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SOUTHASIA ENTERPRISE DEVELOPMENT FACILITY 2003 Annual Report



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SEDF Annual Report Calendar Year 2003

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IFC Directors' Message

As in other parts of the world, South Asia's small and medium enterprises (SMEs) are at the heart of economic growth, creating economic opportunity and reducing poverty for millions. Their vitality is all the more impressive in the light of the constraints that they face in this region-heavy regulations, difficulty in raising financing, lack of professional services to support their growth, barriers to entering markets, and lack of infrastructure.

Our goal, through SEDF, is to help reduce those constraints so that SMEs benefit from improved access to capital, higher quality and more appropriately priced business services, and a more favorable business environment. Simultaneous progress in these three areas is critical to creating jobs, raising income, and improving productivity.

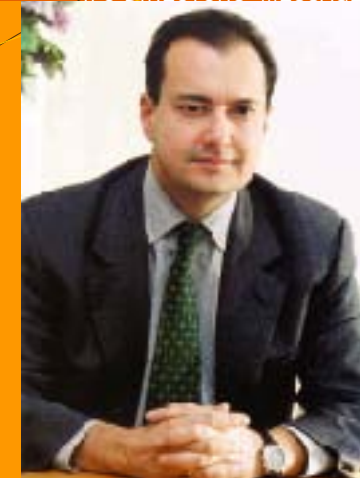
The agenda begins with financing. Banks are often reluctant to lend to smaller firms. Viable new formulas must be developed that work well for lender and borrower alike. For example, SEDF is partnering with five leading banks in Bangladesh to provide an integrated package of training in key functions like credit analysis and scoring, human resources, portfolio management and others. Exposing banks to proven leaders in this field from outside the region such as the Philippines is another way in which SEDF is encouraging new approaches to SME lending that will enable many local entrepreneurs to gain greater access to capital.

SMEs are also often cut off from necessary information, leaving them in great need of performance-enhancing services. SEDF is doing much to widen the impact of local service providers such as those from the Bangladesh University of Engineering and Technology (BUET) and others that target the vital ready-made garment sector, which provides more than 1.5 million direct jobs in Bangladesh. By strengthening the skills of local consultants, SEDF is helping garment producers grow more competitive in the key areas where buyers judge them against foreign rivals: price, quality, and speed of delivery.

On the business enabling environment front, SEDF's initial efforts include work to identify key obstacles to increased trade between SMEs in Bangladesh and North East India and to find ways to address them, and work with regulatory agencies to reduce the time taken to register new businesses.



Harold Rosen



Dimitris Tsitsiragos

We see SEDF as an important component of IFC's larger program of work in the region—investing in private financial institutions, private infrastructure projects, microfinance, and larger companies that provide opportunities for small business in their supply chains. IFC in turn is part of the overall World Bank Group effort in the region to encourage the creation of a business environment conducive to private enterprise. World Bank lending, research and policy advice to governments; IFC loan and equity investments and technical assistance; and SEDF technical assistance come together as complementary activities towards the same end. Through SEDF, we are able to combine resources with other donors, which will allow us to achieve many important results.

The common aim of all these activities is to tackle the constraints that hold back the small business sector from reaching its full potential. By doing so, small businesses can make an enormous contribution to reducing poverty and improving the quality of life throughout the region, generating income and employment in big cities and remote rural areas alike.

A handwritten signature in black ink, appearing to read 'Harold Rosen'.

HAROLD ROSEN

Director,
Small and Medium
Enterprise Department
World Bank Group

A handwritten signature in black ink, appearing to read 'Dimitris Tsitsiragos'.

DIMITRIS TSITSIRAGOS

Director,
South Asia Department
International Finance Corporation
World Bank Group

General Manager's Message



SEDF team with donor representatives.

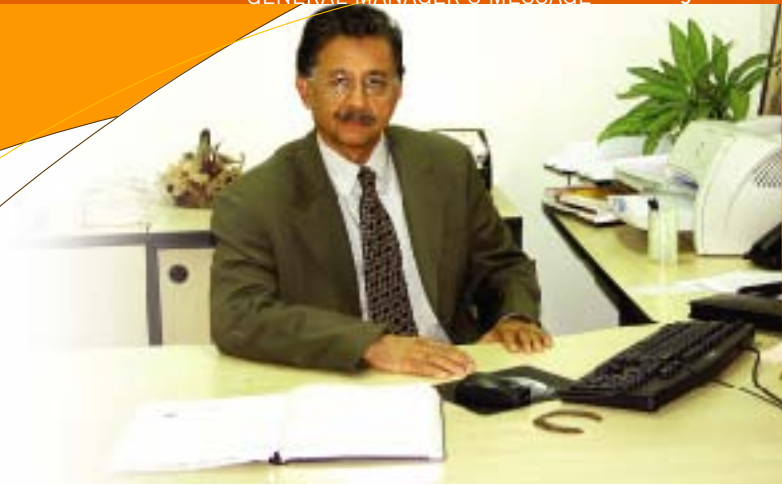
I am extremely pleased to write this message at the end of SEDF's first 15 months of operations which have been very productive. In economies dominated on the one hand by vast numbers of low-productivity informal enterprises and the other by a handful of large enterprises that receive the lion's share of existing resources, we are promoting broader-based economic growth by encouraging the growth of the 'missing middle': small and medium enterprises.

There are approximately 27,000 medium and 150,000 small enterprises in Bangladesh. In North East India, the missing middle is represented by approximately 18,000 medium enterprises (assets larger than US\$450,000) and 47,000 registered small enterprises (assets less than US\$450,000 –mostly at the smaller end). Nepal has approximately 4,000 registered enterprises that employ ten or more workers mostly at the small end while Bhutan has roughly 200 mostly small, registered companies.

These enterprises have the potential to create jobs and livelihoods, and provide products and services to their communities, but need help getting there. SEDF intends to bring well-targeted forms of support that have been shown to work in other markets and can be adopted and transferred to this region, preferably for long-term delivery by local players according to market principles to these enterprises.

SEDF's response has been multi-pronged, using strategies to improve the business enabling environment and improve access to capital and business services. The ultimate goal is to strengthen these enterprises and develop them into effective, profitable entities.

What makes us different from others in this field? The key distinction lies in the partnership between development agencies which underpins SEDF. We are proud of the combined commercial and developmental mindset that comes with being part of IFC's South Asia Department with support from the World Bank Group's SME Department. They provide us with expertise and international best practices, including access to a longstanding global network of client relationships and acceptance in the financial and corporate worlds as well as the development community. We feel IFC brings a business-like approach to development, one that is pragmatic, promotes lasting homegrown solutions and delivers measurable results without distorting the marketplace. We judge our work's bottom line by impact on companies, industry sub-sectors, and ultimately the SME sector through a continuous process of monitoring and tracking of projects.



