounts of the United States. Such interaction would be a source of ideas for potential improvements in BBS procedures. The Secretary would also have the opportunity to visit the other major statistical agencies.

-- Technical assistance: A current or former employee(s) of BEA should be identified to provide support for the BBS

national accounts review and revision effort. More than one expert may be required if specialized areas of the national accounts program are determined to be of particular interest. The mix and strategy of technical assistance would be one of the topics of discussion during the Secretary's study-visit to Washington.

-- Long-term technical training: Long-term training in the BEA program for up to four BBS staff members is recommended as a strategy to upgrade the technical skills of the national accounts group.

This support, if provided, would be outside the scope of Phase I. A possible source of funding would be the Technical Resources II (TRP II) project.

4. Phase II: Technical Resources Project "Buy-In" to the Employment and Policy Analysis Project.

Section 4 of this report is divided into two subsections. These subsections discuss, in turn, the accomplishments and current status of Phase II activities, and future activities to be conducted under Phase II. Some preliminary thoughts for additional assistance are offered throughout these subsections.

4.1. Accomplishments and Current Status.

This subsection is divided into two parts. The first part is a brief general description of Phase II activities, which have only just begun. The second part describes an unanticipated niche that the Phase II economic advisor is filling in the Planning Commission.

4.1.1. General.

The Phase II (EEPA) subproject began in July, 1987. The Phase II economic advisor arrived in Bangladesh on August 1. The mission provided logistic support consisting of essential housing, furniture and related goods and services. Unfortunately, the Bangladesh Government was able to provide only minimal (and unofficial) logistic support to the project. Job-related logistic support remains weak. Under the circumstances, the Phase II economic advisor has accomplished a great deal in a very short time.

In the past several months, under very difficult circumstances, the Phase II economic advisor has assembled a small but outstanding staff, has become well connected in the Bangladesh community of economists, has filled an important role deemed

valuable to the Planning Commission, and has learned a great deal about the economy of Bangladesh. The evidence is available in the documents he has prepared (e.g., the work plan) and in the seminars in which he has participated.

The Phase II economic advisor is well-versed in a number of different analytical tools and techniques. He knows the strengths and weaknesses of sophisticated modelling exercises. He knows that quantitative research must be supplemented with -- and in some cases cannot substitute for -- qualitative field surveys. He knows that quantitative field surveys need not always generate data useful for sophisticated models but may be used to address specific policy measures designed to shed light on the actual operations of investors and other actors in specific industries.

The Phase II economic advisor anticipated close USAID/Dhaka involvement in the EEPA subproject. After his arrival, he actively sought the counsel of the mission. However, as discussed above, he seems to have arrived in Bangladesh with some false impressions particularly about the nature and the availability of the Phase I Economic Census and Annual Economic Survey (AES) data. He apparently expected to rely heavily on the Phase I AES data (and other data) that he thought would be generated by the BBS. These data are not available. His persistent efforts to persuade the BBS to collect these data may have contributed to tensions between the Phase I statistical advisor and himself. In any event, he now recognizes that these data will not be available to him.

4.1.2. An Unanticipated Niche in the Planning Commission.

During the initial months of the Phase II activity, the economic advisor carved a niche for himself in the Planning Commission that was not anticipated when the subproject was being designed. In particular, he now:

-- Participates in the effort by the Planning Commission to update and extend the input-output model of Bangladesh;

-- Provides technical advice on the preparation of the Fourth Five-Year Plan (4th 5YP);

-- Is an active member of the newly-constituted Ad-Hoc Data-Users' Group;

-- Is an appointed member of the Committee for Statistical Support to the 4th 5YP formally constituted by the Steering Committee of the Ministry of Planning (the Steering Committee is the key link between the Planning Commission and the BBS on

matters related to the data demands of the Planning Commission; the convenor is Secretary Rahim of the BBS);

