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BANGLADESH:

**STRATEGIC OPTIONS FOR
JOB CREATION**

Final Report

U.S. Agency for International Development

**Prepared for: USAID/Bangladesh
Office of Economics and Enterprise**

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List of Acronyms

ACBM	Advanced Course in Bank Management
ATDP	Agriculture Technical Development Project
BASC	Business Advisory Services Center
BIBM	Bangladesh Institute of Bank Management
BRAC	Bangladesh Rural Action Committee
Crore	Equivalent to 10,000,000 taka or about US \$250,000
FSRP	Financial Sector Reform Project
FY	fiscal year
GDP	gross domestic product
GOB	Government of Bangladesh
IESC	International Executive Services Corps
IPP	Investment Promotion Project
JOBBS	Job Opportunities through Business and Banking Support
LOP	life of project
LRA	Lending Risk Analysis
ME	micro-enterprise
MIS	management information system
NCB	National Commercial Bank
NGO	non-governmental organization
NLL	New Loan Ledger
OEE	Office of Economics and Enterprise
OFA	Office of Food and Agriculture
PIAG	Project Implementation and Analysis Group
PPS	Performance Planning System
PRISM	Program Performance Information for Strategic Management
SMEs	small and medium enterprises
SO	strategic objective
SOE	state-owned enterprise
Taka	Bangladeshi currency. Exchange rate is approximately Taka 1/US\$
USAID	U.S. Agency for International Development
WEDP	Women's Enterprise Development Project

EXECUTIVE SUMMARY

In the Three Year Rolling Investment Programme (FY 1994-1996), the Government of Bangladesh has stated clearly and documented its commitment to making the transition to a market driven economy. The investment plan stresses "poverty alleviation through productive employment generation," and calls for a series of economic and social interventions for achieving higher rates of economic growth. Higher rates of economic growth will originate in a number of sectors, though the increased contribution of manufacturing and exports appears to hold the most promise for increased involvement of the private sector, with a direct positive impact on gross domestic product growth.

Poverty alleviation and job creation -- as stimulated by medium size enterprises in high-value agriculture, manufacturing, and the opening of export markets -- require technical and financial assistance. Assistance is required to these new, high-potential, employment-generating segments of the Bangladeshi economy, overlooked somewhat in recent years, given prior emphasis on democratic reform, and health and population issues. Participation in, for example, health and population issues, has given rise to a significant number of active non-governmental organizations (NGOs) in Bangladesh, including ones which supply credit to the poorest of the poor, and certain micro-entrepreneurs, though not enterprises of a larger scale.

USAID/Bangladesh is funding currently and managing actively a series of projects supporting the mission's strategic objective: "to improve the quality of people's lives in terms of health and nutritional status, economic status, employment opportunities, and representation in the government." Clear performance standards for achieving this objective have been formulated and incorporated in the mission's Program Performance Information for Strategic Management (PRISM).

Sub-goal two of the mission addresses directly issues of sustained and sustainable job creation, and is a direct responsibility of the Office of Economics and Enterprise (OEE). Supporting this goal, OEE has developed two significant program approaches: Financial Sector Reform Project (FSRP) and Investment Promotion Project (IPP). A review of project accomplishments indicates progress in such diverse areas as women's enterprise development, policy reform and initiatives, increasing the capacity of local NGOs to act as financial intermediaries, and financial system-wide improvements in commercial and central bank policies, operations, and procedures.

The challenge facing OEE at present is to decide how future resources can best be applied to job creation and sustainability. The lessons learned from past and present USAID/Bangladesh activities suggest that future project options stand to maximize job creation and sustainable results when leveraged from past successful efforts, combining significant achievements to date with new directions aimed at encouraging medium size entrepreneurs.

The encouragement of medium size entrepreneurs can take many forms, from improvements in access to technology, specialized, subsidized credit schemes, active participation of NGOs in this previously overlooked segment, or emphasis on policy analysis and initiatives to foster nurturing business practices. However, this list of interventions, albeit well-intentioned and reasonable, is too broad a mandate for the mission to undertake, both in terms of reasonable deployment of resources, and complementarity to existing programs and other donor contributions in Bangladesh.

"Strategic Options for Job Creation," utilizing two matrices, "Contribution to Sustainable Job Creation" and "Management Factors" outlines and ranks possible program options, and concludes with a recommendation on a proposed strategy. The proposed strategy builds on the achievements of FSRP and IPP, employing existing institutions and operations, yet leveraging these achievements to stimulate directly job creation and sustainability. The proposed strategy embodies a series of program initiatives:

- Public banking reform and export financing;
- Public banking and access to credit for NGOs;
- Public banking training;
- Banking sector reform;
- Small and medium size enterprise growth, trade, and development; and
- Policy and regulatory analysis and interventions.

The resulting strategy is **JOBBS -- "Job Opportunities through Business and Banking Support."** JOBBS narrows and focuses the diversity of prior USAID interventions, concentrating on the creation of enhanced financial services to improve access to existing, available capital for selected client groups. These enhanced services take the form of credit windows for selected client groups, comprised of NGOs and medium size enterprises. Medium size enterprise lending would be oriented toward:

- Creating new products and markets for export;
- The production of high-value agricultural and horticultural products; and
- Bangladeshi "high growth" manufacturing industries.

In addition, the strategy calls for increased participation and involvement of NGOs, fostered by the ability of NGOs to secure commercial funding for on-lending.

Finally, evaluation criteria, on a two tier framework, incorporating PRISM measurements sensitized to the issues of the client/banking relationship and institutional sustainability, are outlined.

I. OVERVIEW

Part I of this options paper explores the background, experiences, and desires of partners in the development of Bangladesh. It starts with a synopsis of the development priorities of the Government of Bangladesh (GOB), then reviews USAID's development agenda in Bangladesh and the role of the Office of Economics and Enterprise (OEE) within this agenda, and lastly considers broadly other donors' activities in Bangladesh.

A. GOB Development Objectives

As noted in the GOB's Three Year Rolling Investment Programme (FY 1994-1996), the government appears committed to making the transition to a market driven economy. There is the acceptance that doing so will require "creating an overall environment for flourishing the private sector in general..." However, the government appears committed equally to a gradual transition to market economics and to put a "human face" to the transition and development process by providing suitable "safety nets" for the poor and disadvantaged.

The three year investment plan summarizes succinctly the GOB's approach to development -- move to market economics with a human touch: "...poverty alleviation through productive employment generation is the prime agenda of the government." This development vision encompasses ten objectives, as identified in the Three Year Rolling Investment Programme:

- Human resource development beginning with the removal of the curses of hunger and illiteracy, provision of basic health facilities and appropriate population control measures through adequate allocations to socio-economic sector.
- Increased employment opportunities, particularly for rural areas through appropriate organizational and institutional mechanisms with effective financial discipline and manpower support.
- Strengthening of the national economy through the development of the rural economy with priority to the development of the agricultural sector.
- Promotion of competitive efficiency through appropriate transfer and adaptation of technology targeted towards supporting employment in the agriculture and manufacturing sector.
- Promotion of joint-enterprises collectively large but individually small with focus on the agriculture sector, small trade, and small industries.
- Promotion of private enterprises based on competitive efficiency with emphasis on export-oriented industries.
- Promotion of export-led growth of the economy.
- Maximizing inter-sectoral linkages.
- Integration of macro-level planning with micro-planning along with built-in accountability at all stages of socio-economic development process.
- integration of a national conservation strategy with the development process to prevent the degradation of the environment and improve its capacity of sustainable development with economic planning at all levels.

Besides GOB resources, objectives particularly in the areas of basic education, primary health care, women affairs, sanitation, population control, and poverty alleviation benefit from substantial non-governmental organization (NGO) efforts, and as discussed below, from donor initiatives. It is in areas such as export-led growth, increases in productive non-agriculture employment, and manufacturing growth that, as the GOB states in its plan, "major thrusts will be required."

B. USAID/Bangladesh Development Agenda

The goal, sub-goals, and strategic objectives for USAID/Bangladesh as established through the Program Performance Information for Strategic Management (PRISM) exercise are summarized in Figure I-1. The mission's direction is clear: "to improve the quality of people's lives in terms of health and nutritional status, economic status, employment opportunities, and representation in the government."¹ Sub-goal two is tied to sub-goals one and three and specifically addresses issues of sustained and sustainable job creation important to USAID/Bangladesh in general and in particular for the Office of Economics and Enterprise (OEE) and the Office of Food and Agriculture (OFA), which are primarily responsible for these sub-goals.

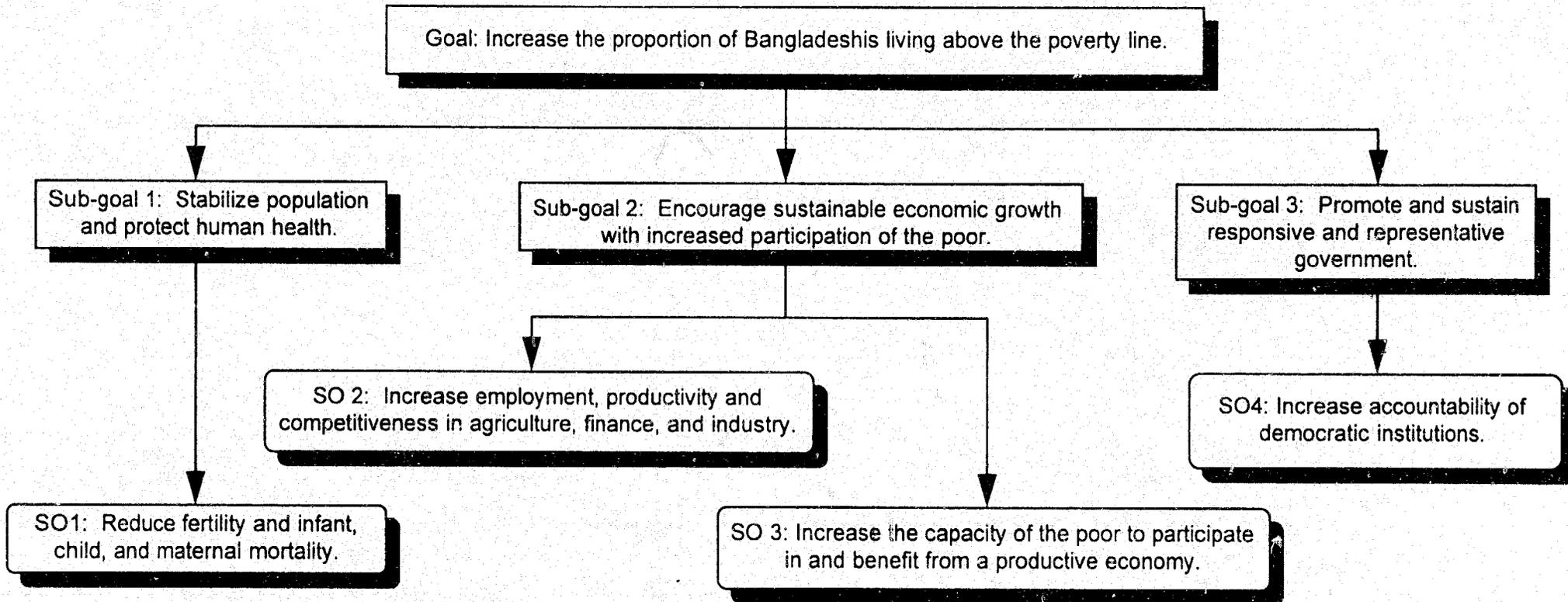
In a country with nearly half the population in poverty, the goal of increasing the proportion of Bangladeshis living above the poverty line certainly is appropriate, and parallels the GOB's stated development interests. Sub-goal one -- stabilize population and protect human health -- represents a major part of the mission's approach to achieving poverty alleviation. Nearly 60 percent of the mission's development assistance (DA) funds are targeted at this sub-goal. Population and health go hand-in-hand. In a country with a population growth rate in excess of two percent, stabilizing the rate of growth at supportable levels will significantly improve the prospects of raising the standard of living for those currently below the poverty line. Increasing life expectancy (57 years), literacy (35 percent among adults), per capita income (\$220 per annum), and other quality of life factors becomes more achievable.

Sub-goal two -- encourage sustainable economic growth with increased participation of the poor -- recognizes that if the gains achieved in population and health are to be maintained, then people must have the means to support themselves, i.e., jobs. Very importantly, the sub-goal focuses on sustainable economic growth to create jobs of varying skills -- and wages -- throughout the economy. The importance the mission attaches to providing job opportunities through sustainable economic growth is reflected in its allocation of about 35 percent of its DA resources to achieving the sub-goal.

If achieving sub-goal two contributes to maintaining progress made towards sub-goal one, then sub-goal three is an important element to maintaining the progress made towards both sub-goal one and two, both of which in turn strengthen democracy. Bangladesh has experienced nearly four years of democracy, with some gains in legislative and judicial reforms. In support of the fledgling democracy, the mission has allocated five percent of its DA resources to democracy activities.

¹Vondal, Patricia, Harriett Destler, Thomas Cook, and David Fredrick, "Monitoring Program Performance: USAID/Dhaka (Draft Report)," April 1994.

Figure I-1. Mission Agenda



C. Office of Economics and Enterprise

As shown in Figure I-1, the mission has identified two strategic objectives that will lead to achieving sub-goal two: a) increase employment, productivity, and competitiveness in agriculture, finance, and industry, and b) increase the capacity of the poor to participate in and benefit from a productive economy.

1. OEE Project Accomplishments

OEE's projects over the years have made good progress toward stimulating and supporting private sector development and job creation, as captured by PRISM program outcomes for strategic objective two. These outcomes are: strengthen market mechanisms in the agricultural, financial, and industrial sectors; and improve technology and efficiencies of business enterprises and business support organizations. A quick review of OEE's three current projects highlights some accomplishments:

- **Women's Enterprise Development Project (WEDP)**
 - Establishment of 28 field offices with intention to expand to 40.
 - Disbursement of over 25,000 loans.
 - Direct employment for 20,000 people.
 - An average increase of 20 percent in borrower income.
 - Greater status for women in the family.

- **Investment Promotion Project (IPP)²**
 - Critical provision of policy and regulatory assistance to the GOB through a series of policy papers and seminars, which has led and is leading to streamlining of GOB procedures and improvement in GOB policy initiatives.
 - Improved GOB capacity for policy analysis and improved dialogue on policy issues between the public and private sectors.
 - Completion of a survey on the needs of small and medium enterprises (SMEs) for business advisory services.
 - Presentation of over 20 training seminars and workshops on a wide array of topics of interest to Bangladeshi SMEs.
 - Preparation by local consultants of feasibility studies and business plans and the development of market, finance, and technology information for dissemination to SMEs.
 - Completion of over 30 consultancies by retired U.S. business people, with nearly a dozen more programmed.
 - Demonstrable increase in output, quality, and employment as a result of the consultancies.

²There are several components to IPP: Policy Implementation and Analysis Group, Business Advisory Services Center, International Executive Service Corps, Small Industries Credit Insurance Scheme, and Bangladesh-US Business Council. At the moment, the latter two are not active.

● **Financial Sector Reform Project (FSRP)**

- Improvements in monetary policy.
- Liberalization of interest rate controls.
- Training of more than 1500 officers in Lending Risk Analysis (LRA).
- Implementation of modern bank management information system.
- Implementation of Performance Planning System (PPS).
- Design and implementation of a New Loan Ledger system (NLL).
- Training of 20,000 employees in modern banking techniques.
- Strengthening the Negotiable Instruments Act.

2. Evolution of OEE's Portfolio

At its "high water mark", OEE's portfolio had a life of project (LOP) funding level nearing \$50 million. In 1994, that LOP funding decreased slightly to approximately \$40 million, but by the end of 1996 this level will decrease to \$5 million without inclusion of any new projects.