Anil Sinha

We also receive invaluable support from the Royal Netherlands Government, the UK Department of International Development (DFID), the European Commission (EC), CIDA of Canada, NORAD of Norway and the Asian Development Bank, all of whom have committed funds for five years of SEDF's operation and participate in the oversight of SEDF's work. We have been very fortunate to have advice from a distinguished panel of advisors. I am most grateful to them and to the various ministries and statutory bodies in Bangladesh, Bhutan, India and Nepal for their cooperation. Finally I must acknowledge the efforts of my dedicated team who have made it possible to achieve so much already.

I realize that there is still some ways to go before we can realize all our goals, but all indicators show that SEDF will be able to add value to this important sector which has potential to bring about economic gains and raise the income of the people of South Asia.

ANIL SINHA

General Manager, SEDF

SEDF DONORS**SEDF ADVISORY PANEL 2003**

To make sure its work is well grounded in local realities, SEDF has been receiving strategic guidance from an advisory group of Bangladesh business leaders:

Anisul Haque Chowdhury	Secretary, External Resource Division, Ministry of Finance (retired), Government of Bangladesh
Syed Manzoor Elahi	Chairman, Banker's Association of Bangladesh (BAB)
Yusuf A. Harun	President, Federation of Bangladesh Chamber of Commerce & Industry (FBCCI) (Former)
Rokia A. Rahman	Chairperson, Women's Entrepreneurs Association (WEA)
Amjad Khan Chowdhury	Chief Executive, Bangladesh Agro Processing Association (BAPA)
Amir Humayun Mahmud Chowdhury	President, Chittagong Chamber of Commerce and Industry (CCCI)
C.M. Alam	Managing Director, Industrial Promotion and Development Corporation (IPDC)
Hafeezuddin Ahmad	Resident Representative, IFC

Overview

The SME sector in Bangladesh and the surrounding region is for the most part still underdeveloped and uncompetitive internationally. SEDF's over-arching objective is to strengthen it through the introduction of international best practices—and thus contribute to reduction in poverty.

Strengthening the 'Missing Middle'

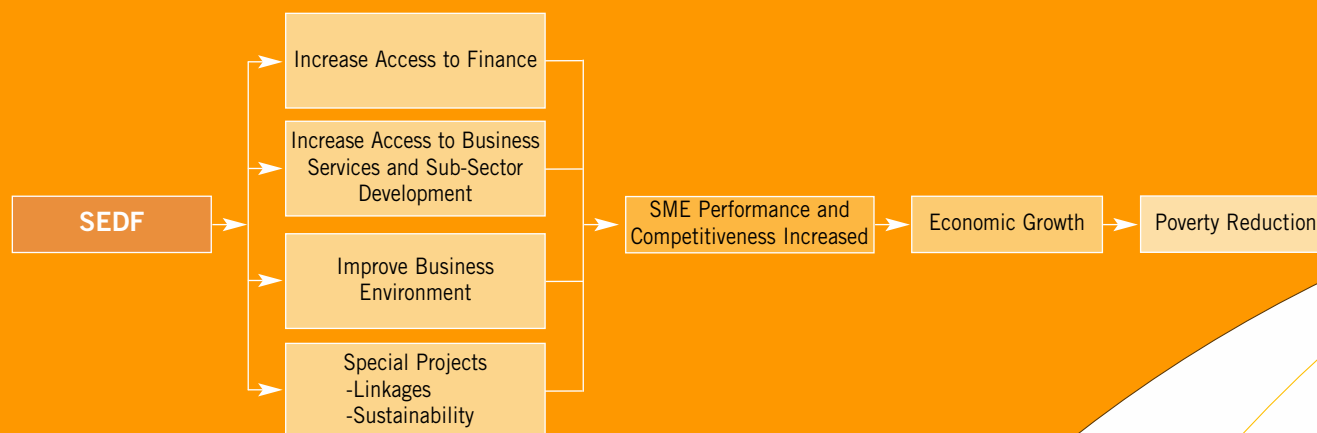
The biggest challenge for developing countries in today's highly competitive and increasingly globalized world is in fact a three-fold one: accelerating economic growth, creating lasting jobs, and reducing poverty. These countries have economies characterized by low foreign investment, high formal sector unemployment and underemployment of existing human resources. Much of their economic future revolves around stimulating domestic private sectors largely made up of small and medium enterprises (SMEs), the key source of employment growth.

These smaller firms often have great potential that has rarely been realized. For the most part, SMEs are still underdeveloped and represent the 'missing middle' in the structure of the developing world's private sector. Business environments in many countries usually still work against them and the financing and performance-enhancing business services they need are often not readily available. In response, the World Bank Group, through IFC, has recently accelerated its efforts to create better environments for small businesses in its member countries by increasing the number of multi-donor SME facilities it operates in frontier market regions around the world. As part of this global program, SEDF was launched in October 2002.

Currently, SMEs in our region (as in many other lower-income areas) are limited to a handful of industries with low value-added activities and that use very basic technology. These enterprises face many obstacles including limited access to finance, lack of management skills, a fragmented regulatory and policy framework, and growing international competition.

SEDF, with the help of its partners in the public and private sector, responds by providing SMEs with:

- Access to finance
- Access to business services and development of key sub-sectors such as garments, light engineering, agribusinesses and information technology
- Support for an improved business enabling environment
- Assistance on special projects, including those involving linkages with larger firms



While the primary thrust of SEDF's work is in Bangladesh, in keeping with donor requirements, we also operate smaller programs in Nepal, Bhutan and North East India.

SEDF has been funded for five years by IFC, the Royal Netherlands Government, Department of International Development of UK, European Commission, CIDA of Canada, NORAD of Norway, and the Asian Development Bank. We operate with helpful input from an advisory panel that includes senior representatives from Government, banks, business associations, and private companies.

The Three Pillars of Small Business Development

IFC's experience shows that SMEs in the developing world have three basic requirements for growth. They are: access to finance, an improved business enabling environment, and access to business development services. SEDF's strategy follows these three pillars of small business development to strengthen SMEs and ensure their sustainable growth. All SEDF projects fall under these broad categories.

ACCESS TO FINANCE

SEDF does not provide direct financing to SMEs. Instead, it helps local financial institutions make financing more readily available to SMEs. This is mainly done through (i) assistance in training program for banks and other financial institutions; (ii) technical assistance to partner financial institutions (PFIs); (iii) development of new financial products; and (iv) direct assistance to SMEs referred by PFIs.