-- Is officially an "observer" in the Planning Commission's own Data Assessment Group (this group identifies the data requirements of short- and long-run planning; the Phase II economic advisor has contributed key reports on methodological issues);

-- Is an active advisor to the subcommittee of the Steering Committee on the integration of micro- and macro-planning (in this capacity he has contributed a useful methodological report);

-- Has participated in a meeting of the Resource Group of the National Productivity Center, Ministry of Labor and Manpower (in connection with his research on total factor productivity);

-- Routinely gives seminars every two weeks on the results of his project research; and

-- Helps identify and solve abstract problems that arise in the process of improving the Social Accounting Matrix (SAM) and the Computable General Equilibrium (CGE) model that lie at the core of the 4th 5YP.

His tenure in the Planning Commission coincides with the (anticipated) period of intense activity leading to the expected publication of the 4th Five Year Plan in June 1991.* We believe that USAID/Dhaka should explore whether it wishes to direct a larger portion of the Phase II economic advisor's energies to the development of an augmented input-output (I-O) table, a social accounting matrix (SAM), a computable general equilibrium (CGE) model, and other sophisticated models that provide the foundations of the planning process in Bangladesh.

* The importance of the timing (the proximity to the planned publication of the 4th 5YP) can be easily over-emphasized. The plan document may itself be delayed (the 3rd 5YP was substantially delayed, and many research activities designed to inform that plan were completed well after it was issued). Data that become available too late to be used in designing the 4th 5YP may usefully inform revisions of the plan, annual planning exercises, subsequent plan documents, and the like.

To some extent, the mission would be providing ex post approval of his actions. He has been helping the experts of the Planning Commission get the right kind of data for their SAMs

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and CGE models. He is doing so because his contract calls for him to help build the analytical capacity of the Planning Commission (he is not now preparing, nor does he intend to prepare, a SAM as part of his work as the economic advisor to the Planning Commission).

There are three reasons why the mission may wish to encourage additional work on these more sophisticated, long-gestation activities:

-- He can help assure that this highly influential modelling exercise will result in a 4th 5YP that places proper emphasis on the policy context affecting private investment in general and in SMEs in particular;

-- He can help strengthen the technical capacity of the Planning Commission to build and run policy-oriented models, and to conduct research on policy issues of particular importance to employment generation in SMEs; and

-- He brings to the Planning Commission special expertise that is highly regarded and warmly welcomed.

If discussions are to be held between USAID/Dhaka and the Government of Bangladesh on this issue, they should be framed in terms of the extent to which the development of augmented I-O tables, SAMs and CGEs are likely to be useful in Bangladesh, and the extent to which USAID/Dhaka should support the development of these models. The Planning Commission clearly believes that reliance on sophisticated models is worthwhile; it is this belief that drives the Planning Commission to seek the assistance of the Phase II economic advisor in developing the 4th 5YP. The benefits of USAID/Dhaka support are defined largely in terms of improved policy planning of an indicative rather than a directive nature, and are consistent with the goals of the Phase II subproject. Those benefits are likely to be substantial but long-term (5 to 10 years).

In our view, A.I.D. support for this approach should be (1) secondary to the original conception articulated in the Phase II statement of work; and (2) understood in the context of a special concern for employment in small and medium enterprises (and the additional concerns with rural employment of the Employment Policy Unit in the Planning Commission with which the Phase II subproject now is affiliated).

We believe that the Phase II economic advisor should continue to devote the bulk of his energy and research resources to generating and analyzing information (to include generating

empirical survey and other field-based data) in order to address specific short- and medium-term policy issues immediately affecting small- and medium-scale non-agricultural enterprises. The research need not always be quantitative. For example, it may explore how, operationally, government policies inhibit the development of small engineering enterprises or how the banking system can better serve small-scale and even micro-enterprises. The Phase II economic advisor primarily should identify specific policy changes that can help stimulate small-scale and medium-scale enterprise development in the short-run (1 to 3 years). He should look to vehicles such as the annual policy statements on trade and finance, circulars issued by the Bangladesh Bank, procedures invoked by the Bangladesh Small and Cottage Industries Corporation (BSCIC), and other irregular opportunities as well as the publication of the 4th 5YP.