After FY 1996, the largest single project in support of the mission's strategic objectives two and three will be the Office of Food and Agriculture's Agribusiness and Technology Development Project (ATDP), with LOP funding of \$37 million for technical assistance and \$42 million in commodities, plus \$26 million for agribusiness credit from the GOB. In a country where agriculture is a major contributor to the gross domestic product (GDP) and employment -- 35 and 65 percent, respectively -- ATDP is a critical undertaking.

Agriculture, however, is not expected to continue to absorb high levels of employable Bangladeshis; there are an estimated two million new entrants into the work force each year. Therefore, a growing need exists to focus on non-agricultural related jobs.

In the past, OEE's implementation of the mission's job creation strategy relied on relieving institutional and policy constraints which denied market players -- both informal and formal -- access to assets, whether financial, human, technological, or informational. In times of adequate USAID resources, it was possible to target a wide array of constraints that limited access to all four asset categories. In times of reduced budgets, this may not be feasible or, at least, not feasible without some consolidation.

3. The Development Challenge

Just creating jobs is not enough. The jobs established must be sustainable. To create these jobs means creating jobs all along the job continuum -- from unskilled to semi-skilled to skilled -- with higher wage scales and greater multiplier effects throughout all layers of the economy. In addition, the economic environment in which businesses, from micro to large, can thrive and sustain the jobs created must be nurtured, with past gains consolidated. The test for USAID/Bangladesh will be to contribute to this challenge with a much lower level of OEE funding than in previous years.

D. Other Donor Efforts

Given the vast network of international development assistance -- multilateral, bilateral, NGO, and private voluntary organization -- to Bangladesh for poverty alleviation through health, population, education, enterprise development, etc., donor coordination is both necessary and complicated. It is necessary in order to leverage what will likely be scant USAID/Bangladesh/OEE resources in comparison to the already sizeable amount of donor assistance, and complicated because of the loss of control that can result from depending on others to carry out necessary activities.

Though the team's information is largely second hand, rather than from direct interviews, it is possible to outline briefly donor activity in Bangladesh. Adding detail will be an important task for any design team. Table I-1 summarizes donor project assistance by type of activity. Project aid represents the largest share of foreign assistance and includes human resource development, infrastructure, and the development of social sectors. The picture is not complete in that international NGO activity funded by offshore resources is not captured. Moreover, the information does not relate the form the assistance is taking. Examples of recent and on-going donor assistance that complement OEE activities are:

- The German Federation of Small Business and Crafts is assisting the Dhaka Chamber of Commerce and Industries.
- Both the Canadians and the British have their active equivalent to the International Executive Service Corps.
- The Commonwealth Secretariat is looking to provide technical assistance to domestic NGOs.
- CARE's new INCOME project aims to help 30 NGOs become better at financial planning, selecting revenue generating activities, business counselling, and project development. Unlike the majority of NGOs which focus on the rural population, INCOME will start with Dhaka-based NGOs and work its way to rural areas.

Table I-1. Three Year Rolling Investment Program with Donor Project Aid

Sector	1993-1994			1994-1995			1995-1996			1994-1996		
	Total	Taka	Proj. Aid									
Agriculture	588	261	327	647	287	360	772	330	442	2007	878	1129
Rural Dev. & Inst.	533	204	329	663	260	403	716	269	447	1912	733	1179
Water Resources	802	359	443	809	401	408	902	501	402	2513	1261	1252
Power	1135	649	486	1156	685	471	1358	800	558	3649	2134	1515
Transport	1746	722	1024	1873	803	1070	2096	714	1382	5715	2239	3476
Ed. & Rel. Affairs	1034	607	427	1180	708	472	1354	832	522	3568	2147	1421
All others*	2141	1118	1023	2867	1592	1275	3116	1757	1359	8124	4467	3657

Tech. Assistance	354	37	317	399	37	362	401	37	364	1154	111	1043
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Source: "Three Year Rolling Investment Programme (FY 1994-1996)," Planning Commission, Government of the People's Republic of Bangladesh, March 1994.

Figures are in Crore. One crore equals ten million taka. The taka/US dollar exchange rate is about T40/US\$.

*All others includes, in order of three year total funding from most to least: Oil, gas, and natural resources (C1796); Physical planning, water supply, and housing (C1678); Family welfare (C1417); Health (C1072); Communication (C653); Industry (C532); Social welfare, women's affairs, and youth development; Mass media; Sports and culture; Science and technology research; Public administration; and Labour and manpower.

II. PROJECT SELECTION FACTORS

Incorporation of "lessons learned" into future project options is essential in order to leverage past achievements. In addition, there are several factors -- internal and external to USAID/Bangladesh -- that will drive the selection of a project initiative. These selection factors are: a project's match with available assets, e.g., personnel, funds, comparative strengths, other mission activities, other donor activities; incorporation of lessons learned; and likely ability to promote sustainable change. This section also introduces project selection matrices as a tool for selecting viable project options.

A. Lessons Learned

An important step in the process of identifying project options is looking to past and on-going activities for lessons that can be drawn from these experiences, so that options can be formulated against such lessons. USAID/Bangladesh has extracted numerous lessons over the years from its OEE and OFA portfolio. To profit from those lessons, and to avoid re-learning them, it is important to weigh such lessons in light of a changing environment when contemplating a new project initiative, or amending an existing project.

Among the lessons drawn from past efforts are:

- When tackling a public sector issue it may be helpful to have vertical reach/influence.
- Coordination is very much personality driven.

Vertical Vision

USAID/Bangladesh's FSRP is unique in terms of the depth of its reach. The project works with the Ministry of Finance on macro-economic issues, the Bangladesh Bank (the central bank) on Bank policy issues, and the nationalized commercial banks (NCBs) on management, loan appraisal, and other concerns.

This reach has enabled the project to develop a congruent strategy for the entire financial sector, to leverage success in one arena across the others, and to dissolve bottlenecks by appealing to higher cross-cutting authorities.

- A project can offer counterparts an avenue to pursue ideas or make changes they otherwise would not or could not, as the project team can take the lead and be seen by outsiders as the proponent, and act as the lightning rod for disagreement.
 - The project's product/service should be "market" driven, i.e., desired by the recipient whether public or private sector. Market information is essential to a good design.
 - A project should budget for promotion of its product/service and for education of target market.
 - If sustainability is desired it must be designed, and if necessary redesigned in light of changing circumstances.
- Projects in the public sector must factor in the frequent transfer of professional staff. This factor also complicates designing a project around one exceptional public official.
 - Before training of public officials is offered, it would be useful to seek assurance that these individuals will not be transferred for a given period.

- Competition from the private sector for well trained public sector employees can be stiff. Alternative structures within the framework of the public sector should be considered.
- Management Information Systems (MIS) are integral to the development of both private entities and public institutions. However, integrating MIS into an organization often requires a longer gestation period than envisioned during project design.
- Policy initiatives do indeed lead to poverty alleviation.
- Policy reform is evolutionary, in part because it is a formative process and key policy personnel can be, and are, frequently transferred. Policy activities must be designed for the long-term.
- Maintaining some flexibility in design allows a project to remain pertinent.
- Bangladesh has a strong base of local consulting talent in certain fields. Tapping these consultants is an excellent way to promote institutionalization and sustainability of effort, as well as extending resources.
- Determining project impact, and applying evaluation criteria, requires an investment upfront of resources -- financial and human.

Policy = Jobs

USAID has played a critical role in the development of the private fertilizer market through policy reform. In the process, a new sector was created, in which over 100,000 small- and medium-sized fertilizer wholesalers, distributors, and retailers compete, thrive and create jobs. Farmers have greater access to fertilizer at lower prices, leading to new production highs and lower consumer prices for rice.

B. Management Considerations

There are six management considerations that can be used to rank and select from among project options for funding and support: internal management burden, funding considerations, comparative advantage, complementarity to mission program, complementarity to other donor programs, and opportunity cost among sectors and options.

1. Management Burden

Any new effort needs to be considered from at least three perspectives: the management burden on USAID staff in supporting it; how it dovetails with other mission activities; and whether management work could be assigned to contractors. OEE's current portfolio consists of six activities (down from seven) in three projects with total LOP value of over \$35 million. By 1996, OEE's portfolio will consist of essentially one on-going project and one new project. OEE direct hire management is expected to stay at three, though it could fall to two. Other contracted professional positions may decrease as existing projects come to an end, though this is not certain. Given a minimum of two direct hire professional positions, plus one or two outside contracted professionals, it is not anticipated that any new project will overburden OEE.

2. Funding Considerations

Funding is an obvious consideration. The OEE portfolio is shrinking from nearly \$50 million pre-1994 to less than \$40 million in 1994, and less than \$5 million in 1996. The post-1996 portfolio value is uncertain.

OFA and OEE work in tandem, and, to some degree, the fall off in OEE portfolio value is replaced in part by OFA's very large ATDP initiative. However, ATDP is agriculture and agribusiness and does not specifically address the need to create non-agriculture based jobs.

It is quite clear, therefore, that the bulk of the mission's effort to create sustainable non-farm related employment will be the new OEE project initiative, and that it is unlikely this single initiative will return OEE's LOP funding to its former levels. As a result, each option needs to be considered in light of the impact a relatively small project can have.

3. Comparative Advantage

USAID is recognized as enjoying certain comparative advantages vis-a-vis other donors that any new initiative should seek to leverage. Among these are:

- Its willingness to push the envelope, to take risks, and to experiment with new approaches to development.
- Its important and growing body of knowledge of how to "massage", adapt, and mold the delivery of financial services and policy reform.
- Its expertise in the field of SME growth and development.
- In-country presence that provides knowledge of local conditions and a network of local contacts.

4. Complementarity To Mission Program

A very important factor is the option's fit with USAID country objectives and its complementarity to other mission portfolio activities. As discussed in Part I, the mission's overriding goal is poverty alleviation. The mission's approach to accomplishing its goal recognizes that there are different avenues to poverty alleviation and that all are important to follow if successes at reducing the instances of poverty are to be sustained. Any new or extended OEE activity should seek to maintain the same rounded approach and mission-wide portfolio balance.

Besides complementing other planned initiatives, particularly ATDP, USAID/Bangladesh can enhance the impact of any new private sector, job creating activity by capitalizing on past accomplishments, rather than starting off in a completely new direction. In addition, impact can be enhanced by addressing more systemic issues of job creation, which would have a greater job multiplier effect for the amount of money available. Such an approach necessarily implies a monitoring system that can capture the secondary job benefits of policy and institutional improvement.

5. Complementarity To Other Donors

As shown in Table I-1, there is significant donor activity in Bangladesh, much of it geared towards agriculture and rural development and institutions. In addition, NGO's are quite active, with over 600 officially registered. USAID/Bangladesh could seek to replicate on-going donor and NGO activities, particularly in the area of rural, micro-enterprise development. (While there are many organizations working in this field, the need is great.) Alternatively, USAID/Bangladesh could seek to complement existing activities in ways that leverage its strengths and experience and look beyond immediate job creation to consider the on-going sustainability of employment creation.

6. Opportunity Cost

Focusing on one option over another must also be considered in terms of priority areas sacrificed. Given limited funds, decisions must be made with understanding of trade-offs, if not in quantitative terms at least in qualitative ones. For example, a trade-off of a focus on micro enterprises is that it will likely have little meaningful impact on Bangladeshi exports.

C. Analyzing Constraints

Constraints to job creation, or more positively stated, gaps and areas of opportunity, can be ranked according to three criteria:

- **Strength:** The degree to which a constraint inhibits sustainable job creation. Lack of access to capital, limited market information, inappropriate/outdated technology, low business acumen or untested skills, inappropriate policies and other barriers can diminish the private sector's capacity to create and sustain job creation, but not all necessarily to the same degree.
- **Resistance:** The degree to which USAID/Bangladesh is likely to relieve the constraint. The less money available the greater the need to focus on activities that will prompt change throughout the market in order to effect meaningful job creation. Another way to consider this is even at \$250/job, a \$15 million project creates 60,000 jobs over a typical five year period, or approximately 12,000 direct jobs/year, plus a number of indirect jobs. Vying for these jobs, along with the currently under- and unemployed, are the estimated two million people entering the labor market annually. At \$250/job many of these jobs will be in the micro-enterprise sector, i.e., largely unskilled employment of low wage and high vulnerability.
- **Market Effect:** The degree to which resolving the constraint is likely to lead to direct or indirect, sustainable job creation. As noted above there are any number of constraints which inhibit employment. Though the strength of one or another constraint may vary, the market effect of removing only one constraint is likely to be limited.

D. Selection Matrices

As a tool to use in the decision process, two project option matrices are introduced in Table II-1 and II-2. Each matrix lists the options on the vertical axis and various evaluation criteria on the horizontal axis. The matrices segregate options into one of three major categories, though other categories could be added. The first matrix ranks how well each option satisfies the two relevant strategic objectives contributing to sub-goal two -- encourage sustainable economic growth with increased participation

of the poor -- and each option's likelihood of affecting change. The second matrix ranks how each option relates to USAID management considerations, discussed previously.

"Contribution to Sustainable Job Creation" matrix is ranked on a scale of high, medium, or low. A project option that ranks "high" against strategic objective two or three is likely to contribute more to achieving the strategic objective. This ranking would be based in part on how well the option stands up to the constraint analysis. A "high" ranking under columns "a", "b", and "c" would translate into an important option to consider. Conversely, a "low" ranking in these columns would depict a project option that is less important. "Management Factors" matrix is scored on a numerical scale on which a low score equates with a better option from an internal, USAID/Bangladesh point of view.

Table II-1. Contribution to Sustainable Job Creation

Project Option	mission Agenda		Constraint Analysis		
	S02	S03	a	b	c
MARKETPLACE DEVELOPMENT:					
FINANCIAL SECTOR GROWTH:					
MICRO-SECTOR GROWTH:					

S02 (Strategic Objective 2): Increase employment, productivity, and competitiveness in agriculture, finance, and industry.

S03 (Strategic Objective 3): Increase the capacity of the poor to participate in and benefit from a productive economy.

- a: Strength -- degree to which constraint inhibits job creation.
- b: Resistance -- degree to which a relatively small project is likely to relieve the constraint.
- c: Market effect -- degree to which resolving the constraint is likely to lead to sustainable job creation.

Table II-2. Management Factors

Project Option	Management Considerations							Total
	1	2	3	4	5	6	7	
MARKETPLACE DEVELOPMENT:								
FINANCIAL SECTOR GROWTH:								
MICRO-SECTOR GROWTH:								

1: Management burden

2: Funding consideration

3: Comparative advantage

4: Complementarity with mission Program

5: Complementarity with other donors

6: Opportunity costs

7: Monitoring and evaluation for job creation

III. BANGLADESHI DEVELOPMENT FRAMEWORK

Our approach has not been confined to building on the existing portfolio of USAID/Bangladesh/OEE activities such as FSRP and IPP. Rather, we have incorporated a critical view of various project accomplishments to date into a realignment of program possibilities within the context of PRISM. In using PRISM as the guidepost for project activities, we demonstrate sensitivity to the requirements of quantifiable poverty alleviation results, and the present and future linkages to be developed with current USAID/Bangladesh initiatives.

