



Technical Assistance Consultant's Report

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Bangladesh: Small and Medium Enterprise Sector Development Program (Special Fund Resources of ADB)

Prepared by Farook Chowdhury
Dhaka, Bangladesh

For Ministry of Industries

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Asian Development Bank

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List of Abbreviations Used

ADB	-	Asian Development Bank
BB	-	Bangladesh Bank
BSCIC	-	Bangladesh Small and Cottage Industries Corporation
BSTI	-	Bangladesh Standards and Testing Institute
CV	-	Curriculum Vitae
DCCI	-	Dhaka Chamber of Commerce and Industries
DFID	-	Department for International Development, UK
EA	-	executing agency
FBCCI	-	Federation of Bangladesh Chamber of Commerce and Industries
GoB	-	Government of Bangladesh
IA	-	implementing agency
IFC	-	International Finance Corporation
Mol	-	Ministry of Industries
NASCIB	-	National Association of Small and Cottage Industries of Bangladesh
PD	-	project director
PFI	-	participating financial institution
RRP	-	Report and Recommendations to the President
SEDF	-	South Asia Enterprise Development Facility
SEF	-	Small Enterprise Fund
SCITI	-	Small and Cottage Industries Training Institute
SME	-	small and medium enterprise
SMEC	-	Small and Medium Enterprise Cell
SMEAP	-	Small and Medium Enterprise Advisor Panel
SMEF	-	Small and Medium Enterprise Foundation
SMESDP	-	Small and Medium Enterprise Sector Development Program
TA	-	technical assistance
TAGT	-	Technical Assistance Grant Team
TAPP	-	Technical Assistance Project Proforma

I. INTRODUCTION

1. The implementation of the Small and Medium Enterprise Sector Development Program (SMESDP) has been unsatisfactory and faced lengthy delays, poor management of the program, frequent changes in implementation modalities, and poor procurement process. The implementation period began in June 2005, covering duration of three years, has been extended by the ADB for another year ending in June 2009. Recruitment of consultants for various TA components by the Implementing Agency (IA), which began in late 2006, could not get completed before August of 2008. The Project Director (PD) remained in his job throughout the initial implementation period, and for much of the extended period, providing a continuity and stability in program management. But, being a senior official in the government the PD could not provide the full attention that was required for such a program. Managing the program with ad hoc plans, a strategy substantially different from the fundamentals framing the program, and limitation of quality staff within the available resources of the IA hampered quality and effective implementation. The program implementation was tossed around between the SME Foundation and the Ministry of Industries with no clear planning and programming of both the project's activities and those of the Foundation and the SME Cell. From the seven technical assistance projects three had to be implemented with the recruitment of consulting firms and four components needed recruitment of individual consultants. The initial Technical Assistance Project Proforma (TAPP) prepared by the IA did not include the recruitment of consulting firms, but only individual experts, which was later not acceptable to the ADB requiring a revision of the TAPP. This revision together with poor execution of the recruitment process created massive delays in starting recruitment of consultants and implementation of the different TA components.

2. Over the last two decades several projects and programs designed and executed by various donors aimed at private sector development, particularly focusing on small and medium enterprises (SME). The World Bank's matching grant facility; USAID's JOBS program, DFID's Katalyst, and IFC's South Asia Enterprise Development Facility (SEDF) are among the key projects focusing on private sector development and SMEs. SMESDP is clearly the first attempt by the Government of Bangladesh, with support from the Asian Development Bank (ADB), to provide a comprehensive intervention aiming to develop the SME sector. The program design and planned activities provided a rare opportunity for putting in place sound policy, institutional arrangements, and intervention mechanisms for the development of SME. Among several fundamentals two key elements of the program design are a rationalization of the government institutions providing support services to the SME sector and a public private partnership in delivering services to the SME sector. While a plethora of institutions have been created over the past decades to provide services to enterprises (some institutions mainly provided services to State Owned Enterprises, albeit smaller businesses), duplications, outdated methodologies, lack of capacity, and inefficient operations mired these institutions into ineffective service providers. While the SMESDP was designed to rationalize these institutions by creating a better environment for service provisioning to the SMEs it failed to put in place any structure and methods through which institutional efficiency for service delivery could be enhanced. Instead, it created at an early stage of the program the SME Foundation with roles and functions similar to many other existing institutions. Thus disrupting the process of rationalization of institutional provision of services even further. Globally, lessons over the decades have shown that without the active involvement of the private sector a delivery of interventions through the public sector institutions is incapable of bringing results. While public sector support is necessary, involvement of the private sector through various public sector cooperation modalities is essential. While the SMESDP incorporated private sector participation within the members of the SME Advisory Panel and also in the composition of the SME Foundation it failed to actively draw upon the resources and support of the burgeoning private sector of Bangladesh. This has impacted the operations of the Helpline Outreach Centers which was clearly seen as a unit to be only viably operated under a public private partnership.

3. It is not that the SMESDP did not accomplish anything at all, but rather that the opportunity that was presented through the program was not availed. It did achieve some of the goals of the policy reforms - Program Loan 2148 of US \$15 million, which incorporated a total of 29 policy matrix conditionality - enabling the ADB to release the program funds. The Project Loan 2149 of US \$30 million, which provided funds to Bangladesh Bank for on-lending to SMEs through participating financial and non-financial institutions was disbursed earlier than expected. At the end of January 2009 some 80 percent of the funds have been disbursed. The SME Foundation has been established and the Government approved a SME Policies and Strategies in mid-2005. However, the quality of the policies and strategies document is poor and the institutional structure of the SME Foundation remains unclear. Outputs of several TA components have been achieved, but their quality and effectiveness is an issue.

4. The Final Report presents a review of the above. It also outlines an assessment of SMESDP implementation. In carrying out this review and assessment an analytical framework is presented that compares planned and actual activities, outputs, outcomes and deliverables achieved, and compliances with loan covenants. The assessment and analysis relies heavily on secondary documents made available to the consultant.

5. The goals, objectives and outputs of SMESDP are outlined in Chapter 2. They are clear and concise. The analysis carried out in this report attempts to track the outputs and how far they have been achieved. In describing the achievements in terms of the outputs comments are provided to whether SMESDP has met the objectives and goals.

6. The implementation of the four components of the SMESDP is described in Chapter 3. A description of each of the components, scope of coverage, deliverables and achievements, status of implementation process, and an outline of key issues and challenges is covered in this chapter. This is the main body of the findings and conclusions. They are supported with several schedules analyzing the input process and achievements of outputs.

7. The consultant had drafted a benefit monitoring framework detailing performance indicators for the SMESDP. The SME Cell and SME Foundation did not undertake any benefit monitoring of the TA and Program loans. The Small Enterprise Fund (SEF) unit of the Bangladesh Bank (BB) carried out some benefit monitoring of the loan funds using a few simple indicators. Under the circumstances a comprehensive analysis of benefits and impact of the project is not possible and discussions regarding benefits of SMESDP relies heavily on qualitative assessments and reviews. Chapter 4 outlines what could have been attempted and at this stage without a thorough filed survey no clear conclusions could be drawn on the benefit and impact of the SMESDP.

8. Finally, Chapter 5 deals with lessons learnt from implementing SMESDP over a period of four years. There have been several pitfalls in executing the program and much could have been avoided, if appropriate care and supervision was provided at an early stage of the project.

II. GOAL, OBJECTIVES, AND OUTPUTS

9. SMESDP consists of: (i) Loan 2148-BAN, a program loan of SDR9.954 million (\$15 million equivalent) supporting policy reforms; (ii) Loan 2149-BAN, a project loan of SDR19.908 million (\$30 million equivalent) for extending credit to small enterprises; (iii) Loan 2150-BAN, a TA loan of SDR3.318 million (\$5 million equivalent) for improving the effectiveness of government assistance to the SME sector and facilitating SMEs' access to various support services including capacity building and support for infrastructure development for SMEs; and (iv) TA 4507-BAN, a TA grant of \$600,000 equivalent for assisting the Government to implement and coordinate the Program and for benefit monitoring. The total loan amount for SMESDP of \$50 million is funded from Asian Development Fund (ADF) resources.

2.1 Goal

10. Accelerate development of SME sector and enable SMEs to attain their full potential for contributing to sustainable economic growth and poverty reduction.

2.2 Purpose

11. Enhanced growth of commercially viable SMEs and increased employment in the SME sector.

2.3 Outputs

- SME policy and development framework
- Institutional structure and mechanisms to implement the SME development strategy
- Action program to support SME development strategy
- Rationalized government assistance to SMEs
- Tax and Incentives
- Improved SME access to business support services and government assistance
- Greater access to sustainable credit by SMEs

III. IMPLEMENTATION OF THE SMESDP

12. SMESDP was launched in July 2005 with duration of three years, i.e. with an initial completion date of 30 June 2008. The consultants engaged by ADB under the TA grant was mobilized on 12 September 2005 and their work coincided with the ADB mission for loan inception as well as start up activities with the TA loan. In view of the delays in implementation of the TA component the loan period was extended for another year to 30 June 2009.

3.1 TA Loan – 2150 BAN

3.1.1 Technical Assistance Components

13. The TA loan aimed at providing technical advice and resources needed to build capacity and assist in program implementation to achieve the stated outcomes of the Program. A brief outline of the seven components of the TA loan is provided below.

14. **Rationalization of Government Assistance to SMEs.** This component of the TA loan aimed to provide (i) restructuring plan of select concerned agencies under the Ministry of Industries (MOI) which provide services to SMEs, (ii) rationalization of existing government credit facilities to SMEs, and (iii) conceptual design and development of clusters and industrial parks. The first component covers (i) the review of government assistance to SMEs and their effectiveness; (ii) the review of the role of the select agencies including Bangladesh Small and Cottage Industries Corporation (BSCIC) in delivering assistance to SMEs and the causes of their poor performance; (iii) determination of approaches and alternatives that provide the best prospect of deepening on a sustainable basis the Government's assistance to SMEs; (iv) preparation of a restructuring plan or orderly phase out plan as appropriate; (v) estimation of the fiscal impact of staff rationalization and redeployment and costs to the Government of the restructuring option selected; and (vi) preparatory work for implementation of long-term restructuring activities. The second component covers (i) inventory taking of objectives, scope, and terms of the existing credit facilities to SMEs managed by various public institutions including Bangladesh Bank (BB), nationalized commercial banks, specialized development banks, and development financial institutions engaged in social development activities, (ii)

identifying indicators to measure the effectiveness, outreach, and impact of such assistance, (iii) recommending credit delivery mechanisms to reach out to SMEs especially the ones in rural areas, and (iv) recommending innovative approaches for providing SME assistance including ways of dealing with collateral, providing credit enhancement, and insurance. The third component will review existing lines of production and business activities in Dhaka and Chittagong and prepare a plan for the development of promising industries or business sectors into clusters or industrial parks.

15. **Design and Development of SME Web Portal/Virtual Front Office.** The scope of work comprises web site development and management of information. The former will require the expertise for (i) preparation of written materials to be incorporated into the web portal upon its launching; (ii) design of the information layout; and (iii) development of programs and creation of web pages taking into consideration existing SME web sites and portals in other countries. The latter will cover updating the web site information and handling inquiries. The web portal will have access to the SME database. Further, the TA will carry out a campaign to promote public awareness; and a training program on the maintenance and usage of the web site. Counterpart staff of MOI will undergo training to update and maintain the web site.

16. **Establishment and Operation of SME Helpline Outreach Centers.** This component will assist in establishing SME helpline outreach centers at the district offices of BSCIC and facilities of the Dhaka and Chittagong chambers of commerce and industry to provide advisory support to facilitate SME access to government services, including registration and licensing. The helpline outreach centers will be linked to the SME web portal to facilitate their services to SMEs.