4.2. Future Activities.

Subsection 4.2 of this report is divided into two parts. The first discusses the first work plan submitted by the Phase II economic advisor early in 1988. The second discusses other relevant issues that have arisen during the last several months.

4.2.1. The Work Plan.

USAID/Dhaka staff will have to get deeply involved in a close review of the Phase II economic advisor's Work Plan to reach a broadly-shared view of his specific goals and objectives. That Work Plan is not the massive, perhaps intimidating, document it appears to be. It is, in essence, only 10 pages long.

The work plan may have to be redrafted. As written, it incorporates some of the false assumptions regarding the availability of data from Phase I activities. Explicit references to Phase I data (which will, in fact, not be available) are made in the discussion of Research Subproject 1 (Effective Rates of Assistance) and Research Subproject 2 (Measurement of Productivity). It is unclear from the existing work plan whether other data needs identified in the work plan would be filled by surveys and studies conducted as part of Phase II activities.

Other fundamental issues need to be resolved. For example, the statement of work for the Phase II subproject is based on the assumption that policies, programs and administrative procedures in a variety of areas ranging from, e.g., macro to micro, national to municipal, finance to trade, inhibit the development of labor-intensive, typically small- and

medium-scale non-agricultural enterprises (SMEs). The activities undertaken and proposed under the work plan appear to be less tightly focussed on relevant policies, programs and administrative procedures and less tightly focussed on SMEs (which are not be adequately covered under the CMI) than USAID/Dhaka might wish.

The work plan contains seven subprojects. They are discussed, in general terms, below:

-- Research subprojects 1 and 2. Work on these subprojects is moving forward. The advisor has made presentations on the empirical results of his research at his bi-weekly seminars. It is important to note that the data base is taken from the CMI. In addition to many well-known weaknesses, these data cover large and medium size industrial firms, not small enterprises.

As currently described in the work plan, completing these subprojects depends on using data from Phase I (both the AES and the SHHCI) that will not be available until well after the Phase II activity ends (even if it is extended one year to July, 1990). Additional resources will need to be devoted to the generation of data to be used in research subprojects 1 and 2.

-- Research subproject 3. This subproject explores the impact of policies on enterprise growth (is USAID/Dhaka interested only in enterprise growth? What of the growth of the industry groups that contain the enterprises?). As proposed, it is based on an estimation (multiple regressions) of the models developed in the earlier research subprojects. Accordingly, data problems associated with subprojects 1 and 2 arise here as well. According to the work plan, this subproject is "at the heart of the analysis." We think that an alternative partial (not general) quantitative methods may be usefully identified. In any event, the subproject must be based on the collection of field (qualitative as well as quantitative) data by the Phase II economic advisor. Quantitative studies should be heavily supplemented by qualitative studies.

-- Research subproject 4. This subproject asks to what extent entrepreneurs have responded to and benefitted from the incentives announced in recent policy reforms. We observe that the reforms that most affect SMEs are not always merely industrial reforms. The topic of this important subproject also needs to be explored in quantitative and qualitative terms. An anthropological approach may yield substantial benefits.

-- Subproject 5 (historical surveys). The general description of the topics to be explored appears good. USAID/Dhaka may wish to add details, and suggest additional topics, perhaps drawing from mission documents (e.g., the draft "USAID Private Sector/Enterprise Development Strategy").

-- Subproject 6 (analysis of subsectors). As with subproject 5, USAID/Dhaka may wish to take a more active role in helping identify specific topics. In the meantime, exploring a less data-intensive approach may be warranted.