A. Assumptions

To develop poverty alleviation/job creation programming initiatives, we have incorporated the following basic assumptions into our overall thinking regarding options:

- Bangladesh is at a crossroads in its quest for economic and social development. Population growth is lower, rice output has increased dramatically, a structural reform program has been underway for four years, the macro-economy is stable, the balance of payments is sound, investments in education and health are proceeding, and democratic institutions are stronger today than ever before.³
- Bangladeshi progress toward poverty alleviation has been among the slowest in Asia, with the absolute number of poor having increased steadily each year since independence in 1971.
- GDP growth has remained modest by Asian standards, at around 4 to 4.5 percent per annum in recent years, meaning that it would take 25 years for an average poor Bangladeshi to cross the poverty line if real growth continues as it has in the past. Stated differently, real national income would consistently have to grow at least two and a half times as fast as the rate of population growth (currently just above 2 percent per annum) just to prevent the absolute number of poor in Bangladesh from increasing.
- Accelerated growth must be based upon the best medium to long term sources of increasing GDP, anchored in both the agricultural and manufacturing sectors. The growth of these sectors must be focussed on exports and the rare instances of "Bangladeshi high growth" consumption possibilities. This growth must come from medium size private sector firms, given the dismal failure of state-owned enterprises in Bangladesh (and indeed world-wide).
- Medium size private sector firms, with the possibility of employing upward of fifty employees per enterprise, have been often overlooked in current reform and outreach efforts in Bangladesh, by the GOB, donors, and entrenched NGOs. The formation of medium size private sector firms has been slow, hampered by lack of credit, uncertain technology applications, policy vagaries, and the lack of linkages to external markets and domestic sales opportunities. Yet this sector exhibits significant potential to contribute toward breaking the cycle of modest GDP growth and low domestic incomes.
- While sustainable growth will come from medium size firms in the export and Bangladeshi high growth sectors, in the near and medium term there remains a vast pool of poor unemployed that requires a safety net until growth at higher levels calls for their increased employment.

³The World Bank, Report No. 12724-BD, "Bangladesh: From Stabilization to Growth," March 17, 1994

B. Job Creation Potential

It is appropriate here to try to define "export" and "high growth Bangladeshi possibilities", as the types of industries which fit under these rubrics are perhaps not readily apparent.

1. Export

While the success of the garment-for-export sector is well documented, it is conceivable, given Bangladeshi comparative advantages, that other such sectors exist. These advantages -- adaptation of appropriate technology by a fast growing educated populace, the low costs of unskilled, semi-skilled, and skilled labor, a vast workforce, abundant agricultural and water resources, and the country's geographic proximity to vast markets, among others -- have yet to be exploited in industries such as high-value agricultural and horticultural products, food processing, made-to-order leather goods, electronic components assembly, and the manufacture of low technology transport vehicles, such as bicycles.

2. High Growth

"High growth Bangladeshi" industrial possibilities include development of the supply sector for the Bangladeshi rural electrification program, simple residential construction, computers, and waste recycling and management.

C. Leveraging to Enhance Sustainability

As will be seen below, the offered programming options, while developed independently from current and past program activities, incorporate portions of the past which have had significant impact in Bangladesh. Some of the benefits and characteristics that have accrued from past programs contribute substantially to the prospect of long-term sustainability for new activities. These benefits and characteristics include, but are not limited to:

- FSRP systems, processes, procedures underway at the NCBs;
- The Policy Implementation and Analysis Group (PIAG) mandate and GOB commitment to utilize PIAG resources to further eliminate private sector development barriers;
- Progress at the micro-credit level, both urban and rural, as in the well-documented successes of Grameen Bank and Bangladesh Rural Action Committee (BRAC);
- IPP institution building (and the provision of direct funding in some instances) to local business development initiatives;
- Bank Bangladesh policy changes, spurred by policy recommendations of the USAID/Bangladesh FSRP MTTU unit, and the Bank's concurrent receptivity to endorse new program initiatives based upon the unit's analysis of such programs;
- The "edge of sustainability" profile of institutions such as MIDAS and BASC which requires further direct and indirect interventions to render these institutions fully functional; integration of these institutions into some of the activities outlined below, at little or no additional cost, will deepen their usefulness and importance to the private sector business community;

- Extensive interest in USAID/Bangladesh commitments to private sector development, such as in evidence among the prominent Bangladeshi Chambers of Commerce. This interest can be translated into direct, supportive actions for future activities, securing a place for these activities in the business community.
- Current receptivity to change and innovation within the Bangladeshi financial community vis a vis neglected segments of the private sector. This receptivity is evidenced by a new NGO lending program for on-lending to businesses at one NCB, and the commitment to change and improvement exhibited by the core groups of FSRP counterparts at the NCBs.

D. Gaps and Opportunities -- Project Options

Potential new OEE activities should be considered in light of the total mission portfolio and a desire to achieve a balanced approach in the portfolio to poverty alleviation and job creation. Twelve options, in three categories, are offered as possible avenues by which to maintain mission portfolio balance and to promote sustainable job creation in Bangladesh. These options are discussed individually, though they could be combined to develop different project themes.

1. Marketplace Development

a. Micro, Small, and Medium Size Enterprise Development

Table III-1 compares characteristics and needs of the various business sectors in Bangladesh. Though the mechanisms for assisting them may be different, the micro-enterprise (ME) and SME sectors have some similar needs.

It has become clear that there can be economically efficient micro-enterprises and SMEs in Bangladesh, adhering to standard growth patterns and displaying business characteristics in common. Many of these businesses, typically beginning as a one-person micro-enterprise, are woman-owned and face significant survival struggles in their early years. Their impact on income improvements (with attendant changes in family health, family planning, education patterns, etc.) is clear, though localized.

Existing USAID/Bangladesh resources have been applied in this area, including BASC, IESC, the MIDAS program and WEDP. Resources for micro-enterprise development within Bangladesh are significant, most importantly through Grameen and BRAC; equally significant, due to the large and growing population are the demands for small business development, demands which remain unmet. Direct interventions aimed at small and medium size enterprise development may take many forms, from business training to direct grants for the entrepreneur.

Table III-1. Enterprise Characteristics and Needs

<u>Enterprise Type</u>	<u>Characteristics</u>	<u>Needs</u>
Micro Enterprises	<ul style="list-style-type: none"> • Lack of previous business management experience • Informal market orientation • Limited profit margins • Small scale production 	<ul style="list-style-type: none"> • Basic business skills and concepts • Simple business assessments, project profiles • Business and financial planning • Project identification and preparation • Identification and securing of financing
SMEs	<ul style="list-style-type: none"> • Few product lines and limited sectors. • Small scale production and low capacity utilization • Aged or aging capital equipment • Dated technology and production methods • Undercapitalization, lack of equity and short-term working capital. 	<ul style="list-style-type: none"> • Market and buyer information • Modern cost and financial management tools • Access to financing (long- and short-term) as well as foreign exchange • Production and marketing techniques • Business strategies and planning • Supportive policy and regulatory environment • International sourcing and sales opportunities
Large Enterprises	<ul style="list-style-type: none"> • Dominated by parastatals • Domestic orientation with limited value added exports, especially outside garment industry • Inefficient, noncompetitive production • Highly concentrated within industry sectors • Multiple or single product lines 	<ul style="list-style-type: none"> • Advanced financial and cost management • Production and quality management • Product design, packaging and distribution • Strategic planning and business expansion • Export market entry, standards, regulations • Long-term and export financing and leasing • Joint venture partners • Market and management information systems
New Enterprises	<ul style="list-style-type: none"> • Lack of business management experience • Lack of capital and expertise • Poorly defined project proposals • Emergence of women • For women, limited access to markets and other resources (information, capital, training) 	<ul style="list-style-type: none"> • Basic business management skills and concepts • Project identification and planning • Business plan development, identification and assistance with debt and equity financing sources • Market analysis, pricing, costing approaches

Subsumed in this demand for further services is the on-going debate between the proponents of ME development, with a focus on poverty alleviation, and the advocates of, for example, an SME growth-oriented approach as the best chance of overall development success. It is possible to propose a strategy that bridges poverty alleviation approaches with growth oriented and export-led approaches, capitalizing on respective strengths, with the following strategy:

- Support, but not subsidization, for enterprises in subsectors that have few prospects for growth -- in light of the often rural nature of these enterprises, and their importance in local income generation;
- Identification of interventions associated with viable subsectors in which women predominate, to unleash their income-generating and growth potential;
- Promotion of policies, projects, and other interventions that facilitate the transition of single-employee entrepreneurs out of low-return, low-potential subsectors into higher-return and higher-potential subsectors;
- Provision of technical assistance, perhaps through existing business-oriented NGOs, to enable entrepreneurs to obtain loans from formal financial institutions; and
- Promotion of sustainable improvements in the productivity and competitiveness of SMEs through technology improvements, including equipment, tools, new product introductions, improved production processes, materials, and skills, in addition to the organization of production and marketing.

These types of intervention would require a firm understanding of patterns of growth among Bangladeshi micro-enterprises and SMEs, and would be aimed at developing the approaches necessary to promote efficient and equitable growth of these enterprises.

b. Policy and Regulatory Improvements

Enterprise development, especially those involved in production and processing, play a key role in the development of the economy of Bangladesh, as a basic source of goods and services, income, and employment. Sustainable improvements in the productivity and competitiveness of these enterprises are essential for their growth and the creation of new wealth and opportunities, yet these improvements are often hampered by conflicting, unclear, and poorly implemented industrial, financial, and fiscal policies.

Conversations with enterprise leaders in Bangladesh reveal that trade and business policy mechanisms used by the government often create constraints and conflicts for Bangladeshi businesses. The policy-related constraints most often cited were:

- Uneven, unfair subsidization of credit (and state-owned enterprises in general);
- Interest rate manipulation not reflective of market realities and opportunities;
- Import duties;
- Uneven application of VAT;
- Lack of clarity regarding the imposition and payment of taxes; and
- Overvalued exchange rates.

These constraints tend to create uneven playing fields, as the constraints tend to favor larger enterprises over small ones. Mandated fringe benefits and public sector wage policies make the cost

of labor high for emerging large firms and prohibitive for smaller ones. The Bangladeshi government can be encouraged toward creating a more hospitable policy environment for business, as seen via some of the policy implementation successes of the MTU at Bangladesh Bank, and the adoption of PIAG recommendations by the MOI.

c. Exports and Private Association Development

Though export development in Bangladesh has some noted successes, such as the garment industry, it is widely believed that the export potential of the country remains underdeveloped. This underdevelopment is attributed largely to trade inefficiencies, meaning that the possibility of lowering transaction and entrance costs remain vague and mis-understood by most potential Bangladeshi exporters. Thus, trade efficiency -- meaning the simplification of trading and related financing procedures, the internalization of international standards of trade, product specifications, and technology application, and the use of modern information technology -- is elusive.

Technological change, particularly in information technology, has been instrumental in accelerating the process of internationalization of a number of markets, and the globalization of business and financial flows. These developments have led to the emergence of strategic alliances among corporations, and an increasing reliance on worldwide information networks. Thus, as far as Bangladeshi export potential is concerned, the availability and use of strategic business and trade information is more and more a key to successful entrance into export markets, on-going competitiveness, and sustained profitability. Faced with the trend toward the need for increased information flows, many Bangladeshi potential exporters run the risk of exclusion -- a concern voiced by an increasing number of existing small and medium size businesses in Bangladesh.

The information and trade infrastructure of Bangladesh has received considerable donor assistance, including interventions of the Export Development Project. Its principal achievements appear to be a streamlining of the operations of the Duty Exemption and Drawback Office, and sustained usage of the Export Development Fund.

Intervention opportunities remain for the Bangladeshi Federated Bureau of the Chambers of Commerce and Industry, the Metropolitan Chamber of Commerce and Industry, and the Dhaka Chamber of Commerce and Industry, as well as technical assistance provision to various manufacturers associations. Programs of this type would consist of staff training, program development, financial planning, membership expansion, and the establishment of linkages with business organizations and entrepreneurs in countries that are likely to be markets for Bangladeshi products or that can provide raw materials, technology, and investment capital. A particular emphasis should be placed on the continued development of export market information, and its easy dissemination within the business community of Bangladesh, including access to modern business libraries and business data bases.

2. Financial Sector Growth

a. Banking Sector Reform

Commercial bank lending to the private sector is constrained severely by factors affecting the supply and demand for funds. On the supply side, the NCBs are hesitant to lend because new prudential regulation has the potential to expose their underlying financial weaknesses; they face an uncertain future which includes deep restructuring and privatization. Additionally, the NCBs do not have the expertise to make project loans or develop new financial instruments. The two development finance

institutions have been out of the market for some time. On the demand side, the factors dampening demand for credit include the weaknesses in domestic economic activity, political uncertainty, and the current problem of low aggregate demand due to high real interest rates, low state-owned enterprise productivity due to the slow pace of privatization and their own uncertain prospects, and an apparent dearth of creditworthy borrowers.

The major barrier to financial sector development in the country has been the government's ownership of the main financial institutions, and, in the past, its interventions in credit allocation. Poor quality credit intermediation is the result, leading to an uncompetitive and oligopolistic financial sector. Weak supervision by Bangladesh Bank in the past has allowed these difficulties to deepen, particularly in the private banks. The government has recognized that fundamental reform to increase competition in the financial sector is now inevitable. Past attempts to cure the sector have resulted in temporary alleviation of the symptoms of its malaise, but, without fundamental change, capital inadequacy, non-performing assets, minimal new lending initiatives, and other problems have persisted. Progress on these reforms needs to accelerate.

FSRP has had tremendous success in identifying, addressing, and rectifying the operational shortcomings of the NCBs, all of which contributed to the poor performance of those institutions. These improvements include the introduction of LRA, modern MIS, a PPS, an NLL, the procurement of personal computers, and the training of some 20,000 NCB officers. At present, it appears that the institution-wide reforms generated by FSRP have begun to change the culture of the banks, not only operationally, but within the mentality of the banks' officers. The NCBs are now much better equipped to handle the further wrenching changes which must take place in order to ensure the viability of the financial sector.

Continued project initiatives under FSRP which could strengthen the impact of changes to date include:

- Delineation and promulgation of the roles and responsibilities of bank Board of Directors members;
- Implementation of FSRP operating improvements at the private banks;
- Improvement of personnel, merit, promotion, and seniority policies;
- Development of active credit and marketing programs, with appropriate officer training, to attract new classes of borrowers;
- Contribution to a branch rationalization strategy, including the implementation of such a strategy;
- Implementation of all FSRP operational improvements to encompass 100 percent of the NCBs' loan portfolio and operational procedures, and those of interested, participating private banks.

Further bank supervision activities, and the possibility of creating a credit bureau, have not been overlooked as possible options. They are not highlighted here, given that bank supervision efforts in other countries have been found to be most successful when left directly to outside entities (such as the Comptroller of the Currency of the United States, or central bank supervisory divisions from European countries) responsible for bank supervision in their home countries. Credit bureaus have been installed in any number of emerging, transitional economies privately, as they are for-profit opportunities that the marketplace is capable of servicing.

b. Bank Training

An integrated approach to bank training -- at all levels, with appropriate curricula, for both commercial bankers (private and NCB officers) -- and central bankers has yet to be implemented in Bangladesh. Such training is required in order to solidify the advances made to date due to FSRP interventions, and, more importantly, inculcate the responsiveness and willingness to accept change that will be necessary as systemic financial reform takes place in Bangladesh. A comprehensive bank training strategy would be composed of four parts:

- Overseas training for Bank Staff: Up to 10 - 12 members of existing staff would be sent abroad to pursue advanced degrees in economics, ideally relying on a core of foreign institutions that would be receptive to repeat admissions over the years. This training would permit the bank to have its own in-house macro and micro economic "think tank," in order to develop the necessary policy and procedural guidelines required of a market-driven central bank.
- Masters in Bank Management: To be created at the Bangladesh Institute of Bank Management (BIBM), attracting Bangladeshi university graduates, following completion of their bachelor degrees. This course of study would provide potential bank employees with the equivalent of an American B.S. in Finance and Management, improving significantly the banking expertise of entry level bank trainees.
- ACBM: Advanced Course in Bank Management, a "mid-career" opportunity to upgrade credit, MIS, and marketing skills, would be made available to existing NCB and private bank staff. This course could become a requirement for promotion to the senior ranks of an NCB, and would be offered by the BIBM.
- NCB Training Institutes: The purpose of intervention at the bank level would be to upgrade the internal training capability of the NCBs. The upgrading of these institutes would permit bank hires to receive the benefit of institutionalization of bank operations and procedures, including a complete familiarity with all improvements promulgated by FSRP. The curricula for the institutes requires re-design and re-orientation, as does the selection process for eligible trainees.

c. Banking and the Support of NGOs

Underlying the premise that financial support, in the form of wholesale lending to NGOs for on-lending to NGO clients, can be made efficient and commercially viable, acting as a stimulus to productive growth and employment are the following assumptions:

- Lending by NGOs will lead to an increase in the net income and employment base of borrowing enterprises over levels which would have prevailed absent credit;
- Deposit facilities as organized and managed by NGOs may increase the liquidity of household assets, permitting more efficient asset deployment into income and employment generating activities, as well as provide a heightened level of family security, resulting in positive gains in the areas of health, nutrition, and education;
- Financial intermediation by NGOs, particularly those with ready access to credit facilities at reasonable cost, may improve the efficiency of resource allocation in Bangladesh, decreasing the cost of transferring financial resources from liquid institutions to investors;

- Successful NGO performance, again when assured access to funds at a reasonable cost, reduces the costs of entry for new entrepreneurs;
- Successful NGO lending programs may influence the policy environment in which financial institutions operate, having a positive effect on the expansion of efficient financial services.