17. **Targeted SME Capacity Building.** SCITI, in collaboration with FBCCI, district chambers and line associations of FBCCI, accredited women entrepreneurs' associations, National Association of Small and Cottage Industries of Bangladesh, and helpline outreach centers where available, will carry out suitable and affordable training programs targeted for (i) entrepreneurs and small enterprises in rural areas; (ii) women entrepreneurs; (iii) displaced workers in the RMG industry; and (iv) PFIs under SEF, or other FIs that may wish to avail of these training services. The TA will strengthen capacity of SCITI to implement these training programs on a continuing basis. In addition, the TA loan will provide capacity-building assistance for PFIs to establish or improve their SME financing systems and procedures and adopt new financing modalities such as cash-flow-based lending, and movable asset-based secured transactions to enhance their SME credit operations.

18. **Upgrading of Product Certification System to International Standard.** Assistance in terms of advice, capacity building, and equipment facilities will be provided to improve the quality of product certification system in Bangladesh to international standard in collaboration with the planned project of the European Commission and United Nations Industrial Development Organization. Certification services to SMEs will be facilitated. The TA loan will also assist BSTI in conducting campaigns to promote the importance of product certification among SMEs and help guide SMEs through the certification process.

19. **Development of Integrated SME Database.** Consulting inputs will be needed for the planning, design, and development of an SME database. Using a registry of SMEs as sampling frame, a nationwide survey will be conducted to capture attributes of the SMEs. The database design will define SME populations and their characteristics by industry, sector, geographic location, and development contributions, e.g., employment and value added.

20. **Environmental Assessment and Monitoring.** This TA loan component will assist in building up capacity of the executing agency (EA), implementing agencies (IAs), and PFIs to ensure compliance with ADB's environmental safeguard policy. PFIs will be assisted in setting up an environmental impact monitoring system.

3.1.2 Deliverables and Achievements

21. Schedule 1 set out the deliverables for the program and for each of the TA components. They have been drawn out in the Inception Report of October 2005 and are part of the deliverables of the action program finalized and approved by the SME Advisory Panel (SMEAP). The work plan incorporated in the Inception Report indicated the activities to be carried out within specified timeframe in order to achieve the desired results. The first loan review mission of the ADB, which took place in March/April of 2006, undertook a revision of the implementation schedule by prioritizing activities and shifting dates. Subsequently several other revisions were carried out to the implementation schedule. But, in all cases implementation of the program falls far behind from what was desired.

22. Schedule 3 provides full detail of implementation. A summary of the key deliverables and achievements are outlined in Table 1 below.

Table 1 Summary of deliverables and Achievements

Deliverable	Achievement	Comment
Rationalization of Government Support Services	<p>A study on the BSCIC organization and operation was carried out.</p> <p>A plan to downsize workforce at BSCIC was prepared. MOI vide letter no MOI/SME-21/Compliance/05-356 dated 13 May 2008 also informed that as part of overall human resource restructuring BSCIC has reconstructed its organogram and rationalized total personnel strength to 1662 (comprising 285 staff at the head office and 1377 in field offices).</p>	The rationalization of government support services to SMEs required a comprehensive assessment of a significant number of institutions playing a major role in SME development. The assessments should lead to a strategy for provisioning of services by the public sector with the cognizance that private sector partnership is a key element. Besides a study of BSCIC organization no comprehensive assessment was carried out
Development of SME Web portal and virtual front office	A website has been designed and launched	The initial website designed was static in character and has been considerably improved in 2008. But, it remains incomplete even after 2 years. Most menus have not been made operational and information on others is not updated.
Establishment and operation of SME Helpline Outreach Centers	In the first phase SME Helpline Outreach Center has been established in 28 districts within BSCIC premises from which 23 are operational. Five additional Helpline Centers have been established in several business chambers and in Small and Cottage Industries Training Institute (SCITI)	Public private partnership was a key element in establishing and operationalizing the HOCs. The HOCs have been set up purely as a public sector support unit with unclear budget and operational modality.

Deliverable	Achievement	Comment
SME capacity building	<p>Although not planned in the program the SME Cell has provided numerous training to chamber and business organizations.</p> <p>The TA started in September 2008, but has still not functioned properly due to fund issues.</p>	<p>Consultants have started a survey to complete a training needs assessment report. The survey is still ongoing and no report has yet been prepared.</p>
Upgrading of product certification system	<p>Equipment for testing food products has been purchased.</p> <p>Consultants have been engaged as planned and guidelines for organizational and process improvement have been set out. Training to staff undertaken and manuals in various areas have been also prepared.</p>	<p>Study tour of staff of BSTI did not take place.</p> <p>A comprehensive organizational and operational plan although prepared in mid-2008 is yet to be executed.</p>
Development of integrated SME database	<p>Business registry of SMEs completed</p> <p>Survey of SMEs is ongoing</p>	<p>The accuracy of the business registry is questionable</p> <p>The survey results will not be available until June/July 2009</p>

3.1.3 Summary of Individual TA Component Implementation Status

23. At the time of preparing this report implementation of several TA components is still ongoing. If ADB do not decide to extend duration of the project, activities under the TAs need to be completed by 30 June 2009. The status of the TA components is outlined below along with a brief discussion of implementations.

24. TA components 1, 2, 3, and 7 were planned for implementation by engaging individual consultants. While, TA components 4, 5, and 6 were planned for implementation by engaging consulting firms. During implementation the project officials changed the recruitment policy by hiring national individual consultants and revising inputs by mostly lowering it. For the recruitment of consulting firms much delay occurred in the process and besides TA Component 5 all other components could only start operation from 1 September 2008, i.e. during the project extended time period. A brief summary of the implementation details is provided below.

TA Component 1: Rationalization of Government Assistance to SMEs

25. The TA was planned for implementation with the services of two international and two national consultants with a total input of 40 person months. Since December 2006, and after repeated attempts, recruitment of international consultants failed. Two local consultants: Messrs

Abdul Wahab and Mahbubul Alam, each for 10 months were engaged to execute the TA. Both consultants prepared a report on BSCIC - the former focusing on organizational aspects of BSCIC and the latter focusing on financial aspects of BSCIC. However, the reports overlap extensively and although the organizational aspects of BSCIC are covered in some detail the financial position of BSCIC could not be established with appropriate analysis and assessments. BSCIC financial statements are not up-to-date and audited accounts are only available from 2003/4. Without available financial records and an appropriate analysis of the financial position discussions on its organizational aspects provide unclear position regarding BSCIC reorganization.

26. BSCIC reorganization focused completely on downsizing staff at head and field offices. The GOB created the first restructuring committee in 2002 that made specific recommendations; however, its execution suffered as BSCIC submitted a counter proposal for scaling up its personnel strength. The MOI held a policy-level meeting with the BSCIC top management on 15 February 2007 in order to assess human resources restructuring modalities and assigned the task to a committee. The committee, after assessment of the current situation at BSCIC, recommended on June 2007 downsizing of the BSCIC headquarters staff from the present 476 to 250.

27. A high-profile committee chaired by the Secretary, BSCIC Chairman, one Joint Secretary and one Assistant Secretary was constituted to take final decisions on human resource restructuring. The committee assessed all the past and current recommendations made to workout a final one for the considerations of the Ministry of Establishment, which has the final authority to execute the recommendation. The committee adopted a complete human resource-restructuring plan, including downsizing of head office and field office. MoI vide letter no MOI/SME-21/Compliance/05-356 dated 13 May 2008 also informed that as part of overall human resource restructuring BSCIC has reconstructed its organogram and rationalized total personnel strength to 1662 (comprising 285 staff at the head office and 1377 in field offices). No other organizations were studied or assessed.

Inputs planned	Inputs utilized	Comments
International restructuring expert (15 months)	None	A national restructuring expert used for 10 months
International SME Strategic Expert (5 months)	None	
National Corporate financial specialist (10 months)	10 months	
National SME Credit specialist (10 months)	None	

TA Component 2. Design and Development of SME Web Portal/Virtual Front Office

28. The TAGT SME development consultant was engaged as the international web technical designer for 2 months. The Communication expert was never recruited. Activities for the design of the web portal started in November 2006. On 17 July 2007, in a ceremonial launching at the Hotel Sonargaon the Project launched the SME web portal (www.smef.org.bd). The SME Foundation through its own initiative carried out further work with the website in order to make it a dynamic site and enhance its visual and content structures. Currently, the site remains static, visits are extremely low, and provides very little information or substance to the SME sector. There is also no plan for maintenance and updates are made ad hoc, if at all.

Inputs planned	Inputs utilized	Comments
International Web technical Designer (1 month)	2 months	TAGT national SME development expert Mr. Nayeem was contracted as the international expert
National Communications Expert (5 months)	None	

TA Component 3. Establishment and Operation of SME Helpline Outreach Centers

29. SME Helpline Center operates in 23 districts of Bangladesh. In the 1st phase under SMESDP support out of 32 SME Helpline Centers, 28 has already been established of which 23 are in BSCIC premises (Dhaka, Chittagong, Khulna, Rajshahi, Sylhet, Barisal, Narayanganj, Gazipur, Tangail, Narsingdi, Mymensingh, Comilla, Pabna, Rangpur, Kushtia, Munshiganj, Chapai Nawabganj, Brahman Baria, Jessore, Bagerhat, Dinajpur, Syedpur and Manikganj). In addition to these, SMESDP has also established five additional Helpline Centers in the following offices. Federation of Chambers of Commerce and Industries (FBCCI) Women Entrepreneurs Association of Bangladesh (WEAB) Bangladesh Women Chambers of Commerce and Industries (BWCCI) Chittagong Women's Chamber and Industries (CWCCI) The BSCIC's Training cum, Small and Cottage Industries Training Institute (SCITI). The remaining four Centers are yet to be operational. The plan was to set up Centers in 64 districts. It is safe to state that under the project the remaining 39 Centers cannot be set up.

Inputs planned	Inputs utilized	Comments
International Public Private Interface Advisor (5 month)	5 months	As in TA component 2, TAGT national SME development expert Mr. Nayeem was contracted as the international expert
Two National SME Business Advisers (30 months total)	10 months	Only one business adviser was recruited

TA Component 4 Targeted SME Capacity Building.

30. The project has completed all consulting firm recruitment QCBS steps leading to contract signing with Phol Consulting. There were major delays in recruitment of consultants. The EOI was published on 20 May 2007, but selection, invitation for proposals, and contract negotiations with consultants took over a year. Notice to proceed to the consulting firm was given on 15 August 2008 and finally on 1 September 2008 the project commenced.

31. Targeted SME Capacity Building started implementation activities in September 2008, deals with strengthening capacity of various actors participating in the development of the SME sector. The aim of the component is to directly addressing the need of the SMEs by designing and implementing interventions in the market to improve SME performance and competitiveness. The component has four areas of work in which capacity building interventions would be designed and implemented. Three separate, but integrally whole, components will address the following areas of work:

- Rural non-farm enterprises;
- Women enterprises;
- and Participating financial and non-financial institutions.

32. The implementation activities also included a thorough study on training needs of enterprises in the above three sectors/areas. The Consultants have started the survey in November 2008 and have almost completed 80 percent of the activities. The survey covers information relating to the operation of the rural enterprises, capacity gaps of enterprises, and information relating to access to finance. In terms of capacity building activities for PFIs the consultant has met with a few PFIs and is setting out appropriate methodology and framework to enhance capacity. The Mission was informed that once the local consultant is recruited work under this component of the TA would move more effectively.