ACCESS TO BUSINESS SERVICES AND SUB-SECTOR DEVELOPMENT

These services include providing access to information, marketing, management, technology and strategic planning assistance as well as developing linkages with large companies (tapping into the vast potential of business and community development opportunities posed by major investment projects).

BUSINESS ENABLING ENVIRONMENT

Under this pillar, SEDF tries to remove some of the constraints that are harder for small and mid-sized firms to overcome compared to their bigger counterparts. This can be in the form of research and advice to identify and help overcome the key obstacles in business formation, operation and expansion.

Highlights

A summary of SEDF's achievements during its first 15 months of operations.



Mr. Dimitris Tsitsiragos, Director South Asia IFC (right) and His Excellency the Ambassador and Head of Delegation of the EC, Mr. Esko Kentschinskyj (left), exchanging documents to commemorate EC as SEDF's donor. This is the first time that IFC and the EC have joined hands in SME development. Others from right: Mr. Anil Sinha GM SEDF, Mr. Suhel Ahmed Chowdhury, Secretary, Ministry of Commerce, Mr. Yusuf Abdullah Harun, President, FBCCI, Mr. Matiur Rahman, President, DCCI, and Mr. Hafeezuddin Ahmad, Resident Representative, IFC.


Bangladesh

ACCESS TO FINANCE

- Direct assistance is being provided to nine Partner Financial Institutions (PFIs). New products like factoring and credit scoring have been introduced. Five of the PFIs have reported the following improvements in SME lending over the past 12 months:
 - Additional SMEs financed: 6,055
 - Increase in term loans to SMEs: Tk. 3,007.60 million (US\$52 million)
 - Increase in staff handling SME portfolio: 81 persons
- Training of local financial institutions: 424 bankers trained. Joint training program with Bangladesh Bank (the central bank) underway in five core risk areas. Plan is to train about 1,000 bankers by 2005.
- Corporate governance workshop organized with the Netherlands Development Finance Company (FMO), recommendations accepted by the Bangladesh Bank and new law passed, including some of these recommendations.

ACCESS TO BUSINESS SERVICES AND SUB-SECTOR DEVELOPMENT

- SEDF is working directly with about 60 companies and also implementing integrated sub-sector development programs in garments, agribusiness, information technology, and light engineering.
- Following up on the successful negotiations of the Minister of Commerce, Mr. Amir Khosru Mahmud Chowdhury, leading to a free trade agreement between Bangladesh and Canada in January 2003, SEDF worked together with Canadian trade bodies, Federation of Bangladesh Chamber of Commerce & Industry (FBCCI) and Dhaka Chamber of Commerce & Industry (DCCI) to make the private sector in Canada and Bangladesh aware of this opportunity.
- The first Bangladesh garments fair was organized in Montreal and Toronto to capitalize on Canada's quota free status. Orders worth about US\$100 million are under discussion. Bangladesh Garments Manufacturers & Exporters Association (BGMEA) and the Ministry of Commerce have complimented SEDF for this intervention. BGMEA expects exports to Canada to double in the next year.
- A Canadian trade mission of eleven Canadian firms signed Memorandum of Understandings (MoUs) worth in excess of US\$11.5 million with Bangladeshi companies.



SEDF is working with Pran Group to reduce post-harvest losses in cereal production.

- Technical assistance to improve productivity provided to foundries and machine shops using a group of local consultants supported by SEDF experts. The savings already realized by four foundries in one quarter alone is BDT 1 million (US\$167,000).
- Examples from the IT sector:
 - Millennium Information Solution Ltd (MISL) supported in obtaining new contracts worth US\$1,900,000
 - Technical Assistance provided to CSL Software Resources Ltd in MIS software implementation capacity, thereby enhancing their ability to execute additional business worth US\$100,000
 - 1800 hours of training to develop animation skills has enabled Globekids Ltd to successfully bid for new contracts in local and foreign markets
- SEDF has assisted Superior Footwear Co. Ltd. (SFL), obtain European certification for selling its products in the European Union. SFL is the first company to do so in the personal protective equipment (PPE) sector.
- The first international seminar and trade fair "Agri-Invest 2003" was organized in partnership with the Ministry of Agriculture and Board of Investment. This initiative was recognized by the Honorable Prime Minister Begum Khaleda Zia and key stakeholders. In addition, 10 agribusiness companies are being assisted to develop their business.
- SEDF sponsored women entrepreneurs for international training and training of trainers programs in Thailand which helped them expand their product lines and train others. SEDF assisted the Chittagong Women Entrepreneurs Association (CWE) to organize a month-long trade fair for SMEs in Chittagong in December 2003. The trade fair resulted in sale of about BDT 20 million (US\$334,000) of which about BDT 13 million (US\$217,000) was from companies owned by women entrepreneurs.
- Twenty-five local case writers trained at a Case Method Workshop on the case writing and teaching methodology of Richard Ivey School of Business, Canada, to meet the need for developing local context based case studies in Bangladesh. Other achievements:
 - Management training for SMEs: 140 persons paid for SEDF/local partners' courses
 - 10 Business development service providers being assisted

BUSINESS ENABLING ENVIRONMENT

- Joint finalization and dissemination of Investment Climate Assessment (ICA) with the World Bank and the Bangladesh Enterprise Institute (BEI).

Follow-up activities:

- (i) Semi-annual surveys of SMEs
- (ii) Improvement of company registration process – first phase completed. At the request of Ministry of Commerce, second phase, to automate Registrar of Joint Stock Companies underway
- Joint FIAS – SEDF study to review investment incentives at the request of Board of Investment (BOI) and review of VAT in agribusiness sector with National Board of Revenue (NBR) is underway. Some useful VAT policy changes announced in last budget.
- SEDF is also supporting the launch of the SME task force which will review and make recommendations on SME issues such as definition of SMEs, promoting access to technology and finance, and institutional support.



Mr. Anil Sinha GM SEDF speaking at the Inaugural Ceremony of the Agri-Invest 2003 Bangladesh. Begum Khaleda Zia, Hon'ble Prime Minister of Bangladesh, Mr. M. Saifur Rahman, Hon'ble Finance Minister, Mr. Mirza Fakhru Islam Alamgir, Hon'ble State Minister of Agriculture and Mr. Mahmudur Rahman, BOI Executive Chairman (first left) are seated on the dais.



Dr. Kamaluddin Siddiqui, Principal Secretary Prime Ministers' Office, chairs a seminar organized by SEDF. The panel included Mr. Zakir Khan, Secretary of Finance, Mr. Mahmudur Rahman, BOI Executive Chairman, Mr. Mirza Fakhru Islam Alamgir, Hon'ble State Minister of Agriculture, Mr. Anil Sinha GM SEDF, and other members of the committee.