Thus, encouragement of bank lending to NGOs can have many proven benefits, as has been seen in Bangladesh with the most prominent NGOs that have a ready supply of funds, and as is evident in Indonesia following the transformation of the Unit Desa Financial Services system into a commercially viable operation. In Bangladesh, it is reasonable to assume that among the 600 to 800 NGOs in existence, many are capital starved, easily trained, and quite willing to engage in specific lending programs. Agrani Bank's recent approval of a credit facility to ASA is an example of an ambitious attempt to spread commercial financial services beyond the traditional portfolio of an NCB, with substantial development and employment impact.

This type of wholesale lending to NGOs should be encouraged. Incorporating the credit analysis, loan monitoring, and portfolio tracking components of FSRP, the current excess liquidity of the NCBs, and of private banks if such liquidity exists, could be channeled to creditworthy NGOs on a regular basis. Training and institutionalization of NGO lending and monitoring practices is required, however, for such a wholesale program to strengthen and become a normal business practice of the NCBs.

This type of lending program would be classified as an enterprise expansion program, mitigating some of the risks inherent in lending to small scale entrepreneurs. Expansion programs differ from formation- or transformation-type programs in that they generally offer financial inputs rather than technical assistance or training to client firms. As such, they do not necessarily seek major changes in the enterprise performance of clients, and build on existing business, marketing, and management expertise.

d. Banking and Export Financing

The availability of modern trade-related finance, payment, and risk management products is a critical element in the expansion of international trade with Bangladesh. Trade inefficiency in financial services has a significant impact on the ability of firms, particularly SMEs with few established trading links, to participate in international trade or to compete effectively with exporters from other countries. As stated earlier, low domestic consumption in Bangladesh necessitates searching for external means to sell goods and services if GDP growth is to accelerate to levels which permit broad scale poverty alleviation. The banking sector should play a crucial role in the promotion of exports.

The development of efficient markets for financial services will facilitate increased international trade in goods and services, through improvements in the products and levels of service provided by the banking sector, and in particular the NCBs. To further the development of the Bangladeshi financial services industry, policy research bodies and the NCBs should:

- Address the unique structural aspects of the market for trade-related financial services, with a continuing view toward de-regulation. Market access restrictions should be eliminated for those financial products which cannot be effectively delivered by existing domestic providers;
- Review current Bangladeshi laws and regulations affecting trade finance, insurance, and international payments to ensure that they are consistent with accepted international practices, particularly in relation to immediate market opportunities with close-by trading giants such as India, China, Thailand, and Singapore;

- Evaluate existing exchange controls to ensure that they facilitate the use of modern, efficient financing and payment techniques;
- Develop NCB and private institutional capacity -- dedicated cadres of well-trained trade finance bank officers, with appropriate technology tools at their disposal -- to actively solicit trade finance business;
- Explore actively those segments of the Bangladeshi manufacturing economy which shows the most potential for export, and develop the banking links and service products necessary to facilitate trade in those segments. This exploration could be achieved in conjunction with ongoing programs at the various Chambers of Commerce, or industrial organizations such as the Bangladeshi Garment Manufacturers Association or the Frozen Foods and Fruits and Vegetables Exporters Associations.

e. Public Bank Privatization

Systemic financial sector reform in Bangladesh is integral to achieving a complete and successful transformation from the former system of state planning and control to a market-driven economy. Obviously, banks and other financial institutions are needed in any market economy to help generate savings, to provide credit, and to expedite financial flows. Establishment of credit-based lending practices and services is crucial to the current reform efforts underway in the financial sector. In addition to the benefits which accrue immediately to the financial sector, Bangladeshi financial institutions, properly equipped and managed, are pivotal to the broader process of economic restructuring, and in particular, privatization -- the divestiture of the NCBs, and the concurrent role of integral party to the divestiture of state-owned enterprises to the international and domestic private sector.

Bangladeshi financial institutions, particularly the dominant NCBs, have only recently begun to acquire the ability to provide the products and services of banks operating in true market economies. Until recently, NCBs functioned as simple distributors of state-gathered funds to state-owned enterprises. The NCBs exercised no judgement or diligence as to enterprise viability or creditworthiness, and there was no structure to monitor internal standards or portfolio quality.

Because of this passive role in the allocation of credit resources, state-owned banking institutions had no need to develop the corporate infrastructure or systems native to credit decision-making institutions. Asset/liability management, credit analysis, loan documentation and monitoring, collection and work-out procedures were non-existent. Likewise, prudent management practices and management information systems were lacking.

Significant changes in this profile of the NCBs have taken place due to the lead taken by USAID/Bangladesh in providing the funding for FSRP. Most areas of modern bank management are being addressed, and the results are now becoming visible.

However, little progress has been made in the privatization of the NCBs. This lack of progress has a number of reasons. Political will certainly is a factor, but as importantly it became apparent to the FSRP team that the scope of their undertaking just to rectify apparent operational and procedural flaws was a major task in itself, and required a concerted effort before any attempts at privatization could be made. Further, the underlying portfolio weaknesses, just now being addressed with the implementation of standardized classification and provisioning requirements -- Substandard, Doubtful, Loss -- stymied any privatization efforts because of the increasingly obvious size of required capitalization.

Thus, a necessary step toward bank privatization is enhancing the balance sheets of the bank to make them more attractive to the banks. In order to do so, the NCBs must become proactive creditors to those industries which are consistent and regular defaulters, developing the capacity to participate actively in industrial restructuring and debt rescheduling. With privatization as an end result, the work of FSRP should be strengthened, specifically:

- Continued Improvement in Lending Practices:
 - Develop calling/marketing programs.
 - Increased emphasis on sound documentation.
 - Continued evaluation of credit practices and analysis.
 - Ongoing collateral monitoring and evaluation.
 - Development of new loan products.

- Develop Reorganization and Restructuring Departments:
 - Identify classes, types of non-performing assets.
 - Develop work-out/restructuring/forgiveness scenarios.
 - Develop creditor committees.
 - Develop full understanding of creditor rights and responsibilities.
 - Develop financial instruments to address restructuring needs, such as debt/equity swaps.

The objective of this form of technical assistance is to transform the NCBs' balance sheets to ones which would make the banks attractive privatization candidates. It would then be possible to develop the methods and approaches necessary to package the NCBs for sale, using appropriate local and foreign investment capital.

f. Private Banking Sector Training

As discussed in #2, above, there are four approaches to the provision of bank training currently offered. These approaches combine different types of curricula and training candidates to provide for the overall needs of the banking sector. Offerings b, c, and d, discussed above could be utilized by the private banks, with the private banks paying an appropriate share of the costs.

3. Micro-Sector Growth

a. NGO Training and Development

There is no shortage of NGOs in Bangladesh. What is not clear, however, is that the standards of successful NGO lending programs to micro-sector entrepreneurs have been promulgated widely and accepted in the country, giving rise to uneven NGO access to donor assistance and financing mechanisms. As a result, despite noted successes, the outreach capabilities of sound NGOs have been limited to a small, albeit growing, segment of the rural and urban poor.

An examination of the characteristics of successful programs is worthwhile here, with a view toward incorporating these characteristics into a country-wide training program for NGOs. Successful micro-enterprise financial programs are based on a similar premise: providing cost-effective, sustainable financial services to poor micro-entrepreneurs. These programs share many features:

- Successful programs have been able to target a niche not served by traditional commercial lenders;
- They have learned to overcome the constraints of working with the traditional five "c's" of credit -- character, collateral, capital, capacity, and conditions. Micro-enterprise lending programs focus on character and the capacity to absorb and repay the loan;
- They have recognized the high transaction costs to both lenders and borrowers in the traditional commercial banks, and have devised innovative solutions for reducing these costs;
- They have streamlined their activities to such a degree that the costs of lending are commensurate with the size of loans being made;
- Several have incorporated group formation as a program feature, particularly for the poorest clients, such as that targeted by Grameen Bank;
- They have made a commitment to the goal of financial sustainability and devised a plan for achieving it;
- They devote resources to instilling financial discipline in borrowers;
- They do not view borrowers as beneficiaries, but as clients. Market- and marketing-oriented programs are concerned about how best to meet their clients' needs. They view their own survival in the market as dependent on how well they perform in satisfying client needs;
- They have devised innovative mechanisms to deter leakages outside the target clientele and to keep sights focused on the poor. Stringent requirements such as weekly meetings, small loan size, interest rates higher than those charged by commercial banks, and mandatory participation in a larger social development agenda, as stipulated in the 16 Grameen Principles, weed out participation of the non-needy;
- They operate in densely populated areas with relative ease of access to local transport;
- They operate in relatively favorable policy environments, or are adept at the advocacy role required to ensure favorable policy changes.

These characteristics do not ensure success, but are critical elements to guiding an NGO toward sustainable micro-credit lending. They should be incorporated as necessary operating principles for NGOs seeking to expand or commence financing activities, and should form the basis of NGO training offerings throughout the country.

One additional note on the development of NGO capacity -- it is conceivable that targeted NGOs would have a strong interest in developing local capacity to improve the environment. NGOs, through fellowships and exchanges, could be encouraged to strengthen their environmental expertise and identify appropriate technologies that would encourage the populace to become active in environmental monitoring and improvements, such as low cost testing kits for the presence of normally undetectable water and soil pollutants.

b. Financing of NGOs

There are a number of steps which USAID/Bangladesh could take to help ensure adequate financing sources for qualified NGOs. We are not here advocating direct subsidies to NGOs, though that is an option. Rather we are recommending institutional alternatives, with USAID/Bangladesh support, for providing financial services to NGOs, within a sound policy environment that encourages NGO participation in micro-enterprise development.

Several institutional variations are possible to fill the need for financial services to NGOs. The determining factors for the success of such services are:

- The quality, efficiency, and cost of the financing and services provided;
- The ability of the NGO to absorb the financing and services;
- The assurance that NGO programs reach the targeted client group.

One possible approach is to link NGO micro-lending programs to formal sources of finance. ME programs may finance borrowing from commercial banks if the loan can be repaid at rates acceptable to the lending institution and the lending institution is convinced that downstream borrowers are creditworthy. Alternatively, NGOs can be encouraged to seek funds from banks, governments, and other donors to channel into useful, tailored lending programs, with the support, via guarantee, of USAID/Bangladesh.

Another possibility is to support the transformation of NGO credit programs into deposit-taking and loan institutions on their own. Such a transformation involves structural reorganization of the NGO, the adoption of full cost pricing and the organization of branch offices. Furthermore, the institution must modify itself to fit within existing law and must abide by the prudential regulations applicable to deposit-taking institutions. Finally, the institution must have owners whose interests are aligned with institutional success. There must be an incentive for sound, efficient management.

Encouraging the development of a supportive micro-enterprise lending/borrowing environment is critical to the success of such programs. Financial systems policies with a direct bearing on micro-enterprise credit include:

- Interest rate flexibility that permits micro-credit lending programs to become financially self-sufficient;
- Even access to commercial sources of funds, if the NGO is qualified as a borrower; and
- Regulations that permit the transformation of specialized lending programs into specialized financial institutions.

Thus, the active participation of USAID/Bangladesh in the nuances of NGO financing, conceivable as a guarantor or provider of equity capital, but more importantly as an innovator in broadening sources of NGO financing, stands as a potential contribution in future projects.

c. Micro-enterprise Assistance -- Technology Upgrades in Bangladesh

Micro-enterprises involved in production and processing play a key role in the economy of Bangladesh as a basic source of goods and services, income, and employment. Sustainable improvements in the productivity and competitiveness of these micro-enterprises are essential for their growth and the creation of new wealth. Although credit expands the number of enterprises, inventories, and market

share, credit alone is insufficient to generate the productivity increases needed for long-term economic growth and poverty alleviation.

The provision of credit in micro-enterprise programs does not necessarily help overcome technological bottlenecks. Unaccompanied credit may only allow for a marginal increase in the size or profitability of an existing business if technologies are unchanged. Thus, it can be argued that without upgrading technology, the results of credit infusions alone will show a shifting of employment and income from one producer or seller to another, rather than show a sustainable increase in productivity and employment.

Technology includes equipment, tools, products, processes, materials, and skills, in addition to the organization of production and marketing. Micro-entrepreneurs frequently are constrained by a lack of information about technologies for their resources and skills. Successful micro-entrepreneurs in production and processing, such as has been seen in Bangladesh in poultry and fish production, are often involved in the innovation, adaptation, and dissemination of technologies; however, their efforts are often limited by inadequate resources, poor communications, uncertain markets, and a non-supportive policy environment. As a result of these limitations, the full potential of technology to increase productivity in the Bangladeshi micro-enterprise sector is not being achieved.

Technological change can enable micro-enterprises to reduce costs through faster production, labor and time savings, substitution of cheaper materials, lower fuel costs, and increased efficiency (including developing uses for byproducts). Up to date selection and configuration of equipment, tools, and labor can reduce the working and fixed capital requirements of entrepreneurs and can help them use credit more effectively. Appropriate new technology can raise product output, quality, consistency, reliability, and packaging to open up new markets. Additionally, technological advances can raise the marketing power of micro-enterprises by diversifying their raw material base and increasing product shelf life.

Micro-enterprise support programs, including the consultative capacities of organizations such as MIDAS and BASC, and with the approval of Chambers of Commerce and Industry, can assist the innovation, adaptation, and dissemination of technologies by working with entrepreneurs, their suppliers, and their customers to identify resources and constraints for increasing productivity. A systems approach, such as subsector analysis, can help pinpoint where and what type of technological interventions will be most effective. Support should strengthen communication channels so that both entrepreneurs and donor agencies are aware of successful developments elsewhere.

Technological training can provide operation and maintenance skills necessary to sustain small-scale, decentralized workshops and create new possibilities for local manufacturing jobs. Training should be tailored to the immediate needs expressed by small producers, and such training should be sensitive to those constraints facing entrepreneurs. Training should be provided on a fee-basis, where feasible, adopting a needs-oriented approach that emphasizes working directly with producers, and building on the resources and skills of the client/student. Finally, training should be presented in short courses, geographically close to the target businesses. The learn-by-doing approach is generally the superior method for teaching micro-producers. An effective way to provide more complete assistance to enterprises in different socioeconomic categories is to link technological support with financing and business support programs.

Examples of technological training that could be of great value are in the fields of simple environmental control and testing devices and the technological innovations necessary to permit the country's tool and die industry to become full scale suppliers to the rural electrification program.