33. There have been some delays in implementation of the component mainly due to consulting firm not receiving any payment/funds from the project. For over five months Consultants have not received any payment. The Mission discussed the matter with the MOI and the Project Director. The consulting team informed the Mission that once the payments are received the remaining work relating to the survey could be completed and a draft of the training needs assessment would be ready by April 2009. The Mission also requested the team to redraw the work program and submit for approval what could be achieved by the end of June 2009.

TA Component 5: Upgrading of Product Certification System to International Standard

34. Implementation of the project commenced on schedule, on 1 July 2008 and is complete now. BSTI informs that the consultants met all project deliverables satisfactorily. A Gas Chromatograph - Mass Spectrophotometer plant, purchased through the project, has been installed. The testing capacity of the Bangladesh Standard Testing Institute (BSTI) laboratory is enhanced with the installation of this equipment. BSTI Laboratory would now be able to identify and quantify the organic toxic and harmful materials like pesticides & insecticide residue, some artificial coloring materials, artificial sweeteners, different types of preservatives and food additives in food products. The equipment also makes it possible to determine melamine contents in milk powder and to identify accurately at a world recognized standard due to the installation of the above testing facility.

35. The Consultants provided several training programs in order to strengthen staff capacity, evaluation of the laboratories involved in testing the selected priority products have been examined, detailed reports have been made for each product indicating gaps in equipment and practices and recommendations to address gaps as well as recommendations with regard to the reference standards have been made. Additionally, an assessment of BSTI's capacity to implement a Voluntary Certification Programme in accordance with the requirements of ISO/IEEC Guide 65 has been made considering legal, organizational and operational factors. BSTI is also receiving assistance from the UNIDO executed project financed by the EU and several lab facilities (metrology) have been now equipped with up-to-date modern technology. A one-stop-window has also been set up at the main gate in order to facilitate and service clients requiring testing of their products.

36. The accreditation Board has been set up two years ago and its function and operation is moving slowly. Recruitment of appropriate staff for the Board is still ongoing. However, most documentation and paperwork is complete and visits by several regional accreditation institutions have also been organized. The accreditation process is a lengthy one and will require for BSTI and other laboratories to own and have modern up-to-date laboratory facilities. Thus far BSTI has applied for certification of three products which have been approved. In order for Bangladesh to obtain certification standards it is also important that the Board operates efficiently and effectively. With the completion of the project no further issue remains within the SMESDP. BSTI has indicated a lack of some sample testing equipment, which currently are unavailable to it. It is their opinion that without this equipment full working of the testing facilities set up under the SMESDP could not be operated effectively. For any future support this issue may need to be looked into.

TA Component 6: Development of Integrated SME Database

37. Integrated SME Database Development was contracted out to Maxwell Stamp Limited for implementation. The project started operation on 1 September 2008 and is scheduled for completion by 30 June 2009. An international consultant, a national statistician, and a host of Survey Research Analyst and Applied Research Analyst have been recruited. The national economic Statistician has not been available full time and in his place the project recruited another economic Statistician to work intermittently in the project and a full time Software Engineer. The project has its own office with adequate facilities and logistics arrangements.

38. Survey fieldwork began around mid-October 2008 and as of end February 2009 over 93 percent of interviews have been completed. Data entry work is ongoing and some 40 percent data has been entered using Microsoft Excel. There are plans to use SPSS statistical package to process the data. However, it would be wise to use STATA data analysis and statistical package and an ADB Loan Review Mission in March 2009 requested the consultant team to consider use of STATA in order to process the data. At that time the team informed that data processing would be completed by April 2009, when also the survey for demand side analysis would begin. A request was made by the Loan review Mission to enter data from a sample set of completed questionnaires (5 to 10) and also process the data. This would help to test the designed applications for full proof operation and ensure subsequent data entry and processing is implemented smoothly.

39. The team is planning to design a web portal in order to host the database, business registry, and various reports to be prepared and published. At a request of the ADB the team is now using Oracle based application to develop the web-enabled database. The mission discussed the issue of creating another independent web portal and requested the team to review the possibility of integrating the SME web portal and the SME database web portal. Concern was also raised of the necessity for developing web-enabled applications such as user request forms since the project has limited time to complete the survey and ensure integral and accurate data entry and processing. The Loan Review Mission requested the team to focus for now on completing the survey, data validation and entry, and data processing. A work plan to this regard would be presented by mid-March 2009.

40. The team will present two interim reports: one in mid-April and another in mid-May. The draft final report will be submitted in mid-June and will be completed by end-June after receiving feedback and comments from the ADB. The mission also requested the team to submit the full dataset, together with the draft final report in mid-July.

TA Component 7: Environmental Assessment and Monitoring

41. This TA component was not implemented

3.1.4 Key Issues and Challenges

42. Implementation of the TA program has been a major challenge for the implementing agency. Several issues surfaced from the start of the SMESDP implementation, i.e. late in 2005, and an inability to address those issues by the implementing agency (MoI) contributed to a substantial poor implementation results of the TA program. The TA Grant team had reviewed all those issues and consistently kept ADB Task Managers informed of the situation, but actions from ADB came at a slow pace and often without a firm decision. Immediate execution of the TA components were necessary in order to ensure that substantial benefits and impact from the SMESDP implementation would be reflected within the SME entrepreneurs and sectoral performances. In terms of management of the TA program the TAGT team spelled out in the Inception Report, submitted in October 2005, priority TAs and identified rationalization of the

public sector support services and development of integrated database as the key TA components for immediate execution. But, throughout 2006 none of the above two TAs (or any other TA) could be processed for implementation. Below we discuss some of the key issues and challenges faced by the SME Cell in TA program implementation.

Key Issue 1: Deviation of the TAPP from the RRP

43. The TAPP document substantially deviates from the Loan agreement document (RRP) and this deviation caused substantial issues and problems in terms of procurement. There have been several revisions carried out to the TAPP over the duration of the program. The initial TAPP, prepared in early 2005 and approved in May 2005, made several critical changes to the RRP: those relating to procurement of firms and individual experts, and in terms of introducing new budget lines while leaving out some. The RRP established three of the seven TA components to be executed with the recruitment of firms. The initial RRP included procurement of individual consultants for all seven TAs. Also, a budget line for study tour of government officials, SMEs, and others were created with an allocation of some US \$1.3 million. This unforeseen allocation from the RRP budget to a line item not originally earmarked required substantial changes in the unit prices of consultant's fee rates. The TAPP included fee rates that were half or less of those in the RRP. This was a potential problem in recruiting international consultants.

44. Revising the TAPP is a lengthy process because of the bureaucratic inertia and not because of the requirements for such revisions. Although the implementing agency (Mol) and the Project Director was made aware of the need for revising the TAPP in early 2006, the first revision did not come through six to seven months later. Even then the implementing agency (Mol) did not undertake a comprehensive revision, resulting in undertaking several other revisions during the program implementation phase with consequent long delays.

Key Issue 2: Procurement of individual consultants

45. Recruiting international consultants is also quite complicated for the implementing agency since they do not have any data or information on available consultants. ADB had assisted in sending CVs for each individual position and various attempts were made in mid 2006 to contact several of those experts. The selection criteria used by the SME Cell was stringent and non-availability of a few of the experts selected left no choice but to go for another round of CV search. Since international experts hardly have the opportunity to browse local newspapers and putting advertisement in local newspapers only would delay efforts for appropriate CV search and contacts with individual experts, the TAGT team leader recommended putting advertisement in international newspapers. Advertisement for the post of two experts for TA component 1 was finally put in the Economist. From a total of some 25 to 30 CV received a few selected were contacted, but ultimately the SME Cell could not finalize a deal. It is unclear why recruitment for TA Component 1 could not be finalized.

Key Issue 3: Procurement of consulting firms

46. Once the TAPP was revised to include recruitment of consulting firms instead of individual firms for TA components 3, 4, and 5, during the last quarter of 2006, procurement processes had begun. The TAGT team prepared terms of references for TA component 5 in March 2006 and for components 4 and 6 during September/ October 2006. However, documents for EOI could not be sent out before May of 2007. Much of this delay had to do with lengthy processing time from both the SME Cell and the ADB. Table below indicates the delay that occurred after the procurement started in full swing.

Procurement Steps	TA Comp: 4	TA Comp: 5	TA Comp: 6
Procurement notice for EOI	20 May 2007	20 May 2007	20 May 2007
Short listing	16 July 2007	11 July 2007	12 July 2007
Submission to ADB	11 Sep 2007	12 Aug 2007	11 Sep 2007
ADB concurrence	3 Oct 2007	10 Sep 2007	3 Oct 2007
RFP issuance	11 Oct 2007	10 Oct 2007	11 Oct 2007
Bid closing	25 Nov 2007	4 Nov 2007	28 Nov 2007
Submission of evaluation result to ADB	28 Feb 2008	2 Jan 2008	23 Jan 2008
ADB concurrence	27 Apr 2008	7 Jan 2008	25 Mar 2008
Financial opening	11 May 2008		10 Apr 2008
Submission to ADB	15 May 2008		15 Apr 2008
ADB approval	26 May 2008	7 Feb 2008/ 19 Mar 2008 ¹⁾	23 Apr 2008
Contract signing	1 Aug 2008	3 Jun 2008	29 Jun 2008

¹⁾ Negotiation with the first ranked firm dropped and second ranked firm was invited to negotiate which is why two dates are indicated.

47. One should note that 12 to 14 months for completion of procurement process are not rare in Bangladesh. In view of this fact, the TAGT team had constantly argued for starting the procurement process as early as possible, i.e. in January 2006. If that schedule was followed (as indicated and outlined in the Work Plan in the Inception Report) a timely completion of the TA implementation could still have been possible.

Key Issue 4: Weak management, organization, and capacity of SME Cell

48. The TA program is large, complicated, and comprehensively covers SME sector support and reforms. Under the circumstances, it required a strong management fully dedicated to consistently move forward activities, a team of counterparts and specialists knowledgeable of the program core aims and objectives and well acquainted with international best practices in SME interventions, and willingness on the part of the counterparts to learn various critical SME intervention mechanisms. These were lacking within SME Cell. TAGT team prepared an operational guideline and organizational structure for the SME Cell. But it appears that this document was not used or consulted.

49. The Project Director, within a short period of project implementation, was promoted to be the post of Additional Secretary of the MOI resulting in substantial involvement with day-to-day ministry activities. The idea of managing projects with a work plan, delegation of work and responsibilities, time schedule for completion of milestone activities was fully lacking. Management worked with a few counterparts who also carried out day-to-day tasks of the ministry.

3.2 Project Loan - Loan 2149-BAN

50. ADB provided US \$30 million loan to the GoB to finance SMEs. The loan agreement was signed on 26 January 2005 while an administrative agreement between Bangladesh Bank (BB) and Ministry of Finance (MoF) was signed on 21 April 2005. The loan was declared effective from 20 June 2005 for a period of four years. The loan proceeds will be used as contribution to the Small Enterprise Fund (SEF), which was set up by BB as a credit facility available to small enterprises with fixed assets of less than Tk10 million (Tk1 crore) 1. Drawdown for sub-loans

¹Small manufacturing enterprise in the 2005 Industrial Policy is one with fixed investment of less than or equal to Tk15 million (Tk1.5 crore).

under SEF will be co-terminus with the ADB project loan (i.e., 32 years). Re-lending by BB under the facility will be for 1 year for working capital, 3 years for medium term loans with grace period of 6-months, 5 years with grace period of 6-months for long term loans. SEF, in addition to the ADB loan, also operates a US \$10 million loan facility from the World Bank under the Bank Modernization and Enterprise Growth Program. Operation of this facility and others had already provided the SEF unit with skills and capacity for undertaking the ADB loan facility.

