

USAID BANGLADESHPROGRAM STRATEGY AND PROJECT REPORT *Background - Evolution of Mission Strategy

The Bangladesh Mission's development strategy as stated in its 1975 Development Assistance Program, or DAP report, written in December, 1974, delineated plans for Mission action in three areas: agriculture, population, and education. The DAP was, however, primarily a strategy for agricultural development. Well defined projects could be found only in agriculture related areas such as food imports and fertilizer production. Significant AID projects in other areas were as yet only goals. Small enterprises and off-farm employment generation were mentioned briefly as part of a market town promotion program, as yet undefined, but to be studied for possible future support.

The strategy outlined in the 1975 DAP was followed through the later 70's. Page 1 of the Mission's 1981 Country Development Strategy Statement (CDSS), written in January of 1979, however, recognized the growing problem of surplus rural labor and called for AID to pursue actively the development of off-farm employment programs. Thus, the agriculture dominated DAP of 1975 had evolved into a more diversified program planning document emphasizing increased food production, decreased fertility, and increased employment. In actuality, however, employment increases were to be derived primarily from the spread of HYV agriculture, with its higher labor input requirement, and rural works, food for work programs. The development of market towns and rural industries were as yet still concepts which were under discussion.

Recognition that the rural labor force and the country's population in general were continuing to grow at a rate which surpassed the combined donor and Government efforts to reverse the trend of increasing rural under- and unemployment, led the Mission in its 1983 CDSS, written in February of 1981, to place first priority on the reduction of human fertility. Increased employment generation was also proposed to remain an important objective.

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Under this, its current CDSS, the Mission has changed program management to a sector approach. The four basic sectors are population, agriculture, energy, and rural industry.

Reducing human fertility, increasing foodgrain production and expanding employment opportunities among the rural poor continue to be the Mission's three major objectives. Promotion of the private sector and commodity imports are two CDSS themes which cut across all four sectors. In addition, women in development, local government and BDG human resource development are seen as important considerations for designing activities in each sector.

Within the rural industries sector, the current CDSS states that the Mission will focus on policy or structural reform, credit, institutional development and commodity imports for the private sector. Off-farm employment generation and import substitution are listed as the primary goals.

Background - Constraints to Development

In the case of Bangladesh, and more specifically, the rural industries sector, two major blocks have kept the Mission, other donors and the BDG from significantly progressing towards sector development goals. These impediments are the quantity of resources which need to be employed and the quantity, complexity and inter-relationship of the numerous constraints to sector development which must be overcome.

The AID funded Rural Industries Study Project (RISP) was an important step in identifying the nature of the second impediment noted above; the major constraints to rural industries sector growth. While it identified the extent of rural industries in Bangladesh, and described, classified and ranked them according to a variety of criteria, an equally important finding of the RISP was identification of constraints effectively preventing the expansion of the rural industries sector.

There are more constraints than those which are included in the following list. Dr. Rahman has mentioned problems which have restricted the growth of small industries in the overview paper presented earlier. It is, however, useful to list the constraints as identified by the RISP since they were utilized by the Mission in its project development process.

1. Entrepreneurial Ability:

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

2. Credit:

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

3. Infrastructure:

Lack of an adequate system of transportation, communications and marketing hampers the flow of goods and information. An average of 25-45% of production time is lost because of electric power outages.

4. Diffusion of Ideas and Technology:

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

5. Raw Materials Availability:

This may be the single most important constraint to expansion of rural industries, particularly for the modern, growth industries. Bangladesh is almost totally bereft of adequate supplies of natural resources, including metals, chemicals, construction materials, fuels (except gas), textiles, and even stone, while the availability of wood is also decreasing. Consequently, most enterprises, particularly the

growth industries, are largely dependent upon imports. Imported raw materials available locally are expensive; some are unavailable at any price. Considering the BDG's severe foreign exchange constraints, import of raw materials for rural industries will require either reduced allocation to other high priority sectors or increased foreign assistance. In the long term, Bangladesh desires to become self-sufficient in foreign exchange by developing export-oriented industries. But until improvements have been made in the quality and distribution systems of goods produced, the best Bangladesh can hope for is to limit the overall foreign exchange drain through production of products for import-substitution.

6. Extension:

Extension services for rural industries promotion are virtually non-existent, although BSCIC and others are now making some out-reach efforts. The RISP concludes that extension is particularly important in Bangladesh because the poor communications system and absence of entrepreneurial tradition prevent the flow of ideas and technology necessary for rural industries expansion.

7. Quality:

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

8. Government Policy:

The RISP noted that BDG policies towards imports of raw materials and finished products, large industry promotion, and investment incentives all affect the rural industries sector. Promotion of medium and larger scale industries is being undertaken with financing from the World Bank and other donors. Current BDG policies set no clear priorities towards development of small, medium and large industries.