IV. PROPOSED STRATEGY

This section applies the project selection matrices introduced earlier to twelve options pulled from the previous discussion on opportunities. The matrices contain rankings of various selection factors. A recommended strategy is then discussed in more detail, with ideas offered regarding monitoring the project.

A. Application of Matrices to Project Options

Table IV-1 and IV-2 depict our scoring of the matrices introduced previously. We gave equal weight to each criterion, though it would be possible to assign different weights to each selection factor.

1. Ranking Contribution to Sustainable Job Creation

In general, we rate broader interventions better against the constraint analysis than more narrow options. Such initiatives generally address constraints that widely inhibit job creation and can be influenced with relatively small levels of funding, particularly in light of past USAID/Bangladesh/OEE activities. In addition, relieving the constraint is likely to lead to significant job creation.

Only bank privatization consistently scores low in our ranking. Many of the broad interventions fare poorly against SO3 primarily because the impact on the poor is indirect. However, most of the options score well against SO2.

There are several factors which led us to rank micro-sector interventions as shown in Table IV-1:

- The sector is clearly important to job creation and activities in this arena lend themselves well to counting easily the jobs created.
- There are already many donor and NGOs participating in this field and undertaking some of the specific interventions identified.
- Though important to creating jobs, the number of jobs created in comparison to the level of employment required are not adequate, and will not become adequate through donor and NGO efforts alone. Only through sustained and sustainable investment by the private sector in value adding growth and export-led industries will adequate employment opportunities arise.
- The jobs created at the micro-level are largely unskilled and vulnerable, employing people at subsistence wages with little opportunity to enhance skills and improve wages.
- Sustainability of some interventions post-project is unclear, whereas an improved policies or regulatory changes that promote exports, for instance, are likely to continue encouraging exports, and job creation within the export sector.

Table IV-1. Contribution to Sustainable Job Creation

Project Option	mission Agenda		Constraint Analysis		
	SO2	SO3	a	b	c
MARKETPLACE DEVELOPMENT:					
Policy & Regulatory Framework	high	low	high	medium	high
SME Growth, Trade, & Development	high	medium	high	medium	high
Private Association Development	medium	low	low	high	medium
FINANCIAL SECTOR GROWTH:					
Banking Sector Reform	medium	low	medium	medium	high
Public Banking Sector Training	medium	low	medium	high	medium
Banking & NGOs	high	medium	medium	high	high
Banking & Export Financing	high	medium	medium	high	high
Public Bank Privatization	low	low	low	low	low
Private Banking Sector Training	low	low	low	high	medium
MICRO-SECTOR GROWTH:					
NGO Training & Development	medium	medium	medium	medium	medium
Financing of NGOs	medium	medium	medium	medium	medium
Micro-enterprise Assistance	medium	medium	medium	low	medium

SO2 (Strategic Objective 2): Increase employment, productivity, and competitiveness in agriculture, finance, and industry.

SO3 (Strategic Objective 3): Increase the capacity of the poor to participate in and benefit from a productive economy.

a: Strength -- degree to which constraint inhibits job creation.

b: Resistance -- degree to which a relatively small project is likely to relieve the constraint.

c: Market effect -- degree to which resolving the constraint is likely to lead to sustainable job creation.

2. Scoring Management Factors

Our scores, which are on a scale of one (favorable) to five (unfavorable), for the options against management considerations are fairly close within any given category. Across all seven though some options consistently fare better than others. Some of the categories are self-explanatory, though clarifications of a few may be useful:

- **Management burden:** Considers experience within the mission, and particularly in OEE, with the subject matter and the number of points of intervention, or management units, that could require oversight.
- **Funding consideration:** Simply, can USAID/Bangladesh afford to participate and have an impact.

Table IV-2. Management Factors

Project Option	Management Considerations							Total
	1	2	3	4	5	6	7	
MARKETPLACE DEVELOPMENT:								
Policy & Regulatory Framework	3	2	2	2	2	2	4	17
SME Growth, Trade, & Development	3	3	2	2	3	3	3	19
Private Association Development	2	3	2	3	3	3	4	20
FINANCIAL SECTOR GROWTH:								
Banking Sector Reform	2	2	2	2	2	2	4	16
Public Banking Sector Training	3	2	2	3	2	3	4	19
Banking & NGOs	2	2	2	1	2	2	3	14
Banking & Export Financing	2	2	2	2	2	2	3	15
Public Bank Privatization	4	4	3	4	2	4	4	25
Private Banking Sector Training	3	2	2	4	2	3	4	20
MICRO-SECTOR GROWTH:								
NGO Training & Development	3	2	2	2	3	3	3	18
Financing of NGOs	4	4	2	2	3	3	3	21
Micro-enterprise Assistance	4	3	2	3	3	3	2	20

- | | |
|---|--------------------------------------|
| 1: Management burden | 5: Complementarity with other donors |
| 2: Funding consideration | 6: Opportunity costs |
| 3: Comparative advantage | 7: Monitoring and evaluation |
| 4: Complementarity with mission Program | |

- **Opportunity costs:** Relative importance of options not selected.
- **Monitoring and evaluation:** Ability to measure direct job creation that would result from the proposed option.

Management factors which scored the most favorably in the three option categories are as follows:

- **Marketplace Development:** Policy and regulatory framework;
- **Financial Sector Growth:** Banking sector reform; public banking and NGOs; public banking and export financing;
- **Micro-Sector Growth:** NGO training and development.

These options rank consistently high or medium in the previous matrix on Contributions to Sustainable Job Creation.

B. Selected Option

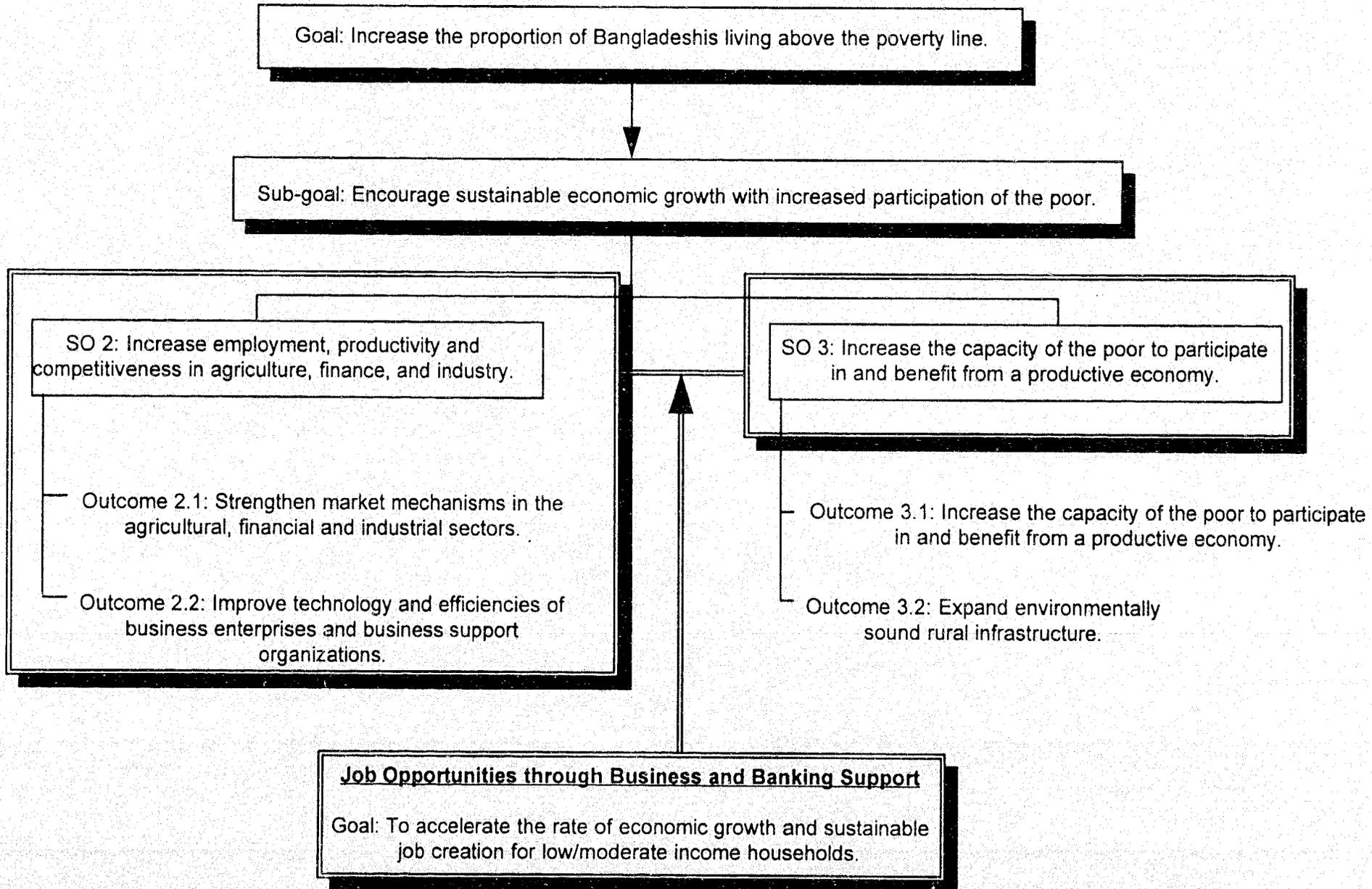
Our selected option -- titled Job Opportunities through Business and Banking Support (JOBBS), as suggested in the mission's Lessons Learned Paper -- relies on the creation of enhanced financial services to improve access to available capital for selected client groups. Figure IV-1 illustrates JOBBS' fit with USAID/Bangladesh's agenda. It encompasses complementary improvements in the policy and regulatory environment, along with enhanced capacity of local service providers to serve their market. It is in effect a combination of the following identified options based in part on how these options fared in the matrices "Contribution to Sustainable Job Creation" and "Management Factors":

- Public banking and export financing;
- Public banking and NGOs;
- Public banking sector training;
- Banking sector reform;
- SME growth, trade, and development; and
- Policy and regulatory framework.

1. Project Assumptions

- Industrial growth is essential to accelerate the pace of economic growth, as measured by increases in gross domestic product.
- Clear comparative advantages in certain industries exist within Bangladesh, but they remain, to a large extent, unexploited.
- The comparative advantages of Bangladesh are best exploited in the near- and medium-term in value-added industrial and agricultural enterprises with a) significant export potential; or b) potential to expand as Bangladeshi "high growth industries."
- The development of export oriented, value added enterprises is a private sector undertaking. This development should focus on existing small to medium size businesses, and can be encouraged through technical, financial, and human capital.
- Small to medium size businesses with the potential to expand face difficulties, uncertainties, and obstacles in obtaining market-priced credit for business expansion.

Figure IV-1. JOBBS Fit with Mission Agenda



- Given the difficulty of accessing credit, small and medium size businesses fail to:
 - Develop export links, new product specifications, and market niches;
 - Meet government regulations regarding taxes, tariffs, and licensing requirements;
 - Obtain, develop, and apply new, appropriate technologies that enable product upgrades and efficient production;
 - Generate incremental revenues and profits; and
 - Create jobs.
- There is, also, a continuing need for micro-enterprise growth to absorb in the near to medium term some of the ever increasing number of job entrants and the unemployed.
- Providing growth opportunities for micro-enterprises will permit an ever widening web of income generation, job creation, and family benefits.
- Given the high concentration of funding to only a handful of NGOs, many others are searching for access to capital.
- As a result, NGOS, likewise, fail to:
 - Extend services; and
 - Maximize job creation potential.

Figure IV-2 depicts JOBBS goal, purpose, outputs, and objectives, and highlights complementarity of objectives with past, present, and future mission initiatives. Figure IV-3 illustrates the potential complementarity among the outputs.

2. Project Rationale

A demand-side driven vehicle, such as a credit window at a qualified financial institution, would open the necessary credit stream to qualifying, existing businesses and NGOs, resulting in benefits for the Bangladeshi financial sector, the productive base of the country, and the creation of employment opportunities along the job continuum of unskilled to skilled.

A distinct advantage of the creation of specific lending windows, with well established, disseminated lending criteria is that this unit within an NCB (or possibly a private bank) would commence operations with a clean slate, incorporating all the FSRP operational, procedural, management, MIS, and credit improvements that have been a hallmark of that project. In addition, it is well known that the banks are currently enjoying unprecedented liquidity, such that no donor capitalization is required.

There is most likely a further advantage: just as FSRP has witnessed the development of an "esprit de corps" among bank officer counterparts assigned to the project, it is possible to envision the same positive result in the creation of a new lending window, with defined job responsibilities, marketing plans, and personnel/incentive structure. Hence, the legacy of FSRP is translated into on-the-job performance, concurrently enhancing the credit portfolios of the bank(s).

Figure IV-2. Job Opportunities through Business and Banking Support (JOBBS)