The more data-intensive approach identified in subproject 6 may make more sense in an extended time-frame beginning sometime in 1990. At an appropriate time in the future (perhaps early in 1990), USAID/Dhaka may wish to explore the possibility of a long-term (2 to 2 1/2 years), intermittent contract (a "retainer contract") to conduct a data-intensive analysis of subsectors along the lines proposed by the economic advisor in subproject 6 of his work plan. Such an approach would be based on the assumption that suitable data were to become available according to the schedule outlined in "Table I: Chronology", (page 5, above). Work on such a data-intensive program would be finished between June and December 1992. During the 2 to 2 1/2 years "retainer contract", the contractor will have made a few short visits to Bangladesh and may have worked part-time on this activity in some of the intervening months.

At present, we believe that the Phase II economic advisor should try to generate more immediate policy advice. We recommend that the economic advisor emphasize research methods and data collection techniques that will enable him to generate useful policy recommendations on SMEs in the near-term.

-- Subproject 7. This activity covers the transfer of analytical technology to, inter alia, the Planning Commission. It appears to be proceeding extremely well.

We strongly urge that USAID/Dhaka conduct an in-house review of the work plan involving PRO, PRO/ECON, and PDE. The in-house review can be structured around the comments noted above. A full review should be conducted in Dhaka with representatives from HIID (Don Snodgrass or Dick Mallon would be ideal), A.I.D.'s S&T Bureau (Bob Young), and representatives (appropriate counterparts) from the Planning Commission and the Bangladesh Bureau of Statistics. The Phase I statistical advisor should be present during the review sessions as well. A consensus on the Work Plan, openly arrived at, is essential to the smooth progress of both Phases I and II.

Broad issues should be raised during the full Work Plan review. For example, the effective rates of assistance model

that is the cornerstone of the research to be conducted under the work plan may be unable to capture some important effects. This model treats subsidies as beneficial; subsidized interest to a given firm normally will be associated with an increase in production by that firm. However, such a subsidy also may weaken financial institutions and, by inhibiting competition and encouraging rent-seeking behavior, may damage the long-term growth of the industry.

4.2.2. Other Issues.

-- Project Location. The President of Bangladesh must sign the papers that will give an institutional "home" to the Phase II advisor in the Planning Commission. He has not yet done so. Accordingly, the EEPA project still does not have appropriate BDG logistic support and the Phase II advisor still does not have legal standing as an advisor to the Planning Commission. His work is severely constrained. We recommend that USAID/Dhaka press the Government of Bangladesh to identify Phase II as an activity of the Planning Commission as soon as possible. If and when the EEPA project is properly housed in the Planning Commission, USAID/Dhaka will have to amend the appropriate PIL. (NB: Planning Commission Member, GED (acting) Sheikh Maqsood Ali does not think a USG appeal to the President on this matter is called for at this time. However, USAID/Dhaka staff should continue to press the issue with the Planning Commission and, perhaps through a draft PIL, with ERD.)

-- Formal Clearances. USAID/Dhaka may wish to advise the Phase II advisor that letters, memoranda and other written materials prepared by him that include a discussion of matters related to A.I.D. should be cleared by USAID/Dhaka. Even before the Phase II project is formally "housed in the Planning Commission, materials prepared by him that appear to represent the views of the Planning Commission should be signed by an appropriate BDG official. In addition, Planning Commission clearance of materials (excluding, of course, research results) routinely prepared by the Phase II economic advisor may be advisable. However, it must be understood by USAID/Dhaka that the Phase II economic advisor prepares a substantial body of material in his capacity as a member of duly constituted committees, and also prepares documents for internal consumption of the Planning Commission; review or clearance of these kinds of documents typically is not required.

-- Project Steering Committee. The Phase II Project Steering Committee has not yet been created. This committee was designed as the key conduit through which recommendations pass to policy makers in the Bangladesh Government. The existence of this committee takes on even greater significance in light

of the negotiations between the BDG and the IBRD on how best to strengthen the Employment Policy Unit of the Planning Commission. We recommend that USAID/Dhaka initiate discussions on the creation of the project steering committee immediately after the Bangladesh Government has formalized the placement of the Phase II activity in the Planning Commission.