9. Research and Development:

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

10. Institutions for Rural Industries Promotion:

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

Background - Past Mission Projects

Before independence, when Bangladesh was known as East Pakistan, AID provided assistance to the then East Pakistan Small Industries Corporation (EPSIC).. Funds were utilized as credit to small scale industries. The program was, however, not continued.

From 1951 to independence in 1971, only one percent of USAID financed participants were trained in industry oriented subjects. During this period some industrial sector promotion activities were funded. Some of these activities had both East and West Pakistan components. Included were projects entitled East Pakistan Small Industries Development, Investment Advisory Center, Industrial Productivity, Pakistan Industrial Technical Assistance Center, Business Administration and Investment Corporation of Bangladesh. General import loans through consortiums, Cooley loans amounting to almost \$200 million over 11 years, and local currency obligations, principally from PL-480 receipts, were also directed to industrial sector promotion.

The 1971 independence struggle caused the Mission to direct most of its efforts to relief operations. As early as 1974, however, a small scale agro-industry, entrepreneurial training program was considered for funding. The Mission's emphasis on the agricultural sector combined with the difficulties of charting a strategy for promotion of the relatively unknown rural industrial sector, kept the Mission from taking any significant, new industrial sector promotion initiatives.

In 1978, with the objective of establishing firsthand understanding and a statistical data base, the Mission designed and funded the Rural Industries Study Project (RISP).

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

Phase I of the RISP was a house-to-house survey to locate all industries in 11 selected geographic areas. In this survey information on product type, employment size, qualities of entrepreneurship, machine type, land ownership, seasonality, and other characteristics were enumerated for the 57,281 industries in the study area. These data were published in the Phase I Report.

Phase II was a detailed study of 1,300 of these establishments of which 1,000 were selected mostly on a random sample basis and an additional 300 on an industry type basis. Field work for the main body of Phase II continued for one year.

In addition, case studies have been completed in economics of the Coir (coconut fibre) Industry, the Roofing Tile Industry, the Village Pottery Industry, and Institutional Financing. Case studies on the following should be published before December 31, 1981: Sericulture, Agar, Sub-contracting, Agricultural Tools and Implements, Linkages and Jute Baling. Details, including some sample findings of the RISP can be found in Appendix I of this report.

Present Mission Projects:

The Mission, as a follow-on to the RISP and through its RISP related experience of the last years, has designed and begun implementation of its first exclusively rural industries promotion project in Bangladesh. In addition, three other Mission projects have industry or off-farm employment promotion components, and PL-480 and other resources have been employed for similar promotional ends. These activities are:

1. Rural Industries I Project** - Contains two components:

a. Establishment of a non-profit agency (MIDAS - Micro Industries Development Assistance Society) to assist all non-governmental organizations to promote rural industries through information dissemination, and financial and technical assistance.

* BIDS is a quasi-government agency under the Ministry of Planning which carries out basic research on problems of development in Bangladesh. It also provides training on economic analysis and research methodology.

** Detail can be found in Project Paper 388-0042, circulated to each participating Mission prior to the workshop. A summary is also included as Appendix II of this paper.

b. Undertake feasibility studies and pilot projects in such areas as venture capital, women's entrepreneurship, credit delivery, new products and processes, policy or sector studies, and other private sector promotion activities.

2. Rural Finance Experimental Project

An effective nationwide institutional credit system for farmers and non-farm producers is being developed. Nine systems are being tested, one or more of which may be employed in cottage industry credit delivery. More than one-third of the 37,000 loans made to date have been to non-farm rural/micro industry entrepreneurs. The project is attempting to develop credit evaluation, administration and collection systems for this large number of small size loans on a basis which is profitable for the involved commercial banks.

3. Rural Electrification Project

Purpose is to provide electricity at reasonable cost for production, employment creation, community service facilities, and rural households. Emphasis is on productive uses, notably irrigation and industry. Some funds are made available for development of product use implements and industries and electrification hookups.

4. Small Scale Irrigation Project

Project finances raw materials and manufacturing costs for hand pump tubewells. About 175,000 will be manufactured and sold through private dealers. A possible follow-on project is being examined which may provide for complete private sector raw material procurement, manufacture and sale of pump sets and other agro-support manufactured products.

5. PL-480 Title I Cotton

Local currency receipts from the sale of PL-480 Title I cotton will be used for formation of handloom textile weaving cooperatives aimed at new loom and dyeing technology transfer. Additional program in handloom study and research, loom technology modernization and regional service centers may also be implemented.

6. Small Grants From Various Mission Sources

Other Mission funding sources are being or may be used to finance study tours and training (handloom training of trainers), technical assistance (women's entrepreneurship and handloom textiles) and sector or policy studies (with the Government Planning Commission).