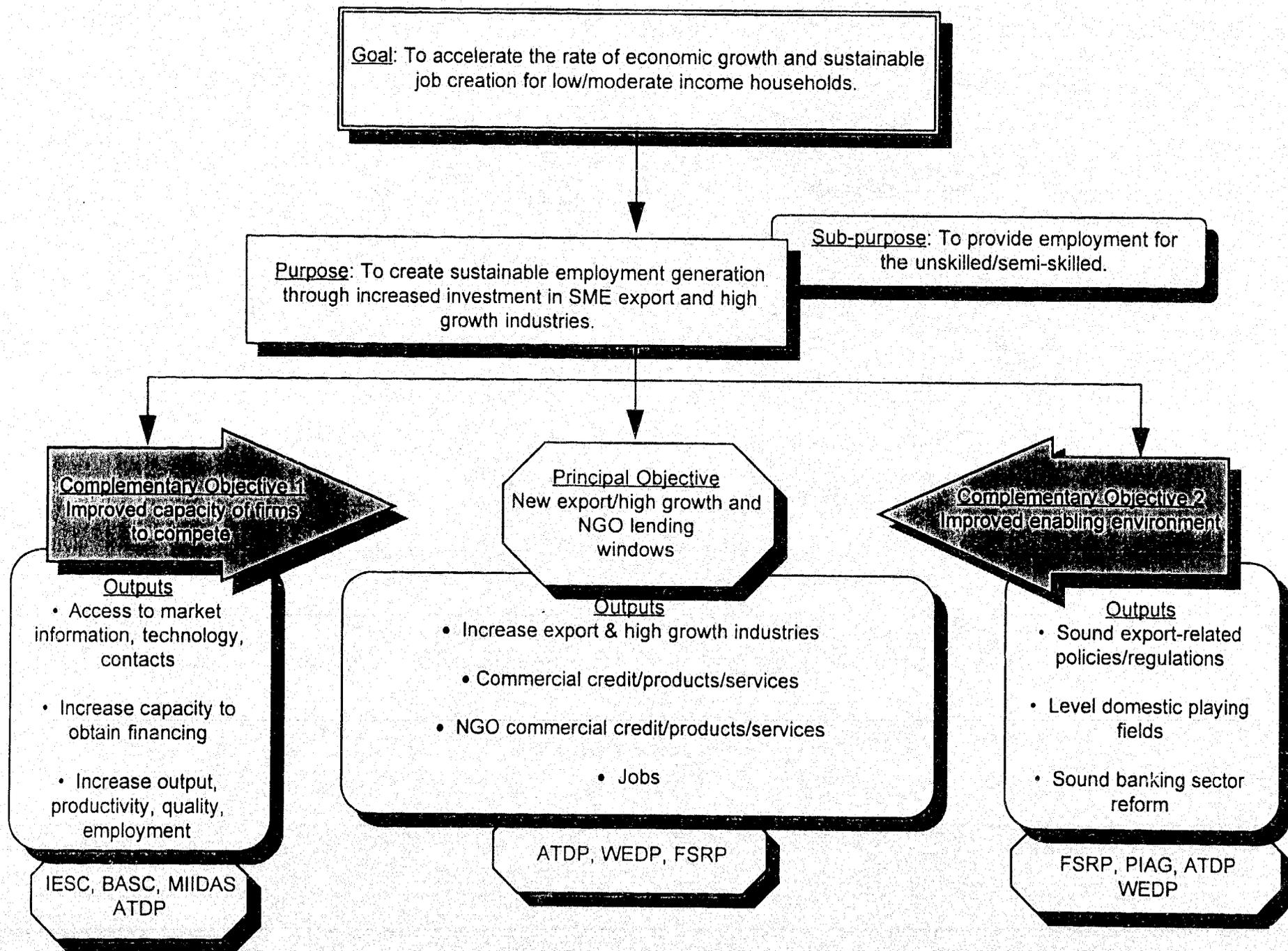
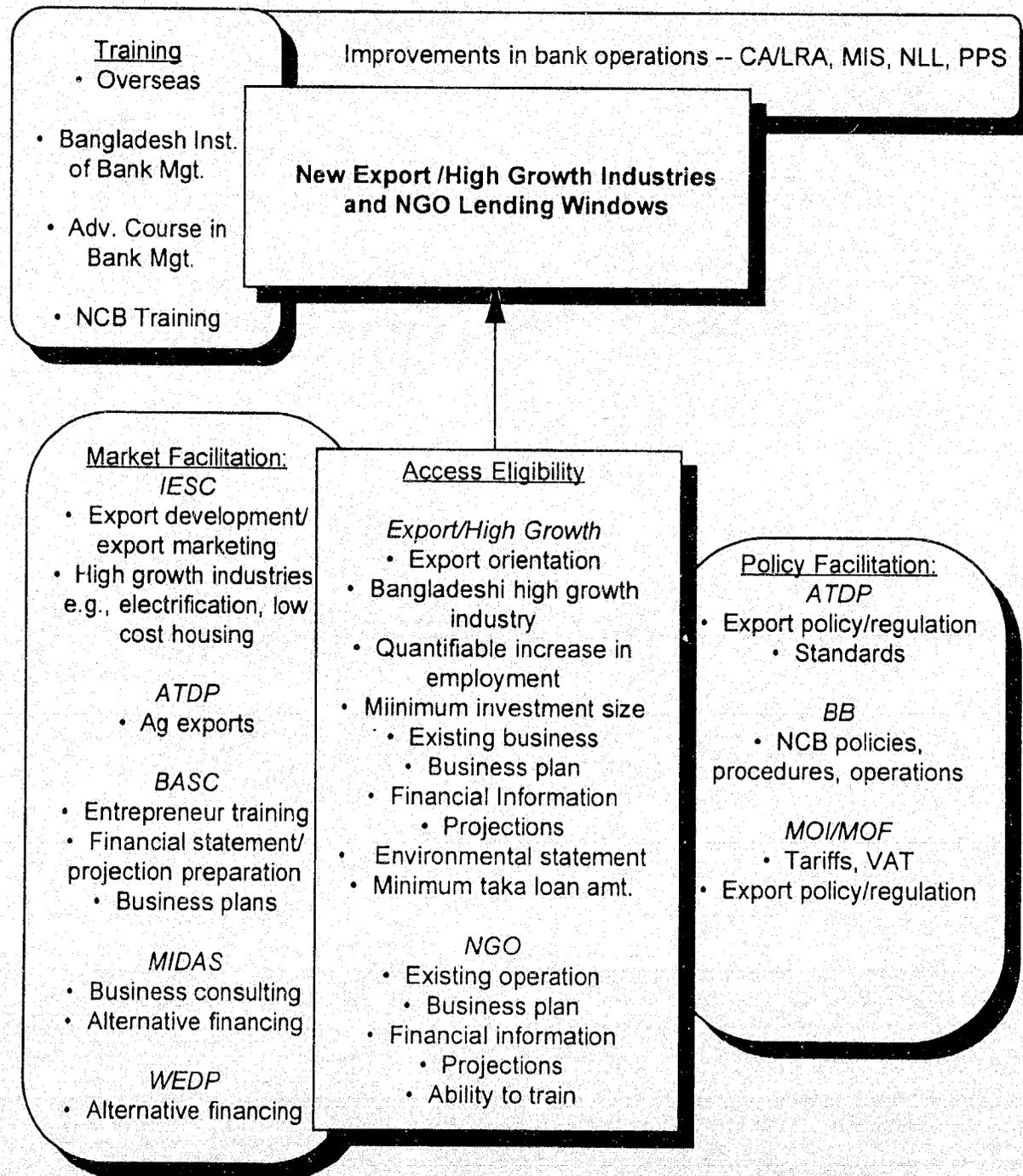


Figure IV-3. COMPLEMENTARITY OF JOBS COMPONENTS



The benefit of creating these lending windows extends institution-wide for the financial institutions in which they are domiciled. The creation of a new, mandated credit and marketing department, with standards of excellence previously unknown in the Bangladeshi financial sector, should serve as a catalyst for overall improvement of bank lending practices and service products.

Furthermore, it is relatively easy to extend assistance via this initiative to activities that would complement these lending windows. Such activities could include policy and regulatory technical assistance focused on banking, export, and/or high growth domestic industries. (By expanding ATDP's policy mandate slightly to include more than just agricultural exports, complementarity emerges between the two efforts.) Assistance could also be directed at a host of service providers that could enhance a firm's ability to produce and export, e.g., IESC, BASC, MIDAS, various Chambers, and/or associations.

As illustrated in Figure IV-2, JOBBS is a three prong effort to create sustainable employment by easing access to capital within a supportive environment. The principal thrust of JOBBS is the establishment of two distinct lending windows: one geared towards export and high-growth industries and the other towards financing of viable NGO lending activities. The objectives of improving the capacity of firms to compete and the enabling environment in which they compete are important, but complementary to the primary thrust of JOBBS. Therefore, depending on the availability of financial, human, and bureaucratic resources, one or the other, or both, of these complementary objectives could be dropped or, if of interest to other donors, attached to JOBBS through coordinated efforts.

3. Directed Credit -- Or Not?

We hesitate to label this program option a "directed credit program." Why?

- No new sources of funding need be acquired or designated.
- The lending unit will impose commercial criteria for selecting projects and borrowers.
- Criteria, while attainable, will be goal-oriented, and different from the usual profile of a Bangladeshi medium-size borrower, i.e., the ability to export a sizeable portion of output is a significant variance from current practice, as is the possible criteria of being a participant in Bangladeshi "high growth industries" or a viable NGO.
- The "people impact" of the program is quantifiable readily, and will be measured in job creation rather than loan outstandings disbursed.
- Incentives within the financial institutions must stress professionalism and performance, rather than acquiescence to political pressures and government-mandated sector lending.
- By promoting the development of private sector enterprises, the Bangladeshi economy will develop a network of shared risks and shared monitoring, at a higher level of capital investment than has been seen in the private sector, increasing the incentives for all institutions to finance profitable projects.

C. Evaluation -- Thinking About and Quantifying Results

The JOBBS evaluation plan must track and assess program performance and impact. It should provide periodic feedback on progress toward the attainment of the project's outputs and purpose, and their relationship to mission strategic objectives. The foundation of the evaluation plan is an adequate baseline, which may necessitate performing surveys prior to the project paper.

Our view of job creation through new financing vehicles emphasizes building financial intermediation systems that offer credit services (and possible saving services) to previously marginalized groups on a commercially sustainable basis, rather than providing substitutes for the inadequacies of the existing systems. Our approach includes wrapping these financial intermediations in an improved policy and regulatory environment, with assistance furnished to business services firms that will both increase the pool of companies eligible for financing and assist them post-financing. Evaluations of finance programs based on the framework described, linked directly to PRISM's quantifiable outputs, will provide a clear picture of program achievements and a useful market and service analysis for the financial institution providing new credit products and services.

Evaluation of our recommended program must eschew old assumptions about causality in provision of credit and instead examine the development of the financial system itself. Evaluations should focus on the quality of services provided and their institutional setting. From an economy-wide perspective, financial institutions contribute to economic growth, poverty alleviation, and job creation by mobilizing and allocating a society's resources efficiently, helping the economy and the institution itself to manage risk via portfolio diversification, and facilitating transactions. Evaluations within this context should focus on indicators that reveal whether the institutions engaged in new financial behavior perform these basic functions well and whether services are extended to new economic segments and/or client groups.

From the individual's perspective, access to financial services provides protection against hard times, demands efficient enterprise management, and creates a horizon for future growth opportunities due to access to capital. Credit products and services, as well as savings, fulfill these functions, as any single transaction is only one event in an ongoing series of financial decisions. Financial services are used for a variety of important functions, not just growth-oriented investment, and should be evaluated as such.

1. A Framework for Evaluating JOBBS

The evaluation framework described here has two levels -- that of the client and that of the institution. In keeping with the emphasis on building healthy financial institutions, a key indicator must become submission to and alignment with market discipline and practice. Thus, both recommended evaluation levels are associated with a strong commercial test. If individuals pay full cost for a service on an ongoing basis, then evaluators can be sure that the service is valued at least as highly as its price. This applies whether that service is provided by an NCB, a private bank, BASC, MIDAS, or a host of other possible JOBBS delivery mechanisms.

At the level of the institution, the strong commercial test is financial self-sufficiency, the ability to cover all costs -- and make a profit -- from lending or service revenues. These two tests are easily verified, and if both are passed, evaluators can be confident that the program is successful. (For example, a follow-up design team will determine the level of sustainability/profitability at project completion for BASC.)

In order to satisfy PRISM requirements evaluations must also determine whether the frontier of financial and ancillary support services is being extended to previously marginalized groups with few job prospects. Evaluations should produce information that enables the financial or support institution to improve performance by reaching new customers, offering better services, and operating more efficiently. Meeting this objective requires detailed information on clients and on internal operations.

2. The Client Relationship

At the level of clients, evaluations should resemble market research. The main point of the research is to understand the needs, preferences, and alternatives of the clients as they relate to the use of financial and support services generally and the offered services in particular. Areas of investigation include number of clients and information on their basic characteristics, such as gender, location, level of education and business experience, employment generation, and type of business. The USAID-funded Industrial Sector Survey will likely contribute important baseline information regarding productivity, employment, and so forth that can be used to establish comparative parameters.

It is imperative that lending and support institutions, both for program evaluation purposes, but, more importantly, for the success of the loan program or service product, know as much as possible about clients. This client knowledge orientation establishes firmly a sound banking and service relationship, permits timely responses to credit and service requests, and enhances the ability to monitor a loan or service portfolio, reducing substantially the possibility of loan losses or unsustainable client services. Client background information is incorporated easily into the credit application or company history forms, establishing an institutionalized means of cross checking the impact of the loan programs and support services.

Further evaluation criteria can and should be applied, focussing on service quality of both the support and credit institutions. While more frequently applied to the former, this emphasis on service quality is one of the clearest departures of the evaluation approach most often applied to finance programs. Ironically, it is also one of the telling reasons for the rate of failure, and corresponding non-performing loans, of many segments of the Bangladeshi NCBs' portfolios -- clients often have little regard for the lending institution, with no loyalty to it nor qualms about non-repayment.

Quality should be judged in a way that respects the clients' needs, preferences, and decision-making process. The strongest and simplest test of service quality, as stated above, is the client's willingness to pay, which serves as a basic indicator of the value or benefit of the service or credit product. This market test should be supplemented with assessment of specific service features, e.g., for credit programs, loan size, maturity, collateral and guarantee requirements, grace periods, documentary services, access to deposits, and market rates of interest should be examined in light of the preferences of the client.

The transaction costs to the client in securing the financial service (including transportation costs, legal and notary fees, and time spent) or the support service (including application, time away, accessibility, convenience) should also be studied with a view toward simplification and expense reduction. Finally, evaluators must have a sense of the costs of the options available to entrepreneurs through competitive arrangements. An understanding of the other options available will provide insight into whether the all-in costs for financial services reflect the cost of these services or mask inefficiencies within an institution -- inefficiencies which curtail and inhibit the growth of productive employment.

3. Institutional Sustainability

A shift in perspective is also needed for the institutional portion of a typical evaluation, away from donor-centric examination of the use of technical assistance (or capital) funds and toward an examination of the institution itself, its services, and the self-sufficiency and sustainability of a particular lending program or service. Standard financial analysis techniques need to be adapted to the special attributes of the product and/or service, especially when the product and/or service differs significantly from standard NCB offerings.

The basic question is whether the product/service really works -- whether it is profitable and can be institutionalized. The answer to this question is yes only if income covers all associated costs, both direct administrative costs and financing costs. The key indicators are profitability and portfolio quality for lending programs and profitability and outreach for support services.

[With specific regard to lending programs, the lack of standards and information regarding new participants in banking products and services is daunting; evaluators have little guidance to determine baseline indicators. Moreover, information is often kept in a form that prevents accurate assessment and comparison across lending programs, especially in terms of portfolio quality. Evaluators must require institutions to maintain portfolio quality information that shows arrears categorized by degree of delinquency, so that they can assess accurately the portion of the portfolio risk. FSRP advances at the NCBs can be employed readily here.]

Evaluators must not be deterred by the overall financial condition of the lending institution. As Bangladesh makes strides in wrestling with its non-performing loan portfolios, credit and service programs catering to new segments of borrowers must be monitored and evaluated separately from the larger, troublesome portfolios of the NCBs, though the measures of portfolio quality -- profitability, non-performing assets, liquidity, and borrower integrity -- should be no less stringent than for any market-driven commercial lending institution.]

Finally, internal and external issues must be examined. Qualitative assessment of leadership, vision, and management must supplement the quantitative indicators in order to gauge the institution's ability to sustain and expand achievements in the future or to adapt to changing circumstances. External issues are also important. These issues include the image of the institution among clients, the business community, and political leaders. They also include regulatory issues and the relation of the institution to the impact on such. Examination of these qualitative questions informs decisions about future directions for the institution and its specialized services.

ANNEX A

Draft New Activity Description

Draft New Activity Description

I. ACTIVITY DATA

Title: Job Opportunities through Business and Banking Support (JOBBS)

Number:

Funding:

Resources:

II. NEW ACTIVITY

The goal, subgoals, and strategic objectives for USAID/Bangladesh as established through the PRISM exercise are summarized in Figure II-1. The Mission's direction is clear: to improve the quality of people's lives in terms of health and nutritional status, economic status, employment opportunities, and representation in the government. Sub-goal two specifically addresses issues of sustained and sustainable job creation.

In a country with nearly half the population in poverty, the goal of increasing the proportion of Bangladeshis living above the poverty line certainly is appropriate, and parallels the GOB's stated development interests. Sub-goal one -- stabilize population and protect human health -- represents a major part of the Mission's approach to achieving poverty alleviation. Nearly 60 percent of the Mission's development assistance (DA) funds are targeted at this sub-goal.