51. The steps for refinancing modalities are:

- PFIs submit claims for refinancing to SEF,
- BB conducts a criteria-based screening and selects cases for refinancing,
- SEF issues sanction note to PFIs,
- PFIs sign loan recovery DP notes,
- SRF submits claim to MoF to release ADB fund, and
- MOF releases fund from its imprest account.

3.2.1 Participating Financial Institutions

52. The US \$30 million ADB loan has been provided as a refinance facility. The BB through SEF loans the funds to participating financial institutions (PFI) for on lending to SMEs. On 19 July 2005, the SPD launched PFI selection process for the ADB's \$30 million credit facility. The SEF's invitation letter to PFIs contains 18 terms and conditions for participation in the scheme. In response to the invitation letter 18 PFIs collected applications from which 15 PFIs showed interest in the offered refinancing facility. BB carried out screening of PFI applications guided by predefined criteria spelled out in the invitation letter and selected 7 qualified candidates. These 7 candidates - MIDAS Financing Limited, Uttara Financing and Industrial Company Limited, People's Leasing and Financial Services Limited, IDLC, United Leasing Company Limited, City Bank Limited and Eastern Banking Limited - have executed the Participation Agreement with BB. Since then several other financial institutions joined the program. As of January 2009 12 commercial banks and 15 non-bank financial institutions applied for participation in the loan program, while eight commercial banks and seven non-bank financial institutions availed of the funds. The list of the PFIs is given in Table 2 below.

Table 2: List of PFIs Availing Refinance Facility

Name of PFI	Applied for the program	Availed funds from the program (In Taka)
Commercial Banks		
The City Bank Limited	√	68,155,285
Eastern Bank Limited	√	536,238,063
One Bank Limited	√	339,645,000
Mercantile Bank Limited		
The Premier Bank Limited		
Prime Bank Limited	√	49,697,000
Dhaka Bank Limited	√	617,372,000
National Credit and Commerce Bank Limited	√	5,700,000
BASIC Bank Limited		
BRAC Bank Limited		
Bank Asia Limited	√	97,300,000
Trust bank Limited	√	39,450,000
TOTAL Commercial Bank Refinancing		2,042,840,348

Name of PFI	Applied for the program	Availed funds from the program (In Taka)
Non-Bank Financial Institutions		
Midas Financing Limited	√	45,300,000
Uttara Finance and Investment Company Ltd	√	75,881,000
Peoples leasing and Financial Services Ltd	√	83,670,000
Industrial Development Leasing Company	√	225,059,500
United Leasing Company Ltd		
Premier Leasing International Ltd	√	12,365,000
International Leasing and Financial Services	√	8,900,000
Islamic Finance and Investment Ltd	√	62,540,000
Bay Leasing and Investment Ltd		
Industrial and Infrastructure Development Finance Company Limited		
Bangladesh Finance and Investment Company Ltd		
Fidelity Assets and Security Services Limited		
National Housing Finance and Investment Ltd		
GSP Finance Bangladesh Limited		
Bangladesh Industrial Finance Company Ltd		
TOTAL Non-Bank Financial Institutions		541,897,500
GRAND TOTAL of Refinancing		2,548,737,848

3.2.2 Utilization and Disbursement of Funds

53. Implementation of the refinance facility has been satisfactory. In terms of utilization and disbursement of funds achievement is above those planned. Project progress is 81% comparing to elapsed loan period of 68%. Out of allocated loan amount of \$30 million for financial assistance to SME, \$26.27 million has been disbursed, and remaining \$3.37 million would be disbursed by June 2009, one year ahead of scheduled Project completion date.

Refinancing from Revolving Funds

54. Funds accumulated by recovery of sub-loans are being revolved and re-financed following the same channel of disbursement and SEF has so far (31 January 09) recovered is Tk998 million and disbursed Tk914 million from the recovered fund.

Type of loans and Sectoral Distribution of Loans

55. Table 3 outlines the type of loans and sectoral distributions of loans. Major conclusions from loan utilization and disbursement are as follows:

- About 83 per cent of loans have gone into short-term and medium-term financing needs.
- While commercial bank financed some 11 percent as long-term credits, leasing companies loaned 40 percent of the funds on long-term credit.
- A total of 2,506 enterprises received loans. From these, some 63 percent are trade sector enterprises, while industry sector enterprises are only 25 percent.
- Average loan size of the refinance pool is Taka 1.03 million.

- Industry and service sector received 43 percent and trade sector enterprises received 57 percent.
- A total of 3,126 employments were generated from loaning to the 2,506 enterprises. The employment generation is significantly small mainly because a large part of the loan was provided to existing enterprises and for working capital.
- A total of Taka 89.5 million has been refinanced to 70 female entrepreneurs with an average loan size of Taka 1.28 million. Refinanced amount to female entrepreneurs is 3.5 percent of total refinanced amount.
- From the refinanced amounts 38.6 percent has been recovered and used for re-lending through the same channel and procedures. Outstanding position is 61.4 percent of the refinanced amount.
- 35 percent of refinanced loans went to new enterprises
- About 7.7 percent of the borrower enterprises are encountering operational difficulties or are closed down.
- While 8.3 percent of borrowers are making irregular loan repayments, 0.01 percent has stopped repaying loans.
- Enterprises financed are largely clustered around Dhaka and two other divisions together with Dhaka numbers some 80 percent of the total enterprises receiving funds.
- The very limited and insignificant number of enterprises accessing finance in Barisal (.2 percent), Sylhet (9.9 percent), and Khulna (9.7 percent) could possibly be explained by limited banking network in those divisions, limited interests for funds in Sylhet division because of large capital inflow from Non-resident Bangladeshis, and also limited growth of small and medium enterprises.

Table 3: Types of Loans and Sectoral Distribution, in Taka
(Bracketed figures indicates number of enterprises)

Participating Financial Institutions	Short-term	Medium-term	Long-term	Industry	Trade	Services
The City Bank Limited	62,305	5,850	0	31,425 (24)	36,730 (39)	0
Eastern Bank Limited	115,418	247,920	172,900	135,159 (103)	382,959 (417)	18,120 (13)
One Bank Limited	212,510	112,269	14,866	41,000 (41)	281,459 (334)	17,186 (10)
Prime Bank Limited	300,101	27,829	11,050	74,637 (66)	243,351 (277)	20,992 (23)
Dhaka Bank Limited	428,078	189,294	0	225,987 (242)	296,241 (254)	95,144 (80)
National Credit and Commerce Bank	1,600	2,200	1,900	1,900 (3)	3,800 (11)	0
Bank Asia Limited	300	80,300	16,700	18,300 (24)	71,800 (103)	7,200 (3)
Trust bank Limited	37,050	1,000	1,400	15,300 (10)	17,450 (13)	6,700 (5)
Midas Financing Limited	0	26,300	19,000	18,500 (24)	11,200 (22)	15,600 (14)
Uttara Finance and Investment Co.	0	16,075	59,806	0	0	75,881 (66)
Peoples Leasing and Financial Services	0	24,970	58,700	23,700 (7)	34,300 (18)	25,670 (9)
Industrial Development	0	187,201	37,859	86,656	53,085	85,319

Participating Financial Institutions	Short-term	Medium-term	Long-term	Industry	Trade	Services
Leasing Co				(66)	(65)	(56)
Premier Leasing International Ltd	1,600	324,850	215,448	154,146 (110)	136,250 (127)	251,502 (17\$)
International Leasing and Financial Services	1,600	12,459	23,023	5,000 (2)	12,265 (4)	19,817 (10)
Islamic Finance and Investment Ltd	48,440	14,100	62,540	12,000 (6)	25,400 (16)	25,140 (17)
TOTAL	1,158,962	991,512	434,264	697,852 (623)	1,470,040 (1,575)	416,844 (308)

3.2.3 Key Issues and Challenges

56. There are several issues that surfaced from implementing the refinancing scheme. They relate to fund management, allocation and utilization of funds, and benefits/advantages of such a scheme relative to other potential schemes. Below we discuss several critical issues faced during implementation of the SMESDP Loan program.

Key Issue 1: Lengthy process of loan administration

Throughout the project implementation PFIs raised concern about the time it took to receive funds in their account after the applications were submitted. This was true during the beginning phase of the program. On the average PFIs observed that it took some 3 months from forwarding applications to receiving funds. However, it improved much during 2007 and subsequent loan releases.

It is not clear whether some PFIs refused to participate in the program or applied for small share of funds because of this administrative issue. It appears to be highly unlikely that that is the case. It is also true that several institutions involved with loan administration had to go through a learning curve, particularly the refinance scheme administrator, Bangladesh Bank (SEF).

Key issue 2: Refinance schemes provide little opportunity for increasing bank capacity

Refinancing schemes is relatively risk-free in the sense that disbursements of funds are not tied to whether borrowers are solvent and the need for banks to undergo detailed credit assessment before loaning. Although banks must and do credit assessment for borrowers for whom refinancing is provided, banks have easy access to funds from ADB as a source that bolster liquid asset positions. But, the purpose of the refinancing scheme (and that of the SME funds/loans) is to provide greater access to finance by SMEs throughout the country and to finance investments. As pointed out above, with a large chunk of the funds going for short-term working capital requirements it remains to be seen whether refinance schemes creates any value addition to normal private commercial banking practices easily financing working capital compared to loans for long-term investments.

The SMESDP design phase concluded that commercial banks have little capacity to loan funds to SMEs. Increasing access to finance to SMEs require diversification of loan products, establishment of credit risk assessment different from practices developed for corporate customers, and setting up effective loan administration process with control over costs of administration. The operation of the refinance scheme does not have the facilities and possibilities to assist in any of the above issues. The SMESDP worked out

support to commercial banks, especially selected PFIs through the operation of TA component 4 SME Capacity Building. But, long delay in completing procurement of TA component 4 and subsequently unsatisfactory implementation of the TA provided little scope for assisting in capacity building of PFIs through the SMESDP.

3.3 Program Loan - Loan 2148-BAN

57. The program loan is designed to engage the GOB in achieving three policy outcomes. They are:

- I. To establish SME policy and development framework
- II. To establish institutional structure and mechanisms to support SME development
- III. To define government support to SMEs, and improve SME access to various services.

58. 23 policy matrix conditions (PMCs) have been agreed between the GOB and the ADB expecting that fulfilment of those conditions would achieve the desired outcomes, as stated above. A list of the policy matrix conditions is provided in Schedule 1. From those PMCs, 10 are included as first tranche release conditions and 13 others as second tranche release conditions. With the fulfillment of the first tranche release conditions funds (US \$5 million) have been disbursed on 27 December 2005.² Fulfilling second tranche release conditions faced delays because of several complex and changing positions with respect of implementation of TA loan program discussed in Sections 3.1.2 and 3.1.3.

59. The Implementing Agency (Mol) requested for an extension of the closing date for Loan 2148, which was followed up by the Ministry of Finance. The ADB extended the Loan 2148 closing date from 30 June 2007 to 31 December 2008. Meantime, a Loan Review Mission took a complete inventory of the progresses made with the 13 conditions to assess the feasibility of completion of the remaining conditions so that ADB may release the \$10 million dollar fund within the loan extended period by 30 June 2008. The Mol submitted an agreed action plan³ claiming progress with respect to 13 tranche conditions and considering full compliance with 10 tranche release conditions, substantial compliance with 2 and with a waiver of one condition, the second and final tranche of \$10.86m was released in July 2008. Compliance with several PMCs was not comprehensive. Because progress on those conditions is ongoing ADB took a decision to release the second tranche. A review of the PMCs, their compliances, and the implications towards policy reform for SME development is discussed in the following sections.