By the end of FY 1982 it is expected that electrification of rural areas will facilitate a shift in production and the spread of small industries to rural areas. The Mission Small Scale Irrigation Project will have promoted the indigenous manufacture and distribution of large number of hand pumps through the private sector. A number of non-governmental organizations will have been assisted in their efforts to promote rural, non-farm employment through the AID funded Micro-Industries Development Assistance Society (MIDAS). Substantial credit facilities will have been disbursed in rural areas for non-farm, commercial or industrial activities. Pilot programs in women's entrepreneurship, industry specific rural credit assistance, a technology transfer oriented venture capital scheme and specific new industrial pilot projects will have been initiated.

Future Projects and Strategy

In accordance with the Mission's current CDSS and Rural Industries I Project statement on strategy (Project Paper, page 4), proper policy formulation, the provision of essential industrial input commodities, service institution strengthening, and the development and diffusion of improved technologies and products will continue to be rural industries sector objectives. The Mission may consolidate its various industry sector activities under one, or possibly two projects.

Emphasis will be placed on small industry financing accompanied by improved industry and entrepreneur identification, credit evaluation, disbursement and collection by commercial banks, and technical and marketing assistance extension services. Venture capital for stimulating new processes or products may be a part of the overall financial package developed. Foreign exchange financed raw material, or equipment may also be funded.

As part of the sector approach, policy or feasibility studies, including sector monitoring and analysis activities, may also continue to be funded.

Resources, presently unavailable in sufficient quantities, will be channelled through both BDG and non-governmental agencies to promote the growth of labor intensive, rural industries which use basically indigenous raw materials to produce import substituting or export quality products.

Future Projects - Funding

This program will, of course, require additional funds. At present, AID is under budget constraints for funding of new projects. However, we trust that projects such as these, which provide an opportunity for the private sector to assume a larger role in the development process, will be adequately supported by the governments of both Bangladesh and the United States.

APPENDIX I

RURAL INDUSTRY STUDY PROJECT(RISP)

A. Background

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

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

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

B. Study Procedure

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

Phase II was a detailed study of 1,300 of these establishments, of which 1,000 were selected mostly on a random sample basis and an additional 300 on an industry type basis. Field work for the main body of Phase II continued for one year and ended February 29, 1980.

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

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

A household budget study was conducted under Phase II, based on 2,247 households in 18 selected villages. This study sought to show labor characteristics of rural industries in the context of the household as well as demand for industrial products in the context of household budgets.

C. Case Studies

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

1. Coir. This industry is based on coconut fibre, used largely in ropes and mats, and as cushion filler material. The industry has been neglected in Bangladesh compared to some other parts of South Asia.
2. Jute Baling. Jute is the most important cash crop in the country, and baling is an important part of the processing chain which, until now, has not been studied.
3. Pottery. Village pottery is a widespread industry, but it has not received much attention. Introduction of new clay products and potting methods may help potters retain their share of the market.
4. Roofing Tiles. This industry is found in only a quarter of the country and could be diffused to the rest, with the idea of reducing use of imported corrugated iron sheets. This is a potentially important industry.
5. Agar. This is an industry in which scents are made from a particular type of wood, found in only small area of Bangladesh. The product has a good export market.
6. Silk. This industry is promoted by the Bangladesh Sericulture Board. There is scope for wider promotion than is presently taking place.
7. Finance. This study surveys past and existing means of advancing credit to SCI's and explores the problems artisans and entrepreneurs have in obtaining financing.
8. Policies and Institutions. This study surveys Government of Bangladesh policies and institutions regarding SCI's with the view of making recommendations based on the responses of artisans and entrepreneurs to the Phase II questionnaires.

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

10. Agricultural Tools and Implements. A high priority in the BDG Second Five Year Plan is given to agro-based/support industries. Local production of these tools and implements is considered both feasible and necessary.

D. Phase II Contents

The following are the chapter headings of the Phase II Report:

PART I

INTRODUCTION

1. Objectives, methodology and organization of the study
2. General description of thanas
3. Rural occupational structure
4. Profile of rural industries

PART II

PRODUCTION AND PRODUCTIVITY

5. Employment and labor
6. Capital and technology
7. Inputs, value-added and productivity

PART IIICONSTRAINTS

8. Entrepreneurship
9. Finance
10. Marketing
11. Demand for rural industry products

PART IVPOTENTIAL INDUSTRIES, POLICIES AND INSTITUTION

12. Potential industries and felt-needs regarding assistance
13. Aspects of selected rural industry products
14. Policies and institutions

E. Some Sample Findings

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

1. In the 11 thanas surveyed there are 57,281 industries employing an average of 3.8 persons each. In the thanas concerned, agriculture is the primary occupation of only 50% of the employed work force, rural industries of 22%, petty trade of 11%, salaried jobs and self-employment of 6%, and construction and transportation of 3%. The percentage engaged in rural industries is probably higher in the study thanas than in the whole of Bangladesh, but, nevertheless, the number of SCI's and the proportion of persons employed in them are several times greater than those shown in any previous studies.