North East India

ACCESS TO FINANCE

Training programs and training of trainer programs organized for 30 persons from 10 Financial Institutions in Assam, Meghalaya and Tripura. Training of Trainer programs held in the Indian Institute of Bank Management (IIBM) in credit analysis, reconstructions of financial statements and introduction to credit scoring. Cooperation agreements finalized with North East Development Financial Institution (NEDFI) and Small Industry Development Bank of India (SIDBI).

ACCESS TO BUSINESS SERVICES

Program underway with Indian Institute of Entrepreneurs to provide them access to training and business development service tools. Working with six selected local private consultants and supporting them to provide consulting services to private companies.

BUSINESS ENABLING ENVIRONMENT

Study on constraints to trade between North East India and Bangladesh conducted for the Chambers of Commerce on both sides of the border, Tripura and Chittagong. Recommendations accepted and under implementation by the authorities. Follow-up report on constraints to financing trade also well received. Programs to implement recommendations underway.

Bhutan

ACCESS TO FINANCE

Training programs on SME credit analysis conducted for 49 bankers in two cities, Thimphu and Phuentsholing. The courses gave loan officers in these remote areas access to international-standard industry knowledge on evaluating SME financial risks, with or without reliable company accounts. It also enabled them to understand and apply key concepts such as cash flow and budget analysis when considering loan applications.



Seminar delegates and SEDF officials at a meeting organized by India's North East Chamber of Commerce & Industry (NECCI) in collaboration with SEDF to promote trade between North East India and Bangladesh.

Access to Finance

Limited access to finance, specially medium-term loans, is a major constraint for SMEs in Bangladesh and the surrounding region. SEDF puts its major emphasis on building the skills of local private sector financial institutions so they can lend profitably to SMEs—easing entrepreneurs' capital crunch.

Making Finance SME-Friendly

Access to capital, especially term financing is a major obstacle facing the SME sector in Bangladesh and SEDF's other target countries. Small firms may have the right combination of entrepreneurial drive, skilled staff, and market receptivity, yet they can still be hindered by local financial institutions that consider them too risky and will not finance their start-up or expansion activities. But so long as the local financial sector invests only in large enterprises and remains reluctant to venture into the SME sector, there will be no significant progress in developing the domestic economy's entrepreneurial potential.

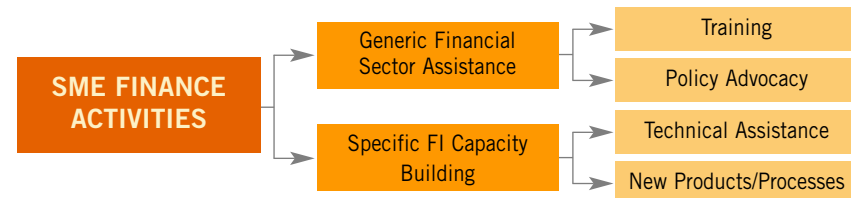
This is why SEDF devotes most of its resources to increasing SMEs' access to finance. We work closely with private sector financial institutions as well as non-banking financial institutions to make them more SME-friendly by bringing about a change in their culture and performance in serving SME clients. Much of this involves transferring successful models and expertise from other markets, such as those that we have recently brought to Bangladesh from IFC-investee institutions such as Planters Bank in the Philippines and Lanka Orix Factoring in Sri Lanka, as well as from other international experts.

Most financial institutions in Bangladesh have a poor track record when it comes to efficiency of operations and loan recovery. SEDF's target is to increase operational efficiency and introduce a modern approach to lending. This will benefit both the institutions in terms of performance and lending portfolio and more importantly, the client SMEs.

PARTNERING WITH LOCAL FINANCIAL INSTITUTIONS

To begin the process of strengthening a local institution's delivery of SME finance products, SEDF performs an initial 'diagnostic' (an analysis of the institution's capacity.) A report is then submitted to the institution consisting of possible strategies to make SME lending efficient and rewarding.

Once the diagnostic and strategy sessions have been completed, SEDF implements its support through an integrated process:



Performance Summary of Bangladesh Partner Financial Institutions

Description	Dec-02	Dec-03	Growth
No of SME Clients	3,383	9,438	179%
SME Portfolio (BDT million)	7,817.60	10,825.20	38%
	(US\$135 million)	(US\$187 million)	
Loan Processing Cycle (Days)	29	26	11%
Dedicated SME Staff in PFIs	56	137	145%



Participants from local banks at a workshop held in Bangladesh Bank's offices organized in collaboration with SEDF.

1) GENERIC TRAINING TO FINANCIAL SECTORS We help train groups of local bankers using proven modules and courses from other financial institutions with a good track record of profitably serving SMEs. Training is provided in numerous areas such as corporate governance, industry analysis, reconstruction of financial statements, credit scoring and credit risk and lending to the SME sector.

2) SPECIFIC TECHNICAL ASSISTANCE TO PARTNER FINANCIAL INSTITUTIONS SEDF signs partnership agreements (MOUs) with interested and qualifying financial institutions that have shown their commitment to providing loans to SMEs. Initial baseline data is collected and clear targets set so that success can be monitored, after which customized technical assistance is provided on a cost-sharing basis. Financial institutions share parts of the cost of the technical assistance, which adds value to the program with greater involvement and commitment on the part of the client. Specifically, SEDF's technical assistance concentrates on formulating SME strategy, and assists in implementing these strategies through tailor-made technical assistance programs. These include: (i) developing a Management Information System (MIS), (ii) implementing credit scoring, and (iii) improving human resource management.

3) NEW INITIATIVES AND PRODUCTS By channeling international best practices and emerging trends in SME financing, SEDF helps partner institutions develop new financial instruments, products and services that will deepen the SME financing market. Credit scoring, for instance, is an innovative method used worldwide to efficiently screen and rate reliable borrowers.



A workshop on Asset Liability Management organized by SEDF for Partner Financial Institutions. For such workshops, international consultants are hired who share their expertise on specific subjects and train trainers.

Extending the Reach of Financial Services

NORTH EAST INDIA Once a popular locale favored by the British, Shillong is no longer just a bustling tourist spot but also the seat of government for the State of Meghalaya, one of the "seven sisters" of the Indian North East. Within India, it can only be accessed by road from Guwahati, which is approximately four hours drive. Many branches of government banks and regional banks operate in and around Shillong, but are cut off from global knowledge on modern tools of SME lending.

SEDF conducted workshops on 'Reconstruction of Financial Statements and Credit Scoring', with participants from five financial institutions comprising regional banks, the State Bank of India, and private banks in Guwahati and Shillong.

SEDF also trained two faculty members of the premier bank training institute in North East India, the Indian Institute of Bank Management (IIBM). These faculty members were involved in supervising the above training workshop.