3.3.1 Reviewing the Policy Matrix

60. The policy matrix conditions for releasing program funds in two tranches are outlined in Schedule 3. There were a few conditions the GoB had to meet prior to the ADB Board approval of the SMESDP program. They and most of the first tranche release conditions were met, as well as the second tranche release conditions. However, as has been pointed out in Quarterly Progress Reports and ADB Loan Review Mission Reports several conditions were not be fully complied with. Even in cases when a condition is complied with detailed observations indicate that sustainable progress in those areas either has not been maintained or achieved.

Definition of SME

61. The SME Policies and Strategies paper adopted a single classification definition for SME. Fixed asset value at replacement cost excluding land has been used as the classification to

² ADB: Progress Report on Tranche Release, December 2005

³ Letter no MOI/SME-21/Compliance/05-356 dated 13 May 2008.

define manufacturing sector SMEs. For non-manufacturing sector employment classification has been used⁴. This definition differed from existing definition used by BB and by BBS.

62. Several potential problems arises by using the single classification definition used in the SME Policies and Strategies document and they were indicated by the TAGT consultants in their Inception Report and requested the Mol to revise the definition by using double classification. No attempt at harmonizing the definition was taken by the Mol until pressured by the financial institutions. BB in its circular SSPD #08 dated 25 May 2008 issued a new definition. Mol would now take account of this new definition and incorporate the same in its new industrial policy. The new definition uses double classification with fixed asset value (FAV) at cost excluding land and employment.

Small Enterprises:

For Service and trade enterprises – FAV > 50,000 < 5,000,000 BDT and employment 25
For Manufacturing enterprise - FAV > 50,000 < 15,000,000 BDT and employment 50

Medium Enterprises:

For service and trade enterprises – FAV > 5,000,000 < 100,000,000 and employment 50
For Manufacturing enterprise - FAV > 15,000,000 < 200,000,000 and employment 150

SME Policies and Strategies

63. The SME Policies and Strategies document, the consultants are informed, was put together in a hurry and without discussions with/feedback from stakeholders. The policy paper is weak and poorly drafted. A revision of the paper was suggested in the Inception Report by the TAGT, but not accepted by the Mol and the SME Advisory Panel. The Team Leader of TAGT prepared a detailed review and comment on the policy paper and that could form some basis for future revisions.

Rationalization of Government Support Services to SMEs

64. The PMC asked for a comprehensive rationalization of government support services, but the focus of the project remained only on BSCIC. Even with respect of BSCIC a comprehensive assessment of the organization with full business plan was not carried out. There was also a need to assess the credit delivery mechanisms and access to finance issues, but they were not dealt with. The focus of BSCIC restructuring was only on downsizing the staff strength, and that too has been structured that leaves very little change within the organization.

CEO for SME Foundation

65. The CEO was to be recruited by the Board of Directors of SME Foundation within the first year of its operation. It was explicitly stated in the PMC that the CEO should be drawn from the private sector. The Memorandum of Articles of the Foundation set out as Interim CEO the Project Director of SMESDP. This was supposedly for convenience of transition of the SMEF. Although several recruitment processes was initiated none could be hired. There is no documentation as to the reasons for this.

66. Latest information gathered informs that the Chairman of SMEF (Last month in March 2009 the minister of Industry was appointed as the Chairman) will call for the first General Assembly meeting of the SMEF and will start recruiting the CEO.

⁴ Fixed asset values < 15 million Taka for Small, < 100 million Taka for Medium
For trade and service sectors < 25 staff for small and < 100 for medium

Conducting Nationwide Survey of SME to Develop an Integrated SME Database

67. Although selection of consulting firm for the TA to undertake the survey and develop the database was concluded in May 2008, project implementation could only start from September 2008. Details of the status of this TA are outlined in Section 3.1.3 above. The critical element is that the consulting firm and team are left to do the work without much supervision. The survey has a large sample size and instruments used are complex. Acceptability of the survey results and quality of data could be key issues. It is also doubtful whether the full survey could be completed within the extended period of 30 June 2009. Focus has been put to the survey, but how an integrated database would be developed and how survey results would be updated is not planned. Without the development of systems for both there are dangers of the survey becoming a onetime effort.

Helpline Centers

68. The establishment and operation of the Helpline Centers are a key support services to SMEs operating in the regions. Understandably the Helpline Centers were to be created through a public private partnership arrangement, but that has not happened. Public private partnership could guarantee long-term financing support for the operation of the Helpline Centers, ensure a match between demand for and supply of services, and motivate entrepreneurs to utilize the services of the Centers. Currently, although 28 centers have been opened they do not operate with the expected results. The Consultant has not been able to find any information or document detailing the operational plan and modalities for the Centers.

3.3.2 Achievements of Policy Reform for Support to the SME Sector

69. Although in some form or another most policy matrix conditions appears to have been met we would still need to ask the question, what policy reform has been accomplished through the implementation of the SMESDP? During the design phase of the project it became clear that several structural issues hampered a planned interventions for the development of SMEs and delivery of support services to the SME sector. The action plan prepared by the TAGT consultants pointed those issues. There is a need to reiterate these here and discuss policy reform achievements.

- The public sector agencies and organizations should play a facilitator role and should not be involved in providing direct delivery of goods and services to SMEs.
- Working with the private sector and allowing the private sector service providers to take lead in delivering SME support services. In this sense development of a PPP framework and model is a key element of the program.
- Several organizations as departments of Mol, such as BSCIC, SCITI, MDPI, BITAC, etc was moribund over the past decade and a diagnostic analysis into their future roles and responsibilities was to be part of the reform process for supporting SMEs.
- Development of clusters of industries and model for private sector participation in owning and operating industrial parks should be assessed and actively pursued.
- Rationalizing publicly administered credit delivery structures and search for a

3.3.3 Key Issues and Challenges

70. The focuses with reform issues lay on restructuring BSCIC, and that too with a mild dose of human resources downsizing. Within the government circle and counterparts working at the SME Cell there was very little awareness and understanding for reform. SMESDP was seen as merely a program to extend current activities of the public sector organizations with some concomitant benefits in terms of facilities and bonuses. The SME Policies and Strategy

document does not mention the need for any reforms. With a few token approaches to work with the women entrepreneurs association, Dhaka Chamber of Commerce and Industries, and NASIB much of the private sector was neglected.

Key issue 1: Rationalization of public institutions supporting and delivering services to SME sector is necessary in order to provide effective facilitation of support services

71. Reforming the public institutions supporting SME activities and redefining their roles and responsibilities could not be attempted and completed under SMESDP. The need for such rationalization is acute and cannot be avoided. The public institutions such as BSCIC, SCITI, MPDI, BIMTAC, BITAC, etc. were all set up under different conditions and environment of the economy. Without a redefinition of their roles and functions effective service delivery under current economic conditions with a growing and thriving private sector remains unclear. BSCIC's role of entrepreneurship development, credit facilitation, training, and project operations could possibly be separated from its core operation of industrial estate development. Although many within the government bodies and BSCIC management have recognized this issue no clear policy and action has been attempted. The studies on BSCIC carried out under SMESDP does not conform to a full comprehensive diagnostic analysis of BSCIC operations in order to define its role within what clearly is a new regime of industrial cluster development. The current government is now moving towards special economic zones/industrial park that could be established by the private sector or at least within a public private partnership modality. The clarity with BSCIC also enables a much clearer definition for the SME Foundation. Lesson 1: Reform issues are complex and sensitive and without appropriate guidance, objective and independent review and analysis, and stakeholder analysis and support they usually are difficult to analyze.

Key Issue 2: For the development and growth of the SMEs the public sector must form cooperation arrangements with the private sector, particularly chambers and trade organizations and large corporations and establish a public private partnership framework.

72. Decades of interventions within the SME sector has taught lessons that direct public sector delivery of services to SMEs usually fails to provide any effective results. Access to markets, technology improvement, increased productivity, developed operation structure are key elements of SME development and they can only be achieved with working through the value chain integrating other larger and smaller operators to support each other. SMESDP engaged some chambers and trade organizations in organizing training programs. But, this limited activity could not open up direct service delivery to the SMEs. Concepts for public private partnership should be clarified and design phase should actively involve the private sector resulting in a PPP model that could be effectively implemented

3.4 TA Grant 4507-BAN

73. All members of the TA Grant team (TAGT) started their assignment at the same time on September 11, 2005. While one of the experts – implementation specialist – has been engaged for the full duration of the program, others have intermittent inputs as shown below.

Staff	Input months	Duration of period
International Team Leader	14 months	Sep 2005 – Apr 2007
Domestic Implementation Specialist	30 months	Sep 2005 – Aug 2008
Domestic SME Policy Expert	10 months	Sep 2005 – Nov 2006
Domestic Gender Specialist	8 months	Sep 2005 – Aug 2006

74. The deliverables of the TAGT is clearly defined in their respective terms of reference, and is attached as Schedule 4. A major task of the TAGT is to assist the SMEC and the IAs in carrying out their responsibilities, as well as coordination of separately operated activities, liaising with programs and projects operated by other donors and also with stakeholders. The following has been achieved and delivered by the TAGT:

- a) Prepared a SME action program for implementation.
- b) Prepared operational guideline and organizational plan for the SMEC.
- c) Prepared documentation for establishing SME Foundation.
- d) Prepared detailed activities to be implemented under the gender action plan
- e) Prepared a WE forum concept note.
- f) Assisting in project administration and coordination, mainly tasked to the implementation specialist and to some extent to the team leader.
- g) Assisting in procurement, where necessary and requested by the implementing agency, mainly tasked to the implementation specialist
- h) Assisting in preparing Quarterly Progress Reports

75. In addition to the above, TAGT members also prepared (i) a policy paper on the electronics sector recommending tax and duty adjustments on several products, (ii) a framework for establishing Active Pharmaceutical Ingredient Park and (iii) various notes, terms of references, concept papers, workshop papers, etc. Several activities of the TAGT could not be carried out because of delay in implementing TA subcomponents. Most significant of these are:

- a) Monitoring of timely implementation of BSCIC restructuring plan
- b) Monitoring and coordination of training programs
- c) Facilitating a WE forum, and
- d) Quality check on SME survey, and to ensure accuracy and reliability of SME data linked to desired performance indicators for the sector.

IV. BENEFIT AND IMPACT OF SMESDP

76. SMESDP had set ambitious goals and has put substantial resources in the hope of achieving those goals. SMESDP not only aims at increasing the growth and competitiveness of SME, it also has a reform agenda, incorporating both policy and institutional reforms. The complexities of the program, particularly relating to the contributions of policy and institutional reforms supporting the development of SMEs has to be captured.

77. The SMESDP is a sector development program⁵. It utilizes multiple strategies in order to attain improvements in sector performance, which largely involves reforming public sector role in assisting the sector and establishment of direct support services. While direct delivery of services could be measured with some approximations, reform measures and final outcome or impact of reform do not present easy grasp. The latter could be captured under a general equilibrium framework and analysis over the long run. Needless to say, even direct delivery of services, such as financing to SMEs, presents difficulty in learning effects directly attributable to those services. And, even general equilibrium effects could be captured under a partial equilibrium analysis.

78. The TAGT team leader prepared a Project benefit monitoring system in March 2007 noting the above issues and kept the measurements/indicators from being unduly complicated and unwieldy. It was felt that the agency, whether it is SME Cell/Mol or SME Foundation, which would carry out the project performance monitoring, must have simple tools and techniques to

⁵ In this paper program and project is used interchangeably.

work with and it cannot be expected that overnight capacity in those agencies would be strengthened to handle complex measurement problems and issues. Two major lines of activities link the SMESDP, that of fund provisioning to the small businesses and strengthening support service delivery to the sector. These two lines of activities are implemented by two separate implementing agencies (IAs): Bangladesh Bank and the Ministry of Industries (MOI), respectively. Project performance monitoring systems were developed for both agencies.