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

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

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

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

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

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

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

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

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

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

F. Utilization of the Study

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

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

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

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

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

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

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

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

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APPENDIX II

RURAL INDUSTRIES I PROJECT
(388-0042)

The Rural Industries I Project provides \$5,000,000 in grant funds for two separate components and long term consultancy support as follows:

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

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

MIDAS Background

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

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

MIDAS Outputs

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

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

1. Technical Services to Assist Client Agencies in

- Project identification, feasibility studies and evaluation.
- Overcoming raw materials and production process constraints.
- Development of marketing strategies.
- Identification of needs for technical services and the provision of experts with the requisite technical skills.
- Organization of seminars, short-term study tours, apprenticeships, and on-the-job training opportunities

2. Information Services

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

3. Financial Services

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

4. Fund Generating Enterprises

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

5. Ties with the Government and Business Sector

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

(a) Five Year Service Implementation Estimates

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

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

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

Resources

No. of new profit generating ventures	-	1/1	2/1	3/2	5/3
Membership of MIDAS Expert Committee	10/8	25/20	30/20	30/20	30/20
No. of consultants available to MIDAS through consultant group	10/5	35/20	70/40	120/40	200/80
<u>Income (\$)</u> (maximum)					
(minimum)					
Fees	-	<u>3,000</u> 500	<u>10,000</u> 2,000	<u>15,000</u> 10,000	<u>30,000</u> 20,000
Paid consultant services		<u>1,000</u> 500	<u>3,000</u> 1,000	<u>6,000</u> 4,000	<u>10,000</u> 6,000
Profit making corporations	-	-	-	<u>50,000</u> 10,000	<u>150,000</u> 50,000

B. Component 2 - Development Funds

This component of the Rural Industries I Project will contribute to attainment of rural employment objectives by developing mechanisms for promoting rural industries in Bangladesh. To this end, funds will be provided for developing and undertaking feasibility studies and pilot projects that may lead to high impact follow-on activities aimed at rural industries sector promotion.

Funds utilization may be categorized illustratively as follows:

1. Assistance to the Bangladesh Small & Cottage Industries Corporation (BSCIC) to establish a system for promotion of village industries, possibly supported by credit, training, and/or women's industries and entrepreneurship development.
2. Assistance to determine feasibility and design of a plan for capitalization of smaller scale industries through one or more private sector financial institutions.
3. Assistance for specific product or industry type development, with research and pilot production.
4. Assistance for development of experimental approaches to rural industries promotion.
5. Assistance for other sector promotion activities, such as, but not limited to, the design and development of commodity import programs, sector studies, or export, joint venture and other private sector investment promotion programs.

Each program considered for funding will be individually examined and approved by the BDG and AID before the activity is funded. There are five criteria by which the proposed activities will be evaluated. These will provide the basis for rejecting unsuitable proposals and for setting priorities for funding acceptable options. The criteria are as follows:

1. The activity directly addresses one or more of the major constraints to rural industries development.
2. When an activity is aimed at a product or industry type, there should be evidence that widespread and profitable production is possible (i.e. demand exists and marketing systems are identified; sophistication in managerial or technical skills is not required at the level of the small or cottage industry entrepreneur; and, raw material, credit and other inputs are available and affordable to the enterprises).

3. Priority will be given to activities which employ labor intensive, energy efficient modes of operation, employ women as entrepreneurs or at other income generating levels, use indigenous natural resources, and/or are agro-industry, import substitution or export oriented.
4. Pilot projects demonstrating new technologies or industrial processes, when designed by or with the assistance of BDG agencies, must be implemented by the private sector to demonstrate the feasibility of application and wide scale replication by the private sector.
5. The BDG agency acting as AID counterpart on any activity undertaken must demonstrate that it can and will provide adequate technical and/or administrative support for the activity and follow-on design and implementation.

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

A portion of the grant to the BDG, amounting to \$1,270,000, will provide all the foreign exchange cost and partial local currency cost of the activities outlined above. The AID funds may be utilized for consultants to provide technical assistance in an activity's design and/or implementation, participant training, equipment, vehicles or other commodities, research or study subgrants, credit or credit guarantee, or in any other manner which the BDG and AID may deem appropriate. BDG funds will be utilized for counterpart personnel, participant training, land and buildings, and counterpart overhead expenses incurred in grant funded activities.

A second portion of the grant, amounting to \$275,000, will be utilized to fully fund the cost of a long term expatriate consultant who will provide technical assistance to both the BDG and AID in Rural Industries I Project implementation and assist in all phases of related AID rural industries sector program efforts.