-- Data. The search for data that can be used to generate, inter alia, useful input-output coefficients, coefficients of responsiveness (by private investors), and total-factor measures of productivity, is frustrating. The data base is very weak; this is especially true of the CMI.

Unfortunately, the Phase II economic advisor is relying heavily on CMI data largely because they constitute practically the only relevant data set in Bangladesh. They are, however, notoriously weak. It must be mentioned that the Phase II economic advisor has "cleaned up" the data as best he can. He has created a computer merge file of the CMI data for FYs 75, 76, and 80-84 (this is an important breakthrough). There are, however, still some major problems. While fairly recent by some standards, the data base is too old to shed much light on current policy issues. CMI data are supposed to cover firms of size 10 employees and above. Most observers believe that coverage of the smaller firms is particularly weak and that the quality of the data for the smaller firms is particularly poor. Given USAID/Dhaka's expressed concern with labor-intensive, typically small firms, this weakness in coverage may be serious.

The budget for the economic advisor contains a line item of over \$200,000 (prorated from an annual average of \$125,000 per year) much of which was intended to support data collection and analysis and descriptive studies on various aspects of e.g., the institutional, legal and financial context for small and medium enterprises (SMEs) and, especially, informal (or unregistered) enterprises. The project designers probably underestimated the resources needed to generate and analyze survey data, collect other qualitative and quantitative information on economic issues, and generally meet the research needs of the Phase II activities. In addition, since the economic advisor has used these funds primarily not to generate new data but to analyze data from existing sources (including especially the CMI), supplemental funds are required. We recommend that USAID/Dhaka consider providing additional resources to Phase II to fund data collection and analysis. These resources may help the Planning Commission mount data collection exercises of its own. Details on subject matter and on levels of additional support may be determined during the full work plan review (for example, it appears that additional

resources will need to be devoted to the generation of data to be used in the first three research subprojects identified in the work plan).

The Phase II advisor will have some difficulty mounting a suitable data collection exercise within the Planning Commission. On behalf of the Planning Commission, he probably will continue to press the BBS to collect appropriate data as rapidly as possible. Few alternatives to the BBS exist. For example, the BSCIC data collection exercise will not be helpful (it appears to be a re-run of the earlier "census" conducted about a decade ago). To a considerable extent, the economic advisor's requests for data from the BBS will be outside the scope of the Phase I activity and, to that extent, would have to be collected using non-Phase I resources (unless the Enterprise Policy Reform project is suitably amended). In any event, in pressing the BBS for data on behalf of the Planning Commission, the economic advisor must adopt a collaborative approach so as to help strengthen the professional relationship between data users and data producers in general, and between the BBS and the Planning Commission in particular.

-- Ad-Hoc Data-Users' Group. The Phase II economic advisor sought the creation of this data-users' group. Other members are Zaid Bakht, BIDS; Waihuddin Mahmood, Dhaka University, and A.H. Sahadatullah, former member, GED, Planning Commission. This is a potentially useful group that should work closely with the BBS. The BDG may wish to formally constitute the Data-Users' Group. We believe that the group should include an active member of the Planning Commission, and should select its own Chair/Spokesperson. The advisor should advise the group; it may be inappropriate for an expatriate consultant to serve as the Chair/Spokesperson.