SEDF training programs in NEI have three main components:

- Evaluating risks associated with the financial situation of SMEs through an analysis of qualitative and quantitative verification, with or without reliable company accounts.
- Understanding and applying the key concepts of financial analysis to SME risk, particularly through cash flow and budget analysis.
- Identifying viable projects and/or viable SME clients through use of modern screening tools.

The training was the first of its kind and enthusiastically received by participating bankers. Such practical, results-driven training programs for bankers are rare in Meghalaya and SEDF's training program attracted bankers from not only Shillong itself but also from other townships within the Meghalaya region.

FACTORING – ACCESS TO WORKING CAPITAL

In addition to being denied access to term financing, SMEs are also constantly plagued by lack of adequate working capital for daily requirements of raw materials, labor payments, and general administration. To address this need, SEDF has now introduced to the Bangladeshi financial sector a proven product known as factoring that allows small firms to obtain cash against bills owed to them by large corporations.

Factoring improves SMEs' cash flow, allows them to reap the benefits of the good rating of their large clients, and eliminates the need for collateral and other conditions related to SME lending.

This year, SEDF completed a project to develop the local and international factoring capabilities of a leading leasing company, IFC-investee Industrial Development Leasing Company of Bangladesh Ltd. (IDLC). SEDF conducted a diagnostic study and drafted a strategy paper as well as a detailed plan to implement the factoring process. This formed the basis for further practical implementation assistance to IDLC in this area. The CEO of Lanka Orix Factoring, a well-reputed Sri Lankan factoring company and also an IFC investee visited IDLC and his hand-on advice proved extremely helpful.

The impact of the project is already visible. IDLC has now started factoring. Its total disbursement in factoring has already amounted to about US\$3 million, most of which went to SME clients.

KEY RESULTS

- Motivating the existing banking culture to be more SME-oriented
- Introducing a modern approach to banking in Bhutan and North East India
- Introducing new banking techniques such as credit scoring using interactive (DVD) learning tools
- Introducing new SME lending products, such as factoring and credit rating

Bhutan

Thimphu, Bhutan's capital city, is a two-hour drive from the nearest airport, a journey requiring slow travel up winding mountainous terrain. Thimphu is difficult city to reach and international-standard training opportunities for bankers have been quite limited.

This year, SEDF sent a team of consultants and staff members to Thimphu, to conduct an intensive workshop on 'Credit Analysis of Small and Medium Enterprises' for 27 Bhutanese bankers.

As with the program in Shillong, here too the training was aimed at evaluating risks associated with lending to SMEs. Again an analysis of qualitative and quantitative information, with or without reliable company accounts was presented. Courses were provided to help bankers understand and apply the key concepts of financial analysis to SME risk, particularly through cash flow and budget analysis.

In response to demand, this training program was repeated in Phuentsholing, an even more remote area of Bhutan that borders India. Twenty two bankers took part in this workshop and from feedback received, appreciated the training.

In both cases, the training aims to make local banks more aware of and amenable to SME financing.



Bhutan is IFC's newest member and a target country for SEDF's bank training programs.

KEY RESULTS—BHUTAN

Training program in Thimphu, Bhutan

Course Title: Credit Analysis of Small & Medium Enterprises in Bhutan

Participating Institutions: Bank of Bhutan (BOB), Bhutan National Bank (BNB), Bhutan Development Finance Corporation (BDFC), Royal Insurance Corporation of Bhutan (RICB) and the Royal Monetary Authority (RMA).

The objective of the training program was:

1. evaluate risks associated with the financial situation of SMEs through an analysis of qualitative and quantitative information, with or without reliable company accounts; and
2. understand and apply the key concepts of financial analysis to SME risk, particularly through cash flow and budget analysis.

Training program in Phuentsholing, Bhutan

Course Title: Credit Analysis of Small & Medium Enterprises in Bhutan

Participating Institutions: Bank of Bhutan (BOB), Bhutan National Bank (BNB), Bhutan Development Finance Corporation (BDFC), Royal Insurance Corporation of Bhutan (RICB), the Royal Monetary Authority (RMA) and the National Pension and Provident Fund Board (NPPFB).

The objective of the training program was:

1. evaluate risks associated with the financial situation of SMEs through an analysis of qualitative and quantitative information, with or without reliable company accounts; and
2. understand and apply the key concepts of financial analysis to SME risk, particularly through cash flow and budget analysis.

Access to Business Services & Sub-Sector Development

An important way to improve the competitiveness and performance of SMEs is to increase their access to performance-enhancing business services. To do so, SEDF follows a market-driven approach, providing training and technical assistance to SMEs. SEDF has also adopted a sub-sector development approach providing identified sub-sectors with specific interventions in areas such as business services, market access, productivity improvement, access to finance and policy advice.

Business Know-How for SMEs

Creativity, good business sense and adequate start-up capital are essential elements to start a small enterprise. But to succeed over the long term, developing strong management skills is equally vital, and too often efficient ways of doing so are hard to find in the local market. While from time to time we will work directly with individual firms in this regard, SEDF's best way of helping fill this gap lies in strengthening the many organizations that can support them: local business associations, training institutions, consulting companies, entrepreneurship programs and other service providers. Our goal is to make them better equipped to serve small firms.

SEDF follows a market-driven approach in providing training and technical assistance to SMEs, in line with the current principles adopted by the donor community. The emphasis is on stimulating both the supply and demand for key non-financial services needed by SMEs.

There are a limited number of service providers of international standard in Bangladesh as well as a low level of interest among the SMEs to buy such services. SEDF tries to develop local consulting firms or companies providing business development products and services such as company diagnostics, local management information systems packages, quality improvement systems, marketing, and export assistance and so on.

SEDF provides local service providing firms and training institutions with the tools and training that will be relevant and helpful to SMEs. Activities include: training services; business development products and services; sub-sector development; and Internet/information technology usage programs. SEDF has facilitated the formation of a local consortium of service providers and is developing their capacity to provide services to our target sectors.

Training is targeted at various levels of a company-owners, managers, supervisors and workers. Interactive methods are used such as class room training, workbooks as well as audio-visual and multi media techniques, depending on the aptitude of the targeted audience. To make sure that such capacity building is beneficial to SMEs, SEDF evaluates each delivery program to see how many people actually took the courses and whether the learned skills have been applied, resulting in the desired effect on the performance of the SME.

At this initial stage, SEDF is focusing on four sub-sectors. These are *garments*, *agribusiness*, *information technology/software* and *light engineering*. These sub-sectors have great affect on growth and poverty reduction.



Export items from SEDF's client Surjomukhi. With SEDF's assistance, the company has obtained new export orders worth US\$20,000.