79. It is unfortunate that the framework of monitoring the program, guidelines on the type of indicators that could be used to assess impact and benefits, and type of data and their sources necessary to capture the indicator values which were clearly spelled out by the TAGT team and reported to the implementing agencies, has not been consulted or utilized by the implementing agencies. Under the circumstances, it is impossible to undertake a thorough review and analysis of the SMESDP in terms of its impact and benefit.

80. There is another element to carrying out benefit monitoring and that is a comparison of results during and after completion of a program with baseline data and facts. No attempt at establishing baseline data was made during the design phase of the program or soon after start of implementation. It is in this context that the execution of the integrated database together with the SME survey was an urgent step. Unfortunately till-to-date, after four years of program implementation, the survey results are not available.

81. In order to analyse the benefit and impact of the SMEDP there is a clear need to undertake fieldwork and compare current results with those about 3 to 4 years ago. As an example benefit and impact indicators for the loan programs outlined in the benefit monitoring report of March 2007 are shown in Table 4.

Project: Line of Credit for SMEs and improvement of capabilities of participating financial institutions (PFIs)			
Objective: Increase investment by SMEs by making finance more available and accessible. The objective is also to improve the efficiency of lending institutions in administering line of credit to SMEs (decrease transaction costs of making small loans).			
Input Indicators	Process Indicators	Output indicators	Impact indicators
a. Finance for line of credit (US \$30 million). b. Consultants to assist financial institutions to set up SME departments by developing diversified products and processes for loaning to SMEs. c. Consultants to provide training to staff of lending institutions and Bangladesh Bank d. Consultants to	Credit a. Quarterly withdrawal applications processed and funds disbursed. b. No. of credit applications received and number reviewed c. No. of credits, and total volume of credit, approved d. No. of credit and total volume of credit approved for women owned businesses. Technical Assistance	a. Amount of credit disbursed. b. Amount of credit disbursed to women owned businesses. c. Amount of loans to SMEs by selected lending institutions increased. d. For selected financial institutions SME department set up and/or existing departments strengthened operated as cost	a. Rate of investments, value added and employment by SMEs increased. b. Terms of finance for SMEs made more effective and favorable c. FI portfolio of SME loans indicates increased long-term finance and for the manufacturing sector.

Project: Line of Credit for SMEs and improvement of capabilities of participating financial institutions (PFIs)			
Objective: Increase investment by SMEs by making finance more available and accessible. The objective is also to improve the efficiency of lending institutions in administering line of credit to SMEs (decrease transaction costs of making small loans).			
Input Indicators	Process Indicators	Output indicators	Impact indicators
improve procedures and systems for allocation and withdrawal of credit line.	e. ToRs for consultants issued. f. Consultants hired g. Loaning procedures, systems of FIs evaluated. h. For selected FIs SME unit set up with defined products, systems and procedures for loaning in place. i. PFI staff training needs evaluated and training program designed.	independent or profit independent from other banking activities. e. PFI staff training delivered	d. FI portfolio of SME loans shows increased finance for women-owned businesses.

82. Output indicators c, d and e relates to the output the program on PFI performances derived from the implementation of the loan program and in carrying out the TA component 4: SME Capacity Building. None of these could be achieved since direct TA activities to the PFI were not implemented. For the output indicators our discussions in Chapter 3 detail the deliverables and results. In terms of the impact indicators no sound lesson could be drawn unless data and records from the PFIs and SMEs are collected, reviewed and analysed. A recommendation of this report is for ADB to separately carry out an impact assessment by undertaking a survey of stakeholders, i.e. PFIs and SMEs and to assess the impact of the program. It is beyond the scope of the current assessment to engage in this survey and analysis.

V. LESSONS LEARNT

83. The need for public support to the SME sector cannot be disputed. The SMESDP has been the first comprehensive publicly supported program for the development of the SME sector. If the program could achieve a large part of the deliverables and objectives this would have ensured a vibrant developmental agenda for the sector. It should be noted that other than ADB, several donors have been providing sectoral and project-wise support for the development of small and medium enterprises. The two most significant donors are DFID and USAID and currently projects such as Katalyst, PRICE, and SEDF all have developed various models for support to SMEs. It was expected that the SMESDP would gradually link up with those projects and establish a broader programmatic approach by the GoB in supporting the SMEs. Not only SMESDP could not establish any link with the other projects, it set out models and approaches for SME support that are inimical to the models pursued by those projects, the main thrust of the model being to work with the private sector, linking SMEs to markets and increasing productivity within value chain of specific industries.

84. What lessons can be drawn from the four years of SMESDP implementation? This section attempts to draw several conclusions and they are outlined below.

Conclusion 1: The design phase did not develop in reasonable detail critical concepts that are vital elements of project objectives.

85. Several critical concepts, such as public private partnership, capacity building of SMEs, business development services (BDS), helpline centers, and rationalization of public institutions, were not detailed and clarified in the RRP. This left room for public officials and counterparts working in the project to make their own interpretations and pursue individual agendas. While the creation of the SME Foundation became the single most focus of the implementing agency (Mol), not only the design phase did not rationalize its establishment, there is no conceptual description of the Foundation in the RRP, except for its establishment being a condition for tranche release. This created confusion and opposition within BSCIC for the establishment of the Foundation and left the Foundation's, as well as BSCIC's roles and responsibilities unclear. Capacity building and business development services are an integral part of increasing productivity within the value chain of a product/industry/sector. The provision of training needs to focus within such developmental approaches. Without a conceptual framework for SME capacity building the implementing agency (Mol) focused only on training programs that little do with increasing productivity, accessing markets, and strengthening value chain.

Lesson 1: Critical concepts that are new to counterpart organizations, especially those relating to following international best practices should be detailed and outlined during the design phase in order not to leave any room for confusion and incorrect interpretation.

Conclusion 2: The counterpart officers and staff executing SMESDP were not knowledgeable about the objectives of the SMESDP and were not aware of its principal aims and goals.

86. As mentioned repeatedly in this report the SMESDP is a comprehensive program aiming not only to provide direct services to SMEs, but also to rationalize public sector support to the sector. This critical concept and understanding was lacking within management and counterpart staff. The SME Cell operated by engaging staff from Mol, BSCIC and other departments of the Mol. They also lacked knowledge of program implementation, management, and monitoring. Lack of understanding of procurement rules and guidelines severely delayed recruitment processes. It was incumbent on the design phase to undertake an awareness building through participatory workshops and training programs. During implementation facilities and resources for training/workshop to counterpart staff was not available. Management also ignored any calls from the TAGT team for weekly/fortnightly meetings, informal brainstorming on critical topics.

Lesson 2: During design phase participatory awareness building workshops/trainings should be executed on critical themes and those should be continued at least for the first year during project implementation.

Conclusion 3: It is necessary to engage a full time project manager/director and to set up an implementation unit distanced from the mother organization.

87. The project required significant management time and efforts. The project director had little time to fully engage himself in the project. On the other hand, the project director kept day-to-day affairs of the project in his hands and delays became obvious. The project director as Additional Secretary to the Mol had immense workload and directing work between the project staff and those of Mol became a challenge to him. The SME Cell was also an internal cell of the Mol and it did not possess the authority to take any autonomous decisions. A Project management unit, or a cell, set up as a separate unit from the parent implementing organization could perhaps function better.

Lesson 3: Implementation arrangements need to be reviewed appropriately and engagement of full time project manager should be considered a must, if project complexities are as high as SMESDP.

Conclusion 4: There needs to be a strong supervision of the project implementation both by the project management and project sponsors.

88. The project management had no supervisory framework in place. ADB had frequent changes with Task Management and long interim periods where a task manager was appointed temporarily provided little supervisory support to the project. The TAGT role in supervising the project was limited since it had little authority and responsibility for such activities. It was even time consuming and difficult for the TAGT team to prepare the Quarterly Progress reports, which were issued far behind the scheduled timeframe. Monthly or quarterly progress reports should incorporate work schedules for the period and compare achievements and reasons for delays. A work plan was prepared during inception period, but subsequently no other schedule was prepared or followed. Currently even for the TA components implemented by the consulting firms no supervision is in place.

Lesson 4: Supervisory function need to be taken up from the very beginning of the program and executing agencies should be provided with templates incorporating work planning and monitoring framework for monthly/quarterly reporting.

Conclusion 5: The refinancing scheme, although was disbursed rapidly and saw participation from a large number of commercial banks and non-bank financial institutions, did not have any scope to increase capacity of financial institutions in terms of loan products, processing, and administration.

89. Among several factors the capacity and knowledge of the financial institutions to develop diversified SME loan products, process loans based on borrowing enterprises' cash flow, supervise loan, and ensure costs of loan administration is reasonably under control has been seen as a cause for low SME access to finance. The design phase studies pointed those out and placed the capacity building of PFIs within the TA component 5. Unfortunately the implementation of the TA was delayed and it appears now those scopes for PFI capacity building would not be covered. The refinance scheme operation provides little scope for capacity building.

Lesson 5: Programs design must include scope and coverage dealing with capacity building of selected PFIs by coordinating activities and methods with SEDF/IFC program for financial institutions.

Conclusion 6: In order to smoothly carry out procurement for TA it is necessary for ADB to provide direct support through external consultants and training, or alternatively to take major responsibilities for implementing the procurement process

90. The procurement process appears to be biggest bottleneck in the whole implementation process of the SMESDP. In this regard instead of a hands-on approach by the ADB, a much more active role and supervision could perhaps have driven the process faster. Although procurement processes in the public sector is notoriously complicated, little experience of the implementing agency, i.e. MoI, with ADB procurement guidelines and other non-project agendas created substantial issues with procurement. The design phase needed an appropriate assessment of the capacity of the implementing agency in carrying out the procurement. Incorporating several workshops and training steps at an early stage of the project could deal with the lack of knowledge and interest by counterparts in following procurement procedures and guidelines.

Lesson 6: Thorough assessment of implementing agency capacity in procurement is necessary followed by training and workshops to impart knowledge and understanding of procurement rules and procedures.

SCHEDULE 1**SMESDP and Its Deliverables****Technical Assistance Loan**

The scope and services of TA loan are incorporated in the action program. A detailed implementation plan for the action program was set out in the Inception Report in October 2005.⁶ The action program framework defined eight areas of SME Support services, under which the seven TA sub-components⁷ have been subsumed. They are,

- Improvement of business environment
- Provision of integrated infrastructural facilities
- Improving and strengthening SME information
- Facilitating market access and support services
- Strengthening technological and product standards
- Promotion of women entrepreneurship
- Improvement of financial sector and access to finance
- Rationalization of institutional arrangements

This action program set out the 46 deliverables which also established the deliverables for the TA subcomponents. This is ambitious, and has been understood as such, but because of their critical nature and also in order to set up a basis for a longer-term strategy. Table 1 presents in a summary form the deliverables attached to the TA subcomponents constituting majority of the 46 deliverables.

TA Subcomponent	Deliverables	Action Program Group
Subcomponent 1: Rationalization of Government support services to SMEs	1. Complete diagnostic study of BSCIC	Infrastructural facility Market Access Institutional arrangements Access to finance
	2. Prepare strategy for industrial park/ estates	
	3. Develop action plan for implementation	
	4. Prepare recommendations for BSCIC restructuring	
	5. Prepare Business plan	
	6. Complete diagnostic study of SCITI	
	7. Recommend SCITI approaches to training	
	8. Present options for SCITI institutional strengthening	
	9. Prepare business plan for SCITI	
	10. Assess BSTI organization and recommend future structure	
	11. Assess existing credit facilities to SMEs	

⁶ See Schedule 1 for references.

⁷ For a description of the TA subcomponents reference should be made to Section ...