APPENDIX

LIST OF PERSONS CONTACTED IN BANGLADESH

Shaikh Maqsood Ali
Member Planning Commission, General Economic Division

A.M.A. Rahim
Secretary, BBS

Delwar Hossain
Director 1, BBS

Abul Baten
Director 2, BBS

Ahmad Hussain
Director, Economic Census Project, BBS

Shamsuzzoha
Deputy Director, Economic Census Project, BBS

Ekramul Hoque
Deputy Director, Economic Census Project, BBS

Murshed Alam
Statistical Officer, BBS

Mamun Ur Rashid
Jt Secretary, Ministry of Industries

Mobasser Husain
Director, MIDAS

M.A. Rashid
General Manager, BCCI

S.A. Kabir
Director, BCC Foundation

R.A. Khan
Secretary, NASCIB

Priscilla Boughton
Director, USAID/Dhaka

Malcolm Purvis
Deputy Director, USAID/Dhaka

Bob Kramer
Program Officer, USAID/Dhaka

Donald Reese
Director, Project Development and Engineering, USAID/Dhaka

Kay Calavan
Evaluation Officer, Program Office, USAID/Dhaka

Carol Briam
Phase I Project Officer, PD&E, USAID/Dhaka

Colette Chabbott
Program Officer, USAID/Dhaka

Ravi Aulakh
Phase II Project Officer, Economic Officer, Program Office,
USAID/Dhaka

Selem Jahan
Economics Section, Program Office, USAID/Dhaka

Farouk Chowdhury
Economics Section, Program Office, USAID/Dhaka

Robert Torene
Economic Statistics Advisor to Phase I, BBS

Gian Singh Sahota
Economic Advisor to Phase II, Planning Commission

Forest Cookson
Consultant, Bangladesh Bank

Dean Papavassiliou
Consultant, BSCIC

Zia Ahmed
Consultant, Bangladesh Bank

Om Nijhawan
World Bank

ANNEX

A.I.D. MANAGEMENT AND PROGRAM ISSUES

Summary and Recommendations.

The management and program issues section addresses two tasks identified in the scope of work that concern matters internal to USAID/Dhaka. This section is not appropriately distributed to persons or groups outside A.I.D. It was prepared by Jan van der Veen, PPC/PDPR/RP, A.I.D./Washington. It is an independent paper to be read in conjunction with the associated Joint Interim Evaluation.

Phase I and Phase II activities are managed in different USAID/Dhaka offices. This split management has contributed to the strained relationship between the Phase I and Phase II advisors on the one hand and between the project managers on the other. There is an inherent tension between institutions that produce data and institutions that use data. Split management tends to exacerbate this tension; joint management tends to reduce it. Joint management appears to be the preferred option in this instance.

Joint management probably should be lodged with the project development and engineering office (PD&E) rather than with the economic office (PRO/ECON). PD&E has substantially more project management experience and a larger project management staff (the work load associated especially with Phase II is very heavy). In addition, PRO/ECON will be heavily burdened by other responsibilities, e.g., helping craft the USAID's emerging programs, including its programs on SMEs. PRO/ECON should continue to interact intensively on the technical level with the economic advisor.

There is no immediate need to design a follow-on to the Phase II activity. Proposed close collaboration with the World Bank should provide ample opportunity to engage the Bangladesh Government in discussions of SME policy issues. USAID/Dhaka already is considering whether and to what extent it should support technical assistance activities linked to select IBRD loans. These include the Financial Sector Credit, Agricultural Credit II, and the Rural Employment/Rural Poverty Alleviation project.

In addition to collaboration with the IBRD, USAID/Dhaka may wish to develop projects enabling it to engage the Bangladesh Government independently in policy discussions on related

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topics. Doing so would involve expanding modestly from its SME core in areas such as (1) microenterprises (Swarnibor may be a useful and interested NGO intermediary), (2) export promotion through commercial intermediaries (adapting the innovative USAID/Amman proposal prepared by R.R.Nathan), (3) dedicated SME banks (while the 10 percent interest rate ceiling makes this area problematic, the BCCI Foundation proposal may have some merit if the resulting institution does not fall under the provisions of the banking ordinance), (4) core-satellite agroindustries (the USAID may wish to tap into the expertise of the consulting arm of Thailand's Charoen Pokphand), and (5) private banking (the USAID may wish to develop a project that is similar to the IBRD's Financial Sector Credit project, but with private, not public sector, banks.