To understand each sector's characteristics, SEDF has undertaken studies, surveys, diagnostics and focus group discussions with companies and associations. Sub-sector maps has been prepared to include bench-marking and potential growth areas. The various assistance programs/interventions are then designed and provided at various levels.

SEDF also assists companies in improving their business performance through better use of IT. This includes assisting IT providers to expand operations. SEDF, for example, may assist companies in advertising their products on the web or source information on products or raw materials and to enter e-business. SEDF in addition, helps in developing consultants who would act as associates in introducing and developing IT usage in SMEs.

KEY RESULTS

- Formulating a self-study workbook on RMG sector management and assisting a number of RMG companies improve productivity and quality
- Mapping of the Light Engineering Sector to identify bottlenecks and possible interventions
- A map showing strengths and weaknesses of the Agribusiness sector
- Introducing Bangladesh's underdeveloped light engineering sector to modern methods in efficiency and productivity improvement with very good results
- Providing international training for women entrepreneurs through associations to improve their management skills, improve quality and access to international markets
- A study on the prospects of biotechnology in Bangladesh
- Assisting RMG sector get new orders from Canada worth approximately US\$100 million
- BIFT/SEDF Job Fair: eight companies and 60 students of BIFT participated



Workers at a local garments factory located in Dhaka's Mirpur area. SEDF has provided TA to a number of garment companies to improve shop-floor productivity.

Garment Sector Assistance

MAKING THE RMG SECTOR MORE COMPETITIVE The Bangladesh ready-made garment industry is the most successful sector in the country, bringing about revolutionary changes in employment and the economy. It currently employs over 1.5 million people, most of them women. In the last decade this sector has experienced rapid export growth partly due to the Multi-Fiber Agreement which has regulated international trade in garments with a system of quotas. Countries like Bangladesh, which directly supply to the US and EU, benefited from these quotas. Bangladesh has high quality, low cost labor and a garments industry that has proved to be adaptable to change to meet compliance norms and standards set by buyers in the US and Europe. Bangladesh was, for example, the first country to sign an agreement to eliminate child labor from its garment factories.

The Bangladesh garment industry, however, is faced with tough competition from other countries, in particular China. The phasing out of the Multi-Fiber Agreement in 2005 will mean even greater challenges. Competitors like China have the advantage of higher labor productivity, more reliable power, easier access to infrastructure and more efficient ports and customs. These impending developments therefore, call for major changes in Bangladesh's RMG sector.

SEDF places major emphasis on this sector and has initiated several projects to identify the training needs of the industry, provide such training and improve efficiency of production, and tap new markets. These included the following completed and ongoing projects:

TRADE FAIR IN CANADA IN COLLABORATION WITH BGMEA SEDF organized a single-country Trade Fair with BGMEA in October 2003, the Canadian Manufacturers and Exporters (CME) Association, and the Trade Facilitation Office of Canada (TFOC). Forty companies were selected by BGMEA and SEDF to participate at the fair. This provided an opportunity for Bangladeshi companies to capitalize on the quota-free status already effective in Canada and to expand their markets. Business worth US\$100 million is under discussion.

BIFT/SEDF JOB FAIR In May 2003, SEDF organized a Job Fair, the first of its kind in the RMG sector in Bangladesh. Eight top ranking companies participated along with 60 students from both BIFT (Bangladesh Institute of Fashion Technology) and BUET (Bangladesh University of Engineering and Technology). On average, each company gave job offers to two students.



A garment worker cutting a collar at Misami Garments. This is one of SEDF's garment sector client who has received TA from SEDF to improve productivity.



Mr. Quazi Moniruzzaman, President-BGMEA, Mr. Mohsin Ali Khan, His Excellency the High Commissioner of the People's Republic of Bangladesh to Canada, Mr. Murray Calder, Parliamentary Secretary to the Minister of International Trade, Government of Canada and Mr. Mac Harb, Hon'ble Senator, Canadian Government at the Bangladesh Trade Fair 2003 in Toronto, Canada.



From left: Mr. Ronald Berlet, Consultant from TFOC, Canada, Mr. Anil Sinha GM SEDF, and Mr. Amir Khosru Mahmud Chowdhury, Hon'ble Minister of Commerce, seen at the MOU signing ceremony with Canadian and Bangladeshi companies.

Management Training and Development

CASE METHOD WORKSHOP AND PUBLICATION OF LOCAL SME CONTEXT BASED CASES The Management Training and Development component of SEDF organized a Case Method Workshop between 14-22 October 2003 to bring in the internationally recognized concepts, tools and process of effective case writing and teaching of Richard Ivey School of Business, Canada in Bangladesh. The objective of conducting the workshop jointly with a local consortium of BDS providers was to develop at least 25 qualified local case writers whose expertise would be used in developing field-based, decision oriented cases for training, education and consulting purposes, currently scarce in Bangladesh. An outcome of this workshop, in tandem with development of local case writing capacities, is a published volume of the local context based SME cases developed by the workshop participants. These cases cover a wide range of managerial challenges in small business management and entrepreneurial start-ups and are expected to make a valuable addition to the existing learning materials on various SME related issues including finance, operations, marketing and human resource management.

AGRICULTURAL ENTREPRENEURSHIP TRAINING MODULE An agricultural entrepreneurship training module has been developed in partnership with Business Advisory Services Center (BASC) to address the problem of

entrepreneurship training and effective counselling specific to agribusiness sub-sectors like poultry, livestock and fisheries in Bangladesh. This training is expected to enable participants to better understand the technical and managerial issues of agribusiness. BASC is a member of the Consortium for Business Development Services (CBDS) which is a partnership firm promoted by SEDF to evolve as a 'one stop shop' for management development services for business enterprises in Bangladesh.

CASE STUDIES ON PERFORMANCE IMPROVEMENT IN RMG COMPANIES AND LIGHT ENGINEERING FOUNDRIES Two case studies have been developed on SEDF's interventions and their impact on RMG companies and Light Engineering Foundries. Case studies of this nature have the potential to stimulate both the demand and the supply side of performance improvement consulting amongst SMEs. Firstly, such case studies, by demonstrating the economic gains by concerned SMEs can sensitize demand for such consulting services to others in the sub-sector. Secondly, such case studies can also stimulate the supply side by serving as reference materials for service providers to learn about the approach, tools, and process of performance improvement consulting services specific to the sub-sector.



Ms. Afreen Huq, BDS Consultant SEDF, making a presentation on the business consortium to local service providers. Seen on her right: Mr. Anil Sinha GM SEDF, Mr. Deepak P. Adhikary, Program Manager BDS and sub-sectors with participants.



Case method workshop jointly organized by SEDF and a local BDS consortium. Twenty five local case writers were developed/trained at the workshop.