TA Subcomponent	Deliverables	Action Program Group
	12. Recommend modalities of future operation of directly administered government credit 13. Prepare documentation to establish SME Foundation 14. Prepare a business plan for Foundation together with organization and operational guideline	
Subcomponent 2: SME Web Portal and Virtual Front Office Development	1. Develop a web portal 2. Define the management process of portal operation 3. Host and launch the portal	SME Information
Subcomponent 3: Establishment and Operation of SME Helpline Outreach Centers	1. Establish committee co-chaired by FBCCI and DCCI 2. Develop approach to outreach center operations 3. Define public private partnership framework with clear roles and responsibilities 4. Assess office equipment, in needs including furniture and possible networking	SME Information
Subcomponent 4: SME Capacity Building	1. Establish link with other programs 2. Review and determine approaches to BDS 3. Prepare TOT program 4. Provide training to rural enterprises 5. Provide training to PFI staff 6. Assess and evaluate performance of SEF 7. Monitor utilization of Project loan by women entrepreneurs 8. Organize awareness program for women entrepreneurs 9. Create strong link with WE associations 10. Mainstreaming of gender concerns in all training modules developed 11. Organize regular women forum 12. Undertake training for RMG skill development	Market Access Women Entrepreneurship Access to Finance

TA Subcomponent	Deliverables	Action Program Group
Subcomponent 5: Upgrading of Product Certification System	<ol style="list-style-type: none"> 1. Improve testing facilities and accreditation process of BSTI 2. Strengthen capacity of BSTI staff 3. Undertake study tour 	Technological and Product standards
Subcomponent 6: Integrated SME Database development	<ol style="list-style-type: none"> 1. Prepare an updated business registry 2. Design an approach for updating and maintaining BR 3. Undertake a nationwide survey 4. Define data source from other areas 5. Create integrated database 	SME information
Subcomponent 7: Environmental Assessment and Monitoring	<ol style="list-style-type: none"> 1. Prepare manual on ADB safeguard policy on environment 2. Provide training to IAs to monitor compliance of ADB environment policy 3. Provide training to PFIs on assessing environmental impact of SME applicants. 	

SCHEDULE 2**Tranche Release Conditions****Conditions for release of First Tranche**

1. Borrower shall have declared the development of SMEs as a policy under its Industrial Policy and the Poverty Reduction Strategy Paper.
2. Borrower shall have adopted a single uniform definition of SMEs and incorporated such definition under the Industrial Policy.
3. National Task Force on Development of SMEs of the borrower shall have finalized and submitted the report on Development of SMEs to the Government for the formulation of the SME Policy.
4. Borrower shall have assigned responsibility for the promotion, growth, and development of SMEs to the National Council for Industrial Development (NCID), in addition to NCID's other responsibilities under the Industrial Policy.
5. Borrower shall have designated MOI as the responsible agency of the Borrower to implement the SME Policy.
6. Borrower shall have assigned responsibility for implementing the SME development action program to the SME Cell organized within the MOI.
7. MOI shall have constituted a committee for implementation of E-governance that will include (i) the development of a SME web portal/virtual front office, and (ii) the establishment of SME helpline outreach centers to provide coordination and assistance for facilitating access to Government services by SMEs
8. MOI shall have recruited professionals and academic faculty members for SCITI.
9. SCITI, in collaboration with FBCCI, district chambers and line associations of FBCCI, accredited women entrepreneurs associations, and National Association of Small and Cottage Industries of Bangladesh (NASCIB) shall have commenced a training needs assessment for SMEs, for the development of suitable and affordable training programs to reach out to SMEs, particularly those located in rural areas, participating financial institutions under the Small Enterprise Fund (SEF), women entrepreneurs, and displaced workers in the readymade garment industry.
10. Bangladesh Standards and testing Institution shall have established a special window for certifying SME products.

Conditions for Release of the Second Tranche

1. Borrower shall have approved the SME Policy and disseminated a summary of the SME Policy to the public in the Bangla and English languages in at least three newspapers of nationwide circulation.
2. Borrower shall have constituted the SME Advisory Panel and mandated it to develop an action program to implement the SME Policy. The SME Advisory Panel shall be comprised of representatives from the MOI and other concerned ministries, industry associations, and representatives from the private sector and academia, and report to the Guidance Committee set up under the Industrial Policy.
3. Government shall have approved the Memorandum and Articles of Association for setting up SME Foundation, with at least 50% private sector representation on the Board and a Chief Executive Officer recruited from the private sector, to be set up to assume the responsibilities of implementing the SME Policy from the SME Cell and to take over, in a phased manner, management of SME credit facilities currently directly administered by the Government.
4. MOI shall have commenced implementation of recommendations from the study funded by the TA Loan, including the submission of a time-bound monitorable plan, commencement of implementation of recommended actions, and possible overall restructuring of BSCIC.
5. MOI to have completed human resource restructuring of BSCIC field offices and head office
6. Borrower Shall have the following tax incentives to SMEs to take effect from assessment year FY2005/6; by then, for SMEs with fixed investment (excluding land and buildings) less than Tk3 million, provide, as a minimum, (i) a 75% income tax rebate, and (ii) accelerated depreciation rates for, inter alia, plant and machinery. Such tax incentives to apply for a minimum period of 5 years for SMEs located in Dhaka, Chittagong, and other major cities, and for a longer period to SMEs located in underdeveloped and undeveloped areas. Such tax incentives will not apply to SMEs availing of tax incentives under existing export incentive schemes.
7. MOI to operationalize the SME web portal/ virtual front office to provide information on market opportunities regarding SMEs and to facilitate access to government services by SMEs, including start-up assistance.
8. MOI/BSCIC, in partnership with the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), and district chambers and line associations of FBCCI, to establish SME helpline outreach centers at the district offices of BSCIC to assist SMEs in their organizational and expansion activities.
9. SCITI in collaboration with FBCCI, district chambers and line associations of FBCCI, accredited women entrepreneurs' associations, and NASCIB to offer training programs in accordance with the results of the training needs assessment.
10. Borrower shall have submitted a draft accreditation law to Parliament.
11. Borrower shall have established an autonomous Accreditation Board.
12. Accreditation Board shall have applied for membership in International Accreditation Forum.
13. MOI and BBS shall have prepared a registry of enterprises (non-agricultural) and conduct a nationwide survey of SMEs for establishment of an integrated SME database that will serve as the basis for monitoring SME performance and development and for targeting assistance.

SCHEDULE 3**SMESDP Implementation Achievements**

The program achievements described below indicate status of activities as of January 31, 2007.

TECHNICAL ASSISTANCE LOAN

Table S3.1 indicates the milestones and achievements of the TA loan. This table includes milestones that, although are significant activities in terms of program implementation, are not necessarily the deliverables of the program.

Table S3.1 Milestones and Achievements of the TA Loan

Date	Milestones
June 2005	GoB approved the SME Policies and Strategies
15 August 2005	TA Letter Agreement signed
12 September 2005	All TA Grant team members formally joins the project: The team consists of: Farook Chowdhury – Team Leader/International SME Policy Expert Nuimuddin Chowdhury – Local SME Policy Expert Syed Azim – Local Implementation Specialist Tushar Haque – Gender Specialist
12 September 2005	First ADB SMESDP Inception Mission fielded. Team consists of: Dean Virgilio Velasco Grace Magnaye
27 October 2005	Draft Inception Report submitted
21 November 2005	MOI receives a long list of international consultants for all TA component
10 December 2005	The TAGT office becomes fully functional
12 December 2005	SMESDP formally launched by MOI
1 January 2006	First refinancing withdrawal application by MOF submitted to ADB
January 2006	MOI sends to the ADB the shortlist of most local experts to be engaged in all TA components
January 2006	MOI sends a short list of international consultants to ADB
27 January 2006	Final Inception Report and Action Plan submitted
28 February 2006	Funds received in the ForEx account in BB
7 March 2006	Funds received by MOF from the ForEx account
13 March 2006	TAPP revised
29 Mar– Apr 5, 2006	ADB loan Review Mission fielded by Soo-Nam Oh and Vivek Rao
10 April 2006	MOI signed Contract with TTT to organize foreign study tour of parliamentary members
30 April 2006	First Quarterly Report prepared by TAGT; Submitted by MOI to MOF
Jun 2006 (various dates)	Computer literacy training program, “Effective Office Communication for Facilitating e-Governance”, of officials from SMEC, BSCIC, MOI and BSTI.
In 2006 15-17 June 27-29 July 24-26 August 13-15 September 17-19 December 25-27 January 07	Entrepreneurship Development Training Barisal Khulna Rajshahi Chittagong Dhaka Sylhet
20-28 June 2006	Computer literacy training for WE of WEAB and NASCIB members

Date	Milestones
30 June 2006	Consulting input of Gender Specialist completed
8 August 2006	First National SME Women Entrepreneurs Conference held
13 September 2006	RFP of TA Component 6: SME Integrated Database submitted to ADB;
27 September 2006	SME Advisory Panel concluded its last meeting
02 Oct-11 Nov 2006	Second Quarterly Report prepared by TAGT; Submitted by MOI to MOF
02 November 2006	RFP of TA Component 6: SME Integrated Database submitted to shortlisted companies;
09 November 2006	Consulting input of local SME Policy Expert completed
Dec 06/Jan 07	SME Foundation registration completed
18 January 2007	TA Component 6: Technical evaluation completed and submitted to ADB
April 2007	The Team Leader of TAGT completes his assignment
March-August 2007	Numerous training for business chambers carried out by SME Cell
9-14 June 2007	ADB loan review mission by R. Hartel and Ms. Rodora
30 Jun-9 Jul 2007	Study tour to Vietnam by SME Foundation members
17 July 2007	SME Website (www.smef.org.bd) launched and activities with Helpline Centers starts
August 2007	Draft report on BSCIC restructuring prepared by national consultant submitted
19-25 August 2007	Study tour to Malaysia by SME Foundation members
10-20 Feb 2008	ADB Loan review mission
3 July 2008	TA Comp 3 BSTI contract signed and activity starts
September 2008	TA Comp 6 Integrated database commenced

PROGRAM LOAN

Table S3.2 Compliances for First Tranche release Conditions

Component	Actions Taken Prior to Board Consideration	First Tranche	Compliances (Comments of consultant in italic)
Policy Outcome 1: Establish Small and Medium Enterprise (SME) Policy and Development Framework			
1.1 Declare SMEs as a priority sector under Government Policy		Government to state the development of SMEs as a priority under the Industrial Policy and the Poverty Reduction Strategy Paper	SMEs a priority sector was declared in the Industrial Policy 2005
1.2 Formulate an SME Policy and development framework	<p>Government to establish a Task Force for SME Policy Development.</p> <p>Government to hold a national workshop with the participation of various stakeholders, including the Government, private sector, financial institutions, donors, nongovernment organizations, and research and academic institutions, in order to identify problems, constraints, opportunities and issues regarding the development of SMEs in the country.</p> <p>Government Task Force to prepare and submit its recommendations for SME development, based on the results of the national workshop, to the Prime Minister.</p>	<p>Government to adopt a single, uniform definition of SMEs and incorporate such definition under the Industrial Policy.</p> <p>National Task Force on Development of SMEs to finalize and submit the Report on Development of SMEs to the Government for the formulation of the SME Policy.</p>	<p>A Task Force was set up and a national workshop held in early 2005</p> <p>SME definition was included in the SME Policies and Strategies paper adopted by the GoB. <i>(Bangladesh bank and BBS continued to use alternative definitions and harmonization or adoption of single definition did not materialize)</i></p> <p>The National Task Force report was submitted to the GoB.</p>
Policy Outcome 2: Establish Institutional Framework and Mechanisms to Support SME Development			
2.1 Set up an structure and mechanism to implement the SME Policy and development framework		National Council for Industrial Development (NCID) to be responsible for the promotion, growth, and development of SMEs, in addition to its other responsibilities under the Industrial Policy.	After the formation of the SME Advisory Panel the tasks of the NCID was transferred to the Advisory Panel.