Work Scope

This annex responds to two tasks identified in the scope of work presented in Dhaka 01585, 29 February 1988. As elaborated in discussions held with the mission, these tasks are:

-- To identify managerial constraints affecting the Phase I (the Enterprise Policy Reform project) and Phase II (the Employment/Small Enterprise Policy Planning subproject of the Technical Resources project) activities and offer suggestions for corrective actions, and

-- To assess the need for possible follow-on phases, and to offer suggestions regarding desirable A.I.D. support in the future, if any.

As these tasks concern matters that are internal to USAID/Dhaka, and are not appropriately distributed to persons or groups outside the mission, this brief paper is prepared as a separate document. It was prepared by Jan van der Veen, PPC/PDPR/RP, A.I.D./Washington. It is intended to be read in conjunction with the associated Joint Interim Evaluation.

Management Issues.

The Phase I and Phase II activities have been -- and still are being -- managed in different USAID/Dhaka offices. Split management has contributed to the strained relationship between the Phase I and Phase II advisors on the one hand and between the project managers on the other. False expectations (discussed at length in the Joint Interim Evaluation) regarding the content and availability of Phase I data probably were the principal causes of those strained relationships.

There is nothing inherent in the two activities that requires joint management. However, joint management clearly would

reduce the strains that now characterize these activities. It is important for the long-term success of the USAID efforts with both the BBS and the Planning Commission that the respective technical advisors encourage harmonious professional relations between these two Bangladesh Government institutions. Project management responsibilities, however they finally are arranged, must keep this point in view.

There is an inherent tension between institutions that generate data and institutions that use data (this point was raised in the Joint Interim Evaluation). Other things being equal, split management will tend to exacerbate this inherent tension; joint management (management by a person or persons in the same office) will tend to reduce it.

In addition, there are some outstanding project management issues that can be resolved only by taking adequately into account the combined interests of both the BBS and the Planning Commission. Two such issues are: whether or not the proposed advanced AES is useful, and which institution might best conduct the proposed "policy responsiveness" survey identified by the economic advisor in his work plan.

The mission may conclude that project management is to remain split. If so, some coordination (possibly in the form of regular, biweekly meetings chaired by the Deputy Director or someone else outside the two offices involved) will be necessary, especially over the next several months. This seems to be singularly unattractive. In general, joint management is the preferred option.

The specific characteristics of the Phase I and Phase II activities suggest that management should be lodged with the PD&E office rather than with PRO/ECON. There are three reasons.

The first reason is based on the subjective view that the PD&E office, due largely to its accumulated project management (as distinct from project design) experience, is particularly well positioned to interact constructively with the economic advisor. Experience is telling in helping guide consultants and advisors through the minefields on which different elements of host government bureaucracies fight their battles. PD&E has the accumulated experience to effectively restrain the economic advisor from inadvertently exacerbating tensions between the BBS and the Planning Commission.

The second reason is based on the observation that PD&E is better equipped to handle the very heavy project management workload that will be associated with the Phase I and, especially, the Phase II activities. Some specific tasks are identified in Table I (see following page).

Annex Table I

Phase I

Procure, set up OMRs
Explore additional funding
Add 3rd OMR
Explore contract extension
Explore funding for national
income accounts

Phase II

Forge consensus on work plan
Reduce false expectations
Find "home" for advisor in
Planning Commission
Resolve differences on research
budget
Establish steering committee
Extend activity past PACD for TRP
Explore extension for year 3
Consider adding funds for more
field work (surveys/studies)
Explore prospects for a
"retainer contract"

In addition to these specific tasks, project management will have to discharge numerous "routine" management responsibilities. No matter how the mission decides how to resolve the project management issue, PRO/ECON should continue to interact intensively on the technical level with the economic advisor.

The third reason is based on the observation that PRO/ECON will be heavily burdened by other (non-project management) responsibilities. These will include important responsibilities in helping craft the mission's emerging programs, including its program on labor-intensive, typically small, non-farm enterprises (SMEs).

Follow-on Activities.