Light Engineering Sector

Bangladesh's Light Engineering Sector (LES) has potential to serve both as a service provider and original equipment manufacturer (OEM) for other sectors such as agriculture, RMG and transport which, in turn, contribute considerably to the GDP. SEDF has taken a multi-pronged approach to decide its strategy for intervention in this sector.

SEDF's first step was to map the LES sector in order to gain in-depth industry knowledge. This research covered 131 companies and was conducted by local experts supported by SEDF.

Thereafter, SEDF organized a week long workshop, in May 2003, on improving foundry techniques. The workshop was conducted by a team of three specialists from the Indian Institute of Foundrymen (IIF). Eight foundries, from Dhaka, Rangpur, Bogra and Faridpur participated in the workshop along with three service providers. The training workshop demonstrated practical ways to reduce the consumption of coke in the melting process. Coke is usually imported from nearby countries, mainly China and India. Thus the training aimed at reducing imports as well as the cost of input. The hands-on training methods were designed to reduce rejections by improving the process methods and introducing operational changes.

Summary of LES activities

1. Mapped 131 LES-SMEs all over Bangladesh
2. Demonstration of savings to 17 SMEs covering all LES sub-sectors
3. Four on-the-job training programs covering 60 workers and technicians
4. Introduction of shop-floor manual MIS in 15 SMEs
5. Interventions led to three direct assistance demonstration projects in progress and five in the pipeline
6. Creation of a consortium of consulting engineers, specializing in LES
7. Prepared operations manual for foundries
8. Finalized pass book for LES SMEs for their identity, for the authorities' consideration

SEDF interventions are in progress in seventeen companies covering foundries, steel rolling mills and machine shops. These specific interventions are expected to result in cost and resource savings in these companies—primarily by introducing process and operational control. SEDF has also taken up special assistance to Dholaikhal cluster by modernizing their processes and thereby achieving cost reduction.

SEDF has identified ten experienced service providers in the area of Engineering consultancy who are currently in the process of implementing the above interventions. They are backed by necessary resource support from within the region. The focus is on capacity building of the local service providers in this area of "Engineering Consultancy" –which would lead to sustainable benefits to the LES as a whole.

SEDF also organized a focus group discussion between representatives of the manufacturing sector in Canada, the local engineering companies, trade bodies and the Bangladesh government. The objective was to help Canadian companies to identify suppliers of spare parts for automobiles from Bangladesh.



Metal Testing equipment in Elite Steel, part of SEDF's process improvement program.



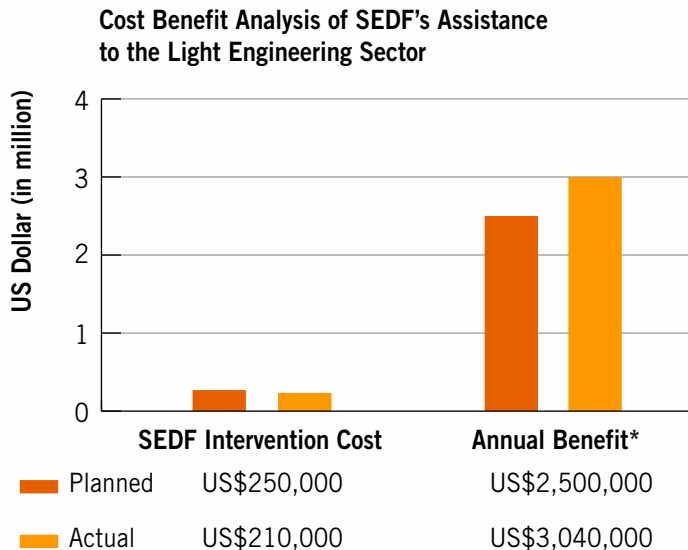
SEDF client KSD Pumps has products fitted to a locally fabricated dredger. It is one of the beneficiaries of SEDF's assistance to the light engineering sector.

New Technology: Centrifugal Castings Project

SEDF is helping a local foundry set up a modern centrifugal castings unit. The project would produce cylinder liners using the centrifugal casting method. This is the first time the centrifugal casting method has been introduced in Bangladesh. This improved production process produces much better quality products. It also reduces rejections and saves time, energy and material.

The sponsor decided to implement this project when they attended SEDF's foundry workshop and realized the importance of modernizing their foundry and also of using this new technology to produce cylinder liners, used both in the auto industry (agricultural and transport sectors).

The casting industry is currently using old processes and technology—the average age of a casting unit in Bangladesh is 15 years. This project is expected to demonstrate to the entire industry the value of modern processes.



*Based on certified actuals from the enterprises

KEY RESULTS

Achieved in Light Engineering Sector – 2003

- 1. Foundries (8 foundries)**
 - Inputs (coke, scrap) per ton of gray iron produced are reduced by 8% implementing appropriate coke to metal ratio
 - Yield per ton of input from the cupola (the melting unit) is increased by 9.8% with proper monitoring
 - Rejection rates brought down by 3.4% by controlling the process parameters
- 2. Steel Re-rolling mills (5 re-rolling mills)**
 - Scale losses brought down by 3.6%
 - Melting losses brought down by 13.4%
 - Gas consumption per ton of steel re-rolled brought down by 7.7%
- 3. Machine shops (14 machine shops)**
 - Reduced machining time by 30% by use of proper tools and cutting parameters
 - Rate of metal removal was increased 45%
 - Selected old machines were re-conditioned and refurbished

Knowledge Centers

Lack of information is a major limitation for SMEs. Knowledge Centers, established by SEDF in conjunction with local partners, would help SMEs and service providers by providing access to business resources, training and support. The Centers will use PC and Internet based business tools and resources along with hands-on support to SMEs. The Centers will attempt to "wholesale" the one-on-one support provided by SEDF to individual companies and reach a large number of SMEs by utilizing IT. The Knowledge Centers will eventually be franchised to local service providers in and outside the country.

The Centers will give SMEs access to information on key business topics such as accounting, export marketing information etc. SMEs can also take advantage of various training programs and utilize business tools and applications such as SME toolkit developed by the SME Department of the World Bank Group, animation-based training CD-ROMs as well as provide references for consultants or business support programs. The Centers will also be equipped with books related to SMEs and will also house World Bank publications.

The Centers will be an important channel for SEDF to communicate with SME clients and make services and products known and available.

SEDF is partnering with the Dhaka and Chittagong Chambers of Commerce & Industries in setting up these Centers. A website (www.sedfkc.info) has also been launched to coincide with the opening of SEDF-DCCI Knowledge Center in April 2004.