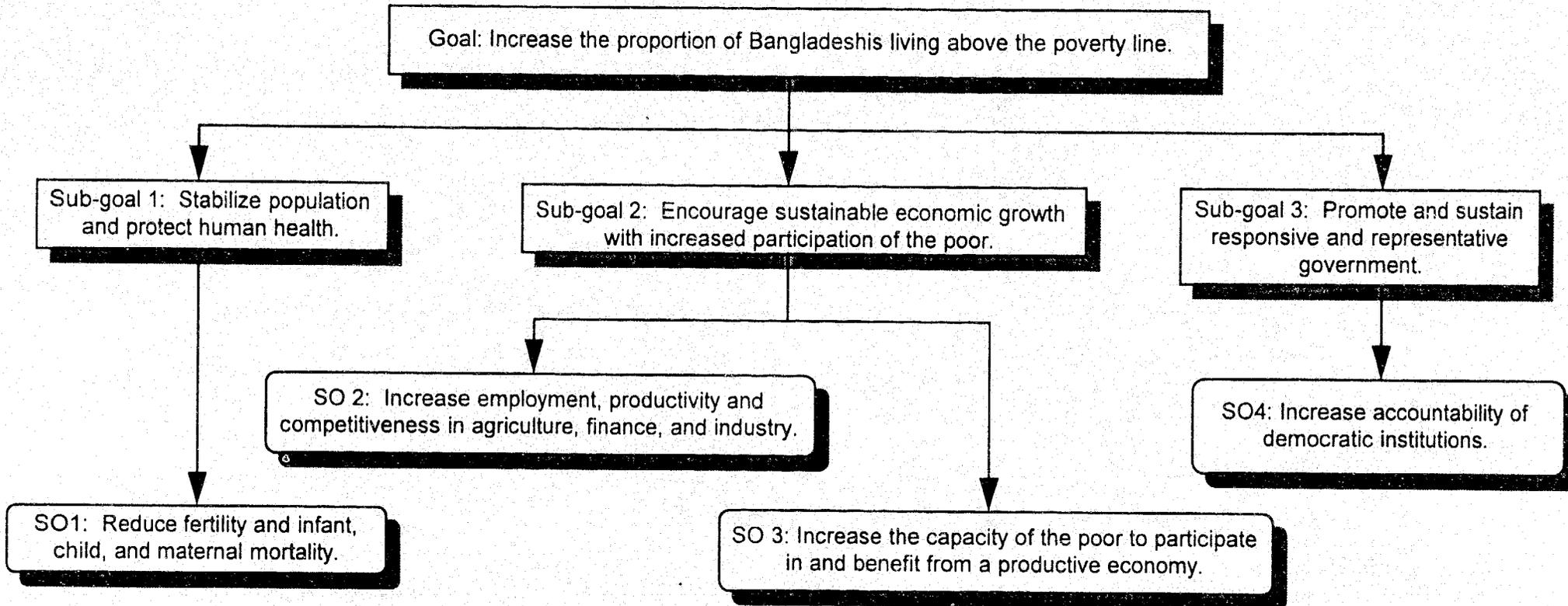
Sub-goal two -- encourage sustainable economic growth with increased participation of the poor -- recognizes that if the gains achieved in population and health are to be maintained, then people must have the means to support themselves, i.e., jobs. Very importantly the sub-goal focuses on sustainable economic growth to create jobs of varying skills -- and wages -- throughout the economy.

A. Strategic Objective and Program Outcome Supported

Job Opportunities through Business and Banking Support (JOBBS) will establish two commercial lending windows, and related products and services. One window will target export and high growth industries in Bangladesh. The second will focus on increasing the access to commercial credit to viable NGO activities for on-lending programs.

JOBBS builds on the advances made through the Financial Services Reform Project (FSRP) and the Industrial Promotion Project (IPP). It will directly support the Missions sub-goal two and its strategic objectives two and three, as shown in Figure II-1.

Figure II-1. Mission Agenda



B. JOBBS Purpose

The purpose of JOBBS is to create sustainable employment generation through increased investment in SME export and high growth industries. JOBBS sub-purpose is to enhance NGO access to commercial credit for lending programs that generate quantifiable employment for the unskilled and semi-skilled. JOBBS narrows and refocuses the diversity of interventions of prior USAID/Bangladesh program activities into a directed, succinct program with quantifiable job creation results.

C. Expected Results and Relationship to Other Donor Activity

JOBBS is expected to lead to increased capacity of the financial sector to lend to viable export and high growth industries in Bangladesh, and to improve micro-enterprise lending through viable NGO activities. The expected results are:

- Increased exports and greater productivity of high growth industries;
- Expansion of commercial credit and related products and services for these segments;
- Expansion of commercial credit and related products and services for NGOs;
- Jobs.

A review of donor activity indicates that JOBBS would fit well with on-going and anticipated activities. Over 90 percent of donor assistance is provided as project aid, with the remainder as technical assistance. JOBBS concentrates on the provision of technical assistance, relying on this assistance to mobilize existing capital from the already liquid banking sector. In addition, USAID/Bangladesh is recognized by other donors as having a comparative advantage in providing assistance to the banking sector and in analyzing, advocating, and changing policy and regulatory constraints to increased investment, productivity, and jobs.

III. Management Considerations

A. Management Costs

JOBBS is not an umbrella project. As such it will have one management unit with a Chief of Party supplied by a contractor. It will not require an increase in FTE nor OE.

B. Technical Support

Technical support from USAID/W will be required in the following areas: establishing monitoring systems from the overseers of the PRISM management team and on-going access to existing contractual vehicles that provide short-term support, for example: PEDS III, GEMINI, CAER, and US-AEP.

IV. POLICY AGENDA AND STRATEGY

Policy refinements that will be required include clarification of export and tariff schedules, NGO legal status, and creditor rights and responsibilities. The general strategy to pursue these refinements is to use current policy cells such as PIAG and MTTU, as well as the analysis capability that will come on stream with ATDP.

V. PROJECT PAPER WORK TO BE COMPLETED

A. Design Work to be Completed for the Project Paper

Design work to be completed includes:

- TAPP preparation and approval;
- Selection of appropriate counterparts;
- Selection of appropriate financial institutions;
- Selection of appropriate NGOs;
- Appropriate local pay scales and costs;
- Matrix of required skills;
- Number of long-term personnel; and
- Appropriate levels of short-term technical assistance.

B. Analytical Work to be Completed for the Project Paper

Analytical work includes:

- Export regime;
- Bank personnel structure and incentives;
- Creditor and debtor rights and responsibilities;
- Contract law;
- NGO operational procedures;
- Market studies for export and Bangladeshi high growth industries;
- Employment impact; and
- Survey impact of female employment in the garment industry.

VI. TIMETABLE AND RESOURCE REQUIREMENTS FOR PROJECT PAPER (PP)

The five-person PP team should commence work no later than March, 1995 for a period of six weeks. The team should be composed of specialists in the following areas, with experience in South Asia desirable: business development, banking and finance, developing economies, policy and regulatory reform, and NGO development.

VII. RECOMMENDATIONS

A. Review

B. Waiver

C. Project Authorization

VIII. PROGRAM LINKAGES

A demand-side driven vehicle, such as a credit window at a qualified financial institution, would open to qualifying, existing businesses and NGOs a necessary credit stream, resulting in benefits for the Bangladeshi financial sector, the productive base of the country, and the creation of employment opportunities along the job continuum of unskilled to skilled.

A distinct advantage of the creation of specific lending windows, with well established, disseminated lending criteria is that this unit within an NCB (or possibly a private bank) would commence operations with a clean slate, incorporating FSRP operational, procedural, management, MIS, and credit

improvements that have been a hallmark of that project. In addition, it is well known that the banks are currently enjoying unprecedented liquidity, such that no donor capitalization is required.

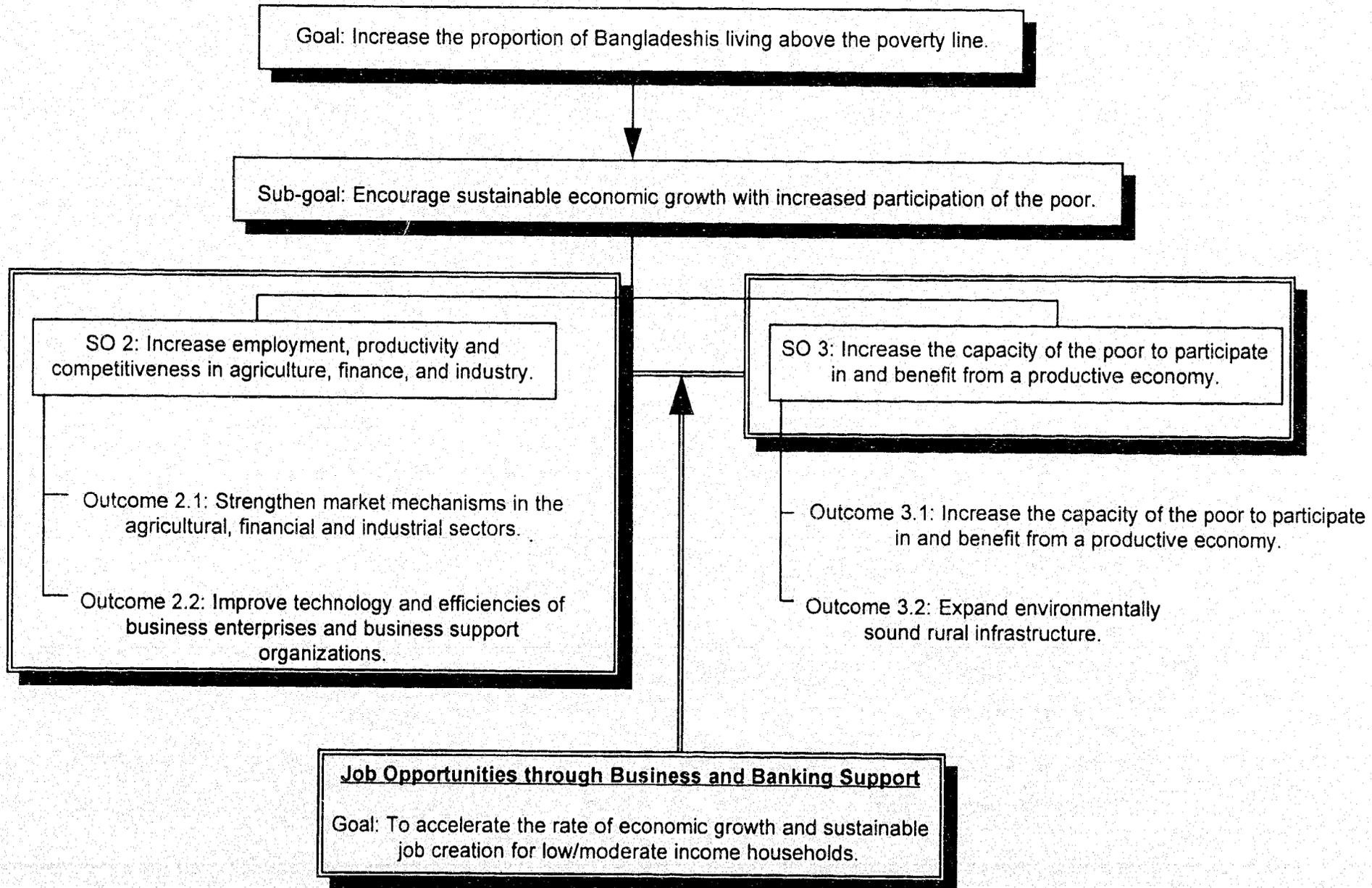
There is most likely a further advantage: just as FSRP has witnessed the development of an "esprit de corps" among bank officer counterparts assigned to the project, it is possible to envision the same positive result in the creation of a new lending window, with defined job responsibilities, marketing plans, and personnel/incentive structure. Hence, the legacy of FSRP is translated into on-the-job performance, concurrently enhancing the credit portfolios of the bank(s).

Furthermore, it is relatively easy to extend assistance via this initiative to activities that would complement these lending windows. Such activities could include policy and regulatory technical assistance focused on banking, export, and/or high growth domestic industries. (By expanding ATDP's policy mandate slightly to include more than just agricultural exports, complementarity emerges between the two efforts.) Assistance could also be directed at a host of service providers to enhance a firm's ability to produce and export, e.g., IESC, BASC, MIDAS, various Chambers, and/or associations.

Figure VIII-1, below, illustrates in summary form the linkage of the proposed activity to the approved program it supports. The planning assumptions regarding the achievement of proposed activity objectives are as follows:

- Industrial growth is essential to accelerate the pace of economic growth, as measured by increases in Gross Domestic Product.
- There is a continuing need for micro-enterprise growth to absorb in the near to medium term ever increasing numbers of job entrants and the unemployed.
- Clear comparative advantages in certain industries exist within Bangladesh, but they remain, to a large extent, unexploited.
- The comparative advantages of Bangladesh are best exploited in the near- and medium-term in value-added industrial and agricultural enterprises with a) significant export potential; or b) potential to expand as Bangladeshi "high growth industries."
- Providing growth opportunities for micro-enterprises will permit an ever widening web of income generation, job creation, and family benefits.
- The development of export oriented, value added enterprises is a private sector undertaking. This development should focus on existing small to medium size businesses, and can be encouraged through technical, financial, and human capital.
- Small to medium size businesses with the potential to expand face difficulties, uncertainties, and obstacles in obtaining market-priced credit for business expansion.
- Given the high concentration of funding to only a handful of NGOs, many others are searching for access to capital.

Figure VIII-1. JOBBS Fit with Mission Agenda



- Given the difficulty of accessing credit, small and medium size businesses fail to:
 - Develop export links, new product specifications, and market niches;
 - Meet government regulations regarding taxes, tariffs, and licensing requirements;
 - Obtain, develop, and apply new, appropriate technologies that enable product upgrades and efficient production;
 - Generate incremental revenues and profits;
 - Create jobs.

- Likewise, NGOs fail to:
 - Extend services;
 - Create jobs.

ANNEX B

**Draft Scopes of Work for JOBBS
Project Paper Team**

Draft Scopes of Work for JOBBS Project Paper Team

I. ACTIVITY IDENTIFICATION

The activity to be conducted is the drafting of a Project Paper for JOBBS--Job Opportunities through Business and Banking Support. The task is to work with Mission management, especially Office of Economics and Enterprise (OEE), to create a series of USAID activities in support of the Mission's strategic objective: increase the proportion of Bangladeshis living above the poverty line. JOBBS will be designed to meet a series of strategic objective sub-goals, particularly to "increase employment, productivity, and competitiveness in agriculture, finance, and industry, and increase the capacity of the poor to participate in and benefit from a productive economy." The centerpiece of JOBBS is the creation of lending windows at existing Bangladeshi financial institutions. These lending windows will be designed to target financial products and services to export oriented and high growth industries, and qualified NGOs.

II. TEAM COMPOSITION

USAID/Bangladesh believes that the qualifications and experience outlined below are essential to conducting the proposed scope of work.

A. Development Economist (Team Leader)

A professional with at least ten year's experience in macro economic analysis and comparative advantage studies, with proven project design and team leader capabilities. Experience with the economies of South Asia required. Ph.D. required.

The team leader should be an economist with solid experience in analyzing the ability of the private sector of developing countries to respond positively to improved policy environments.

B. Banking and Finance Specialist

A professional with at least ten year's experience in international banking (preferably with a recognized international bank) and as a senior financial sector expert specializing in developing country banking and financial sector reform. The individual should have significant experience with the development of new credit and marketing departments responsible for new lending products, credit analysis, and bank personnel administration.

Senior level experience with an internationally recognized bank is critical, as is financial sector experience in developing countries. An M.B.A. or an advanced degree in finance, business or related fields is complementary to the experience. South Asia experience desirable.

C. Policy and Regulatory Reform Specialist

A professional with at least eight year's experience in policy and regulatory reform, with particular emphasis in analyzing administrative and institutional obstacles to business development. The individual should have significant experience in policy reform required in transitional economies which have historically been centrally planned and managed.

Senior level experience in a variety of developing countries is required, with emphasis on South Asia desirable. Individual should be familiar with overcoming entrenched bureaucratic procedures and thought processes that have little relevance to a market economy. A Master's degree in public administration and/or economics is required.

D. Business Development Specialist

A professional with eight year's experience working with SMEs and business support services. Experience in developing strategies to provide business consulting services to export and high growth industries. An advanced degree in management is a plus, though a proven record of success is most important. Experience in South Asia important but not required.

E. NGO Development Expert

A professional with at least eight year's experience in NGO management and micro-enterprise assistance. Preferably experience in South Asia. Demonstrated knowledge of and management experience with the development of sustainable NGO activities geared towards micro-enterprise development, with emphasis on women-owned micro-enterprises.