Component	Actions Taken Prior to Board Consideration	First Tranche	Compliances (Comments of consultant in italic)
		Ministry of Industries (MOI) designated to implement SME Policy. SME Cell organized within the MOI to implement the SME development action program.	Mol was designed to implement the SME Policy SME Cell was established within the Mol in July 2005
Policy Outcome 3: Define Government Support to SMEs, and Improve SME Access to Various Services			
3.1 Rationalize Government assistance to the SME sector including the restructuring of Bangladesh Small and Cottage Industries Corporation (BSCIC) and other concerned agencies under MOI involved in the sector and rationalization of direct credit assistance currently provided	Government to take policy decision regarding human resource restructuring of BSCIC field offices.	MOI to commission a study to be financed by the Technical Assistance (TA) loan to determine effective approaches for delivering assistance to SMEs, including possible restructuring options for BSCIC. Government to take policy decision regarding human resource restructuring of BSCIC head office. MOI to commence review of individual cases under restructuring plan for BSCIC field offices.	The study was only commissioned in 2006 and after the deadline for first tranche release. GoB through Mol had taken some steps to downsize head office Mol undertook review of some individual cases
3.2 Rationalize incentive and tax structure for SMEs		As part of the recommendations of the National Task Force on Development of SMEs, Government to review the current fiscal incentives being provided to SMEs with the end in view of enhancing fiscal support to SMEs.	Mol undertook a review of the fiscal incentives
3.3 Enhance SME access to market and Government services		MOI to constitute committee for implementation of e-governance that will include (i) the development of an SME web portal/	A committee was formed within the SME Cell.

Component	Actions Taken Prior to Board Consideration	First Tranche	Compliances (Comments of consultant in italic)
		virtual front office, and (ii) the establishment of SME helpline outreach centers to provide coordination and assistance for facilitating access to Government services by SMEs	
3.4 Enhance SME access to capacity building	Government to upgrade Small and Cottage Industries Training Institute (SCITI) from a development project to a regular revenue budget agency of BSCIC.	<p>MOI to recruit experienced professionals and faculty members for SCITI.</p> <p>SCITI in collaboration with FBCCI, district chambers and line associations of FBCCI, accredited women entrepreneurs' associations, and National Association of Small and Cottage Industries of Bangladesh (NASCIB) to commence a training needs assessment for SMEs, for the development of suitable and affordable training programs to reach out to SMEs, particularly those located in rural areas, participating financial institutions under the Small Enterprise Fund (SEF), women entrepreneurs, and displaced workers in readymade garment industry.</p>	<p>Mol recruited from within SCITI a Principal whose post was vacant for a while.</p> <p>SME Cell carried out a Training Needs Assessment</p>
3.5 Enhance SME access to product certification and upgrade product certification system to international standard	MOI to draft Accreditation Law.	<p>Bangladesh Standards and Testing Institution to set up a special window for certifying SME products.</p> <p>Cabinet to approve draft Accreditation Law.</p>	<p>A window was set up at BSTI premises.</p> <p>The draft law was approved</p>

Component	Actions Taken Prior to Board Consideration	First Tranche	Compliances (Comments of consultant in italic)
3.6 Develop an integrated SME database		Bangladesh Bureau of Statistics (BBS) to publish report on the Census of Non-Farm Economic Activities (urban and non-urban, 2001–2003).	BBS published the two reports

Table S3.3 Compliances for Second Tranche Release Conditions

Component	Second Tranche Release Conditions	Compliances
Policy Outcome 1: Establish Small and Medium Enterprise (SME) Policy and Development Framework		
1.2 Formulate an SME Policy and development framework	Government to approve the SME Policy and disseminate the summary SME Policy to the public in the Bangla and English languages in at least three newspapers of nationwide circulation.	SME Policy Strategies was approved by GOB in June 2005. This provides input for preparation of SME action program prepared in first quarter 2006.
Policy Outcome 2: Establish Institutional Framework and Mechanisms to Support SME Development		
2.1 Set up an structure and mechanism to implement the SME Policy and development framework	SME Advisory Panel to be constituted and mandated to develop an action program to implement the SME Policy. The Panel will consist of representatives from the MOI and other concerned ministries, industry associations, and representatives from the private sector and academia, and report to the Guidance Committee set up under the Industrial Policy	SME Advisory Panel with 18 members and chaired by Chairman of federation of NGOs, was reconstituted on 5 October 2005.
	Government to approve Memorandum and Articles of Association for setting up SME Foundation, with at least 50% private sector representation on the Board and a Chief Executive Officer recruited from the private sector, to be set up to assume the responsibilities of implementing the SME Policy from the SME Cell and to take over, in a phased manner, management of SME credit facilities currently directly administered by the Government	TAGT assisted GoB to draft Memorandum and Articles of Association for setting up SME Foundation. SMEF is now registered under the Registrar of Joint Stock Company. Implementation details are currently ongoing
Policy Outcome 3: Define Government Support to SMEs, and Improve SME Access to Various Services		
3.1 Rationalize Government	MOI to implement recommendations from the study	Under TA Comp 1 a study was prepared to restructure BSCIC.

Component	Second Tranche Release Conditions	Compliances
assistance to the SME sector including the restructuring of Bangladesh Small and Cottage Industries Corporation (BSCIC) and other concerned agencies under MOI involved in the sector and rationalization of direct credit assistance currently provided	funded by the TA Loan, including the submission of a time-bound monitorable plan, commencement of implementation of recommended actions, and possible overall restructuring of BSCIC MOI to complete human resource restructuring of BSCIC field offices and head office	(No comprehensive study to rationalize GoB assistance to SME was carried out and no assessment of other organizations currently assisting SMEs was undertaken. Additionally no monitorable plan was established for BSCIC restructuring) (MOI held several meetings and discussions with BSCIC on downsizing head and field offices, but it is yet to be implemented)
3.2 Rationalize incentive and tax structure for SMEs	Government to provide tax incentives to SMEs to take effect from assessment year FY2005/6; by then, for SMEs with fixed investment (excluding land and buildings) less than Tk3 million, provide, as a minimum, (i) a 75% income tax rebate, and (ii) accelerated depreciation rates for, inter alia, plant and machinery. Such tax incentives to apply for a minimum period of 5 years for SMEs located in Dhaka, Chittagong, and other major cities, and for a longer period to SMEs located in underdeveloped and undeveloped areas. Such tax incentives will not apply to SMEs availing of tax incentives under existing export incentive schemes	Upon review it was found that GoB was already providing most of the fiscal incentives and any additional measures was not required.
3.3 Enhance SME access to market and government services	MOI to operationalize the SME web portal/ virtual front office to provide information on market opportunities regarding SMEs and to facilitate access to government services by SMEs, including start-up assistance MOI/BSCIC, in partnership with the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), and district chambers and line associations of FBCCI, to establish SME helpline outreach centers at the district offices of BSCIC to assist SMEs in their organizational and expansion activities.	Web portal was designed and launched in January 2007. (The website remains static and provides limited information and has negligible traffic) Helpline Centers have been established in 32 districts from which some 28 are operational. (The helpline centers do not have representations from FBCCI)
3.4 Enhance SME access to capacity building	SCITI in collaboration with FBCCI, district chambers and line associations of FBCCI, accredited women entrepreneurs'	SCITI and SME Cell provided training

Component	Second Tranche Release Conditions	Compliances
	associations, and NASCIB to offer training programs in accordance with the results of the training needs assessment	
3.5 Enhance SME access to product certification and upgrade product certification system to international standard	<p>Government to introduce Accreditation Bill before Parliament</p> <p>Government to set up an autonomous Accreditation Board.</p> <p>Accreditation Board to apply for membership in International Accreditation Forum.</p>	<p>Draft Accreditation Act was approved</p> <p>Accreditation Board has been set up</p> <p>The Board has yet to apply for membership since much work needs to be done in order to prepare for such a membership. Those works are ongoing.</p>
3.6 Develop an integrated SME database	MOI and BBS to prepare a registry of enterprises (non-agricultural) and conduct a nationwide survey of SMEs for establishment of an integrated SME database that will serve as the basis for monitoring SME performance and development and for targeting assistance.	<p>An updated Business registry of establishments drafted from 2001-2003 Census of Nonfarm Economic Activities has been completed in September 2006. (Accuracy and usefulness remains questionable)</p> <p>The SME survey is ongoing at the time of writing this report</p>

SCHEDULE 4**TOR of TA Grant Team Consultants**

International SME policy expert will be the team leader and will render 14 person-months of consulting services to perform the following:

- assist the SME Advisory Panel in formulating an SME policy implementation action program, and ensure participatory process and consultation with stakeholders during the development of such a program;
- make recommendations to improve the accuracy and reliability of SME data linked to desired performance indicators for the sector;
- review integrity of proposed comprehensive SME survey;
- assist in determining appropriate organizational structure and key result areas, and prepare operational guidelines for the MOI SME Cell;
- review consultant selection process and TA implementation to ensure smooth delivery;
- assist MOI in establishing and operationalizing an SME Foundation;
- ensure proper implementation of SME support systems;
- secure feedbacks and recommend appropriate improvements and corrective actions to ensure effective administration of training programs;
- monitor timely implementation of the Bangladesh Small and Cottage Industries Corporation (BSCIC) phase out or restructuring plan;
- establish benefit monitoring systems for each IA, including for loans financed under SEF;
- train PFI staff in conducting benefit monitoring of SME loans;
- ensure that equipment and resources for administrative support to the appropriate government agencies are efficiently delivered/served;
- to take overall responsibility for the implementation of other expanded work program that have been agreed with the ADB and the Government at TA inception;
- to coordinate the work of SMESDP with the current Private Sector Development Support Program (PSDSP) launched by the World Bank Group with support from DFID, JICA and other donor institutions;
- to engage PSDSP experts in making assessments of BSCIS and its industrial estates; and
- as a Team Leader, aside from putting up his own reports, integrate the submission of draft and final reports of the team of experts.

Domestic SME policy expert will be engaged for 10 person-months to assist the international SME policy expert in performing his or her assignments:

- provide the international SME policy expert with background information, and relevant laws and regulations, related to SME policy development;
- assist in preparing legal documentation for the establishment of the SME Foundation;
- assist in organizing stakeholders' consultation meetings or discussions during development of the action program; and
- perform any other functions to assist the international SME policy expert.

Domestic project administration specialist will be engaged to provide 30 person-months of services for project administration and support systems implementation, as follows:

- follow up implementation progress of all measures under SMESDP;
- assist the CPCU and IAs in preparing regular progress reports and ensure prompt submission of such reports to ADB;
- monitor development and ensure proper functioning of the SME support systems;
- monitor implementation and coordination of all SMESDP training programs;
- assist in loan disbursements, recruitment and payment for consultants, submission of reports to ADB, and other administrative matters;
- liaise with relevant stakeholders from Government, private sector, and funding agencies;
- assist ADB's missions; and
- assist the team leader in other tasks assigned.

Domestic gender specialist will be engaged for 8 person-months for the following tasks:

- prepare detailed activities to be implemented under the gender action plan;
- follow up on the implementation of the gender action plan;
- monitor the implementation of targeted women entrepreneurs' training programs and assist in coordinating accredited women entrepreneurs' associations;
- develop a system to monitor women beneficiaries;
- facilitate a forum for women employees and entrepreneurs; and
- prepare a forum report and ensure that forum concerns are addressed.