PRO/ECON will have a role in designing the activities that build on Phases I and II. The mission already is moving toward closer collaboration with the IBRD. This collaboration should provide ample opportunity to engage the Bangladesh Government in discussions of SME policy issues. Accordingly, there is no immediate need to design a follow-on to the Phase II activity.

The mission already is considering whether and to what extent it should support TA activities linked to select IBRD sector loans. These include:

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- Financial Sector Credit;
- Agricultural Credit II; and
- Rural Employment/Rural Poverty Alleviation.

PRO/ECON should participate on the appraisal teams for these three projects, and should work hard to bring to the appraisals an emphasis on SME policy concerns. The mission should urge the IBRD to ask a representative from Ohio State University (perhaps Dick Meyer) to join the appraisal teams of the first two projects to ensure close contact between the technical assistance provided under A.I.D.'s Rural Finance Project and the two IBRD projects. The mission also should take note of the relevant language in A.I.D.'s revised Private Enterprise Development Policy Paper and, if possible, in the forthcoming Financial Markets Development Policy Paper; those policy papers identify conditions under which A.I.D. can work with public financial institutions. The third project contains elements designed to strengthen the Employment Policy Planning Unit of the Planning Commission to which the economic policy advisor (Sahota) is attached. USAID participants in the appraisal mission should concentrate on these elements of the project.

In addition to collaboration with the IBRD, the mission also may wish to develop projects that will enable it to engage the Bangladesh Government independently in policy discussions on several related topics. Doing so would involve expanding modestly from its SME core in areas such as:

-- Microenterprises. The activities of PRIP and WEDP may be supplemented by the extension of a substantial line of credit to a local NGO, using IFAD's support to the Grameen Bank as a model. Swarnibor may be interested; a number of its senior officials are well-known to the mission. Some USAID staff are wary of providing support to an NGO for microenterprise development, citing limited absorptive capacity as a key constraint. Others disagree. Driven by Congressional interests that were stimulated in large part by Grameen's Md. Yunus, A.I.D./Washington would be sympathetic to a well-designed USAID/Dhaka microenterprise initiative. (I left with the mission some documents on the microenterprise legislation and on related matters.)

-- Export Promotion through Commercial Intermediaries. Wes Wiedemann of Robert R. Nathan has prepared an innovative project proposal for USAID/Amman that includes the provision of suppliers' credit, extended by banks, to small firms. The key intermediary is not the bank but the (typically large-scale) commercial firm that sells its supplies to the small firms. The mission may wish to consider this model for replication in Bangladesh. (I left with the mission some materials on this project proposal.)

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-- Dedicated SME Banks. The mission appears to have dismissed the notion of supporting a dedicated SME bank. This may be premature. It is true that none of the proposals now circulating in Dhaka makes sense in light of the existing 10 percent interest rate ceiling. However, even if that ceiling cannot be removed in the immediate future, it may be possible to provide support to a dedicated SME bank that falls under legislation other than the banking ordinance (neither the Grameen Bank nor, so far, MIDAS, falls under the banking ordinance). The NASCIB sponsored proposal for a dedicated SME bank probably does not warrant further consideration by USAID/Dhaka; however, the BCCI Foundation proposal may have some merit.

-- Core-satellite Agroindustries. Business relations that rely on a core-satellite model offer innovative ways of supporting small enterprises. Such a model typically links a marketing and/or technological core institution (e.g., a dairy processing plant) with a large number of small producers (e.g., rural smallholders with a few cows). Dairy, shrimp, poultry, fruits and vegetables are merely a few product areas in which this kind of model has been adopted in the developing world (MIDAS has received a funding proposal for a core-satellite dairy industry). One of the best known examples is the multinational firm Charoen Pokphand, based in Bangkok. This firm has its own consulting subsidiary and is, through this subsidiary, a likely source of technical expertise.

-- Private banking. USAID/Dhaka may wish to develop a shelf project that is similar to the IBRD's Financial Sector Credit project. But the mission's project should work with the private, not the public sector, banks.