III. STATEMENT OF WORK

Below are outlined specific tasks and responsibilities for the five person PP Team. In addition, there are two cross-cutting tasks which form an integral part of each individual scope of work and must be incorporated into the final PP:

- The relationship between assisting new or old businesses; large, small, or micro businesses; or specific types of businesses and the number of new jobs created.
- The effectiveness and value of training, technical assistance and advisory programs in general, and of alternative training, technical assistance and advisory service approaches.

A. Development Economics Expert (Team Leader)

Identify policy, regulatory, and structural impediments to SME growth and development in export and high growth industries, and recommend specific project activities that will enhance entrepreneurial success and reduce hindrances to job creation.

The consultant will carry out the following tasks contributing to the completion of the JOBBS Project Paper:

- Identify Bangladesh's principal comparative advantages for export.
- Evaluate how existing trade tariffs, the system of allocating import permits, foreign exchange practices, and contraband affect the ability of SMEs to export competitively Bangladeshi manufactured goods.
- Evaluate the sustainability and cost of SME job creation.

- Assess the impact of tax and fiscal incentives on SMEs. Identify and determine the effect of potential policy changes and reforms on SMEs.
- Assess the impact of current foreign exchange structure on export competitiveness and sourcing of raw materials.
- Identify other donor activities, current and planned, that complement or duplicate JOBBS' strategy.
- Assemble individual consultant reports into a cohesive project paper as outlined in USAID's Project Development Interim Directive.

B. Banking and Finance Specialist

Identify location, structure, and credit and marketing operational procedures for new lending windows targeted for export-oriented and high growth SMEs and qualified NGOs.

The consultant will carry out the following tasks contributing to the completion of the JOBBS Project Paper:

- Develop lending window credit procedures and approval mechanisms.
- Develop marketing strategies for new financial product and services that target SMEs, high growth industries, and NGOs.
- Identify institutional framework/organization within existing financial institution to develop and manage lending windows.
- Identify appropriate bank personnel for lending window staffing.
- Assess lending window staff training needs.
- Recommend appropriate personnel hiring guidelines, staffing patterns, and compensation packages.
- Identify other donor activities, current and planned, that complement or duplicate JOBBS' strategy.

C. Policy and Regulatory Reform Specialist

Identify key policy, regulatory, and financial sector constraints to SME growth and development exports and high growth industries, and recommend specific reforms to reduce impediments to entrepreneurial success and hindrances to job creation.

The consultant will carry out the following tasks contributing to the completion of the JOBBS Project Paper:

- Review legal framework and financial regulations applicable to the extension of credit (interest rates, creditor and borrower rights and responsibilities, contract and bankruptcy law, etc.)

- Measure impact on SMEs of regulatory controls, local laws, regulations, zoning, licensing, and corporate registration.
- Analyze impact of current interest rates, credit allocation procedures, effective rates of interest, loan application procedures on SMEs.
- Identify other donor activities, current and planned, that complement or duplicate JOBBS' strategy.

D. Business Development Specialist

Develop means by which the JOBBS project can integrate local business support mechanisms and consulting firms, such as MIDAS, BASC, Chambers of Commerce, and associations as pro-active providers of services that support sustainable employment and job creation.

The consultant will carry out the following tasks contributing to the completion of the JOBBS Project Paper:

- Analyze institutional effectiveness and performance, including the variety, level and quality of services offered, plans for future expansion, breadth and scope of beneficiary coverage, and prospects for increasing outreach.
- Assess the adequacy of resources to carry out objectives, financial strengths and weaknesses, and prospects for achieving financial self-sufficiency.
- Assess managerial, staff, operational, procedural and policy strengths and weaknesses.
- Identify other donor activities, current and planned, that complement or duplicate JOBBS' strategy.

E. NGO Development Expert

Identify new NGO participants in the field of micro-enterprise lending.

The consultant will carry out the following tasks contributing to the completion of the JOBBS Project Paper:

- Survey a sample of existing NGOs which have the potential to assist in micro-enterprise development, specifically the management of sustainable lending programs for micro-entrepreneurs.
- Analysis of constraints analysis, with emphasis on financial impediments to greater NGO activity.
- Recommend new opportunities for increased NGO participation in job creation, skills enhancement, and sustainable employment.
- Assess the efficiency and effectiveness of selected NGOs to implement micro lending, including assessment of staff skills, existing policies and procedures, absorptive capacity, and commercial viability.

- Assess the ability of new NGO lending programs, supported by commercial credit facilities, to achieve self-sufficiency and sustainability.
- Assessment of existing micro-enterprise services, particularly those on the ground or envisioned by other donors or international NGOs.

IV. LEVEL OF EFFORT

The anticipated level of effort is six person-weeks per individual, with an additional week for the team leader. The total level of effort is therefore 31 person-weeks.

V. REPORTING REQUIREMENTS

The expected out of the engagement is a Project Paper following the guidelines as set out in USAID's Project Development Interim Directive.

ANNEX C

List of Persons Contacted

List of Persons Contacted

Bangladesh Bank:

A.B.M. Mahbubul Amin Khan, Deputy Governor II
Shah Abdul Hannan, Deputy Governor III

Business Advisory Services Center (BASC):

Mahbub ul Huque Khan, Project Director

BASC Roundtable:

Saifuddin Ahmed, Managing Director, Housing Resources Mgt. Ltd. - Laboni Dairy Farm
Siddique Ahmed, Program Manager, BASC
Preo Bala Biswas, World Concern
Ahsan Khan Chowdury, Executive Dir., Rangpur Foundry - Banga Trading - Property Dev. -
Agricultural Marketing Co.
Tahmina Chowdhury, Ridwawa Arts & Crafts
Omar Farooque, Director, G.A. Company Ltd.
Jawaherul Ghani, Managing Director, Modern Erection Ltd.
Zein Ghuznavi, Aranya Crafts Ltd.
Ahsanul Haq, Education Officer, Corr-The Jute Works
M. Anwarul Haq, Director, New Generation Construction Co. Ltd.
Rizwanul Haq, Director, Gemcon Ltd - Gemini Sea Food Ltd. - I.R. Traders
A.Q. Raziul Huq, Industrial Consultant
Saiful Islam, Finance Manager, Shabbi Foundation
Nilufer Ahmed Karim, Management Counsellor, Bangladesh Management Dev. Centre
Nasira Mustaque, Aranya Crafts Ltd.
M. Abul Quasem, Agricultural Engineer, Canadian Executive Agency
Maqsudur Rahman, Banglamotors
Sadequr Rahim, PACT Bangladesh
Syeda Farzana Rahim
Anis Siddique, Consultant
Mr. Shahanewaj, Aziz Cooperative Market

Dhaka Chamber of Commerce and Industry:

A. Rob Chowdhury, President

Engineer & Consultants Bangladesh Ltd.:

Mrs. Lailun Nahar Ekram, Managing Director (also MIDAS Director)

Enterprise Development International:

William Derrenger, Director (also MIDAS Director)

Financial Sector Reform Project:

Anthony Bamed, International Banking Advisor
Patrick Vath, Chief of Party
Terrence Bradigan, NCB Advisor

International Executive Service Corps:
C.M. Murshed, Country Director

Micro Industries Development Assistance and Services (MIDAS):
Alim Haider, Senior Program Officer
Abdul Karim, Acting Managing Director
Anwarul Azim Syed, Director Development

Ministry of Industries:
Syed Yusuf Hossain, Additional Secretary

Palli Karm Sahaik Foundation:
Mohammad Ismail Hossain, Managing Director
Abdus Samad Mallik, General Manager

Policy Implementation and Analysis Group (PIAG):
S. Ahmed Ali, Systems Consultant & Programmer
Ronald Black, Chief of Party
CAF Dowlah, National Consultant
M. Azizur Rehman, Consultant
Abdur Rab, Consultant

Square Pharmaceuticals Ltd.:
Samson Chowdhury, Chairman & Managing Director (also MIDAS Director)

USAID/Bangladesh:
Zia Ahmed, Project Management Specialist
Peter Amato, Deputy Director, Office of Economics & Enterprise
David Atwood, Deputy Director, Office of Food & Agriculture
Ross Bigelow, Private Enterprise Officer
C. Stuart Callison, Director Office of Economics & Enterprise
Naushed Faiz, Project Management Specialist
Najmul Hossain, Project Management Specialist
Fazlul Karim, Supervisor Financial Analyst

ANNEX D

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ANNEX E

Scope of Work

Scope of Work
Poverty Reduction Through Private Sector
Employment Creation Strategy Paper

I. Activity Identification

The activity to be conducted is the drafting of a Poverty Reduction Through Employment Creation Strategy Paper. The task is to work with the Office of Economics and Enterprise (OEE), the Office of Food and Agriculture (OFA), and Mission management in support of its strategic objective to increase productivity, employment and competitiveness in agriculture, finance and industry. This will entail a review of Mission accomplishments to date, including its Poverty Reduction through Private Sector Employment, Lessons Learned and Next Steps draft paper, and proposing a new project(s) start for 1996 and/or amendment(s) to existing projects and the writing of relevant scope(s) of work for PID/PP or project amendment preparation.

II. Background

The USAID Mission Strategy, as articulated in its Program Indicators for Strategic Management (PRISM), is focused on support to the Bangladesh Government's overall goal of poverty reduction. The Mission's strategic goal of increasing the proportion of Bangladeshis living above the poverty line is to be achieved through three sub-goals, the second of which is to encourage sustainable economic growth with increased participation of the poor.

The Mission's support for this subgoal is focused on meeting two strategic objectives: (a) increase productivity, employment and competitiveness in agriculture, finance and industry; and (b) increase capacity of the poor to participate in and benefit from the productive economy. Meeting these strategic objectives will also generate more public revenue for essential social services.

Eleven projects and three sub-projects/activity areas across four USAID offices have been designed to contribute to four program outcomes to achieve the two strategic objectives under subgoal (2). Private Sector Development is expected to contribute directly to achieving the first of those strategic objectives. Two Mission offices, the Office of Economics and Enterprise (OEE) and the Office of Food and Agriculture (OFA) have projects and programs directly supporting this strategic objective.

The Mission's Poverty Reduction Strategy is based upon the premise that production agriculture, which presently provides the majority of existing employment, will only be able to absorb a declining share of new entrants to the labor force between 1994-2000. While new higher value crop opportunities with higher labor requirements must be developed, an important and increasing share of new jobs over the next 6 years will need to be generated in either non-farm private agribusiness occupations or entirely outside of the agriculture sector. Although rural formal and nonformal sectors will continue to be very important to Bangladesh, many new jobs will need to be in urban areas and in the formal sector, where higher investment is required to increase the growth rate of productive employment opportunities.

Improving the investment climate in Bangladesh is an important element of the Mission's poverty reduction strategy. Increased investment is the key to obtaining more employment, thereby increasing the proportion of population living above the poverty line. Mission projects directly and indirectly assist private sector job creation in industry, trade, agriculture and agribusiness and indirectly assist government or quasi-governmental bodies to encourage, stimulate and support private sector investment and job creation.

III. Statement of Work

The Contractor shall:

1. Review the accomplishments and lessons learned through OEE's and OFA's private sector activities including all project evaluations conducted. This also will include a review and critique of the Mission's Poverty Reduction Through Employment Creation, Lessons Learned and Next Steps Draft Paper which examines the Mission's sub-goal #2 and the first of its two strategic objectives, in relation to accomplishments to date.
2. Based upon the above review and analysis, meetings with relevant USAID project officers, TA consultants and cooperating agencies, the Contractor will prepare a strategy/concepts paper identifying programming opportunities and options consistent with the program's goal and strategic objectives for 1996 and beyond. This paper will have the following sections:
 - a. USAID's private sector employment creation experience
 - Accomplishments and lessons learned
 - Contribution to subgoal "encourage sustainable economic growth with increased participation of the poor" and to strategic objective "increase productivity, employment and competitiveness in agriculture, finance and industry."
 - b. Gaps and Areas of Opportunity
 - Capital markets development
 - Export Development
 - Small enterprise development
 - Microenterprise development
 - c. Outline of Poverty Reduction Through Employment Creation Strategy
 - Relationship to Mission's sub-goal and strategic objective under (a) above.
 - Approach to business development, job creation, USAID's comparative advantage.
 - Role of Office of Economics and Enterprise (OEE)
 - Role of Office of Food and Agriculture (OFA)
 - d. Specific Project Activities
 - proposed new project(s) and/or amendment(s) to existing projects for FY 1996. If a new product(s) is (are) recommended, the Contractor will draft a detailed New Project Narrative (NPN) and a scope of work for PID/PP preparation. If the team recommends that existing projects should rather be amended, a detailed scope of work for the suggested amendments is to be prepared by the Contract team.

IV. Methodology and Data Sources

The Contractor shall determine appropriate methodology and level of analytic rigor.

In developing the Concept Paper, the Contractor shall include the following:

- o Review and critique the Mission's Poverty Reduction Lessons Learned and Next Steps Draft Paper.
- o Review project papers, quarterly/monthly status reports, evaluations and the last two Project Status Reports (PSRs) for each relevant project.
- o Conduct interviews with USAID, cooperating agencies, BDG and other donor officials, knowledgeable businessmen and women, and with the technical assistance team staff of relevant projects.
- o Review other pertinent project documentation.

V. Team Composition

USAID/Bangladesh believes that the sum of the skills and background outlined below will be essential for conducting the proposed scope of work. The team member with the strongest organizing and writing skills should act as Team Leader and be responsible for the analytical and documentary quality of the final report.

Team members and skill areas are as follows:

Private Sector Development Specialist:

Academic: M.B.A./Advanced Degree in Business, Economics or Trade

Professional: At least eight year's experience in business/industrial development in essential, including experience in small and medium-size commercial business developments and agribusiness. Should have extensive international and Third World experience in setting up small/medium size businesses, as well as a background in economics and trade and commerce. Experience in project/program development and/or evaluating business development in a Third World context is essential. Must have excellent writing skills. Additional senior level private sector development experience may be substituted for an advanced degree.

Financial Sector Development Specialist:

Academic: M.B.A./Advanced Degree in Finance, Business, Economics or related field.

Professional: At least eight year's experience a senior financial sector development specialist preferably with an international agency specializing in Third World development (IBRD, AID, ADB, or other). Developing country experience is essential. Should have extensive experience in Bank lending, credit analysis and administration. Should also have extensive experience in project development from concept paper stage to project paper preparation. Excellent writing, communication and interpersonal skills are necessary.

VI. Performance Period and Level of Effort

The activity should begin in Bangladesh on or about September 6, 1994, and run for approximately 19 working days.

A six-day work week is authorized for all consultants.

Private Sector Development Specialist	19 work days
Financial Sector Development Specialist	19 work days

VII. Reporting Requirements

The Contractor shall submit a Draft Final Report (10 copies) no later than 4 working days prior to departure from the field and a Final Report (10 copies) before leaving the field with a copy of the complete report on diskette, in WordPerfect 5.1. USAID will provide its comments to the Contractor on its Draft Final Report on or immediately after the Contractor's Mission debriefing.

VIII. Team Meetings and Debriefings

The Contractor team shall meet upon arrival with the Mission Director and Deputy Director and with the concerned officials in OEE and OFA. The Contractor shall meet thereafter with OEE and OFA officers as mutually determined to be necessary.

The team will provide USAID with 10 copies of a draft report no later than 4 working days prior to departure from Bangladesh, and will schedule an exit briefing no later than 2 working days prior to departure. USAID will comment on the draft report and the results of the exit briefing and the Contractor will prepare a final report to be submitted to USAID upon field departure.

IX. Logistics

The Contractor shall be responsible for organizing the logistics of the study. This includes arranging for accommodation, office space, computer and equipment rental, secretarial and other support services, transportation, and interview scheduling.