Agribusiness Sub-Sector

In Bangladesh, agriculture plays a key role in overall economic performance, not only in terms of its contribution to 24 percent of GDP, but also as a provider of employment to about 65% of the population, particularly the poor. Meeting the nation's food requirements of about 140 million people remain the key-objective of the government and in recent years there has been substantial increase in grain production (about 27 million tons in 2002). Based on constant prices the average growth rate during 1999-2001 in agriculture was 6.2% whereas industry grew at 5.7%. In recent years, due to lower returns in cereal production, a shift has occurred from cereal to non-cereal (fruits, vegetables, pulses etc.) and non-crop (livestock, fisheries, poultry, dairy etc.) production and processing. Major growth has been reported in the fishery (over 8%), livestock (about 4%), poultry (layer 31% and broiler 52%) and feed industries (about 30%). Other areas such as leather, food processing, herbal medicine, and fresh and frozen vegetables are also emerging. Unlike the garment industry, where the bulk of the export earnings have to be used to pay for imported raw materials and machinery, in agribusiness the value added stays in the country.

COUNTRY MAP: AGRIBUSINESS SECTOR, BANGLADESH

A Country Map of the agribusiness sector in Bangladesh was published by SEDF's agribusiness team in May 2003. The Map provides an overview of the agribusiness sector and outlines the prevailing issues, analyzes the gaps and identifies the possible measures that could be adopted to address the issues. The Map has been distributed to stakeholders, development partners, government and NGOs.

AGRI-INVEST 2003 BANGLADESH

The Agri-Invest 2003 forum was organized by Board of Investment (BOI), the Ministry of Agriculture (MOA) and SEDF. The event included an international seminar and trade fair. The objective was to develop awareness of international agribusiness prospects in Bangladesh and promote interaction between private sector, policy makers and academics and national and international investors. SEDF provided technical and financial support in organizing the international seminar as well as assistance in selecting speakers for the seminars and exhibitors. Over 2,000 participants took part in 11 sessions including the private sector, policy makers, researchers and the media. More than 5,000 visitors visited the 67 stalls, of which 52 were from Bangladesh and the rest from overseas. SEDF will follow-up with MOA and BOI in implementing the recommendations of the Agri-Invest seminar.



Mr. Mirza Fakhru Islam Alamgir, Hon'ble State Minister of Agriculture, speaking at the closing ceremony of Agri-Invest 2003 while Mr. Anil Sinha GM SEDF, Mr. Abdul Mannan Bhuiyan, Hon'ble Minister of Local Government of Rural Development, and Mr. Mahmudur Rahman, BOI Executive Chairman seated on the dais.



Eurasia, a client of SEDF in Bangladesh, has been receiving TA on European Food Standard Information System (EFIS) and Hazardous Analysis Critical Control Point (HACCP). From preparing frozen paratha and aroid to packaging of these products for export, all are carried out under hygienic conditions.

IT SECTOR DEVELOPMENT PROGRAM

SEDF aims to facilitate the growth of Bangladesh's IT sector which mainly consists of SMEs. It also seeks to improve the competitiveness of other organizations and sectors through the better use of IT. Five types of interventions are being undertaken: (i) direct company assistance, (ii) business development services (BDS), (iii) IT sourcing capacity improvement, (iv) linkages (outsourcing), and (v) E-Governance. In the direct company assistance component, SEDF addresses the technical and marketing issues common to most companies. These measures are expected to be replicated in other companies to bring about industry-wide improvement. SEDF has been providing TA to a number of companies on a cost sharing basis. These include: strategic and business plan development, strengthening management, raising finance, improving business development capacity, enhancing software engineering process capability, updating technology base, expanding access to domain knowledge, gathering market intelligence, facilitating penetration in export markets, and diversifying to new areas (e.g., embedded computing, chip design services). These companies were selected through a process which included a formal diagnostic exercise. Ongoing direct company assistance projects are as follows:



 TechnoVista Ltd. produces software and is an IT solution provider. The project involves developing the performance and competitiveness of TechnoVista Ltd. SEDF has assisted the company in a new market development campaign in Europe, improving its technology skill set, and product positioning. The TA has had a significant impact on the company's success by developing new business in the European Community worth more than US\$1 million and in establishing linkage with a Danish company.



GlobeKids Digital Ltd. is a producer of animation and multimedia products. It is a joint venture of GlobeKids Inc. (a US based company) and the Grameen Fund, a venture fund promoted by Grameen Bank. SEDF assistance includes development of animation skills through training and technical assistance. More than 1800 hours of training to develop animation skills has enabled the company to successfully bid for additional work both in the local and foreign markets.



CSL Software Resources Ltd. is a technology company that produces software and provides software implementation services and IT solutions. SEDF's TA includes training for upgrading technology, developing marketing capacity, enhancing RMG ERP (ready-made garments enterprise resource planning) software implementation capacity, and improving the functional and technology base of the RMG ERP software. The assistance provided for improving RMG ERP software implementation capability has significantly contributed to the company's recent success in signing MOUs for implementing this software in 7 RMG units with the potential of bringing additional business worth US\$100,000 (approx).



The project involves providing support for improving management capacity, international marketing practices and software engineering process capability of Millennium Information Solution Ltd. SEDF's recent TA in international marketing capability improvement has resulted in new business opportunities worth US\$0.9 million (approx). The on going TA for CMM certification and training is the first such process capability improvement initiative in Bangladesh and is envisioned to have a significant impact not only on MISL but also on the local IT industry as a whole.



Spectrum produces software and provides software implementation consulting services and IT solutions. SEDF's assistance in developing marketing materials and promoting the company has enabled SECL to further penetrate both local and foreign markets. SEDF's TA for the improvement of asset management software capability has produced new business opportunity worth US\$100,000. This capability improvement has also strengthened SECL's eligibility to be the implementation partner of a reputed international vendor of asset management software

Women Entrepreneurs

PROMOTING WOMEN IN BUSINESS

Women entrepreneurs in Bangladesh have come a long way in breaking the barriers of social conventions and stereotyping that have kept women outside of business. But they also face severe constraints in terms of lack of access to capital, managerial and quality control skills, basic knowledge about the industry and market and of course, access to markets. SEDF focuses on strengthening the capacity of business membership organizations so that they can be more supportive to women entrepreneurs.

Presently, SEDF is working with three major women entrepreneurs associations in Bangladesh. Assistance to them includes helping them to develop a strategic plan to make the associations more structured, transparent, financially sustainable and better equipped to meet the needs of its members.

WOMEN CHAMBERS

SEDF jointly with the Women Chamber of Commerce and Industry (WCCI) conducted weekly business counselling sessions which provided first hand knowledge about the real issues and obstacles that women entrepreneurs face and what kind of needs exist among the women entrepreneurs.

SEDF facilitated 'market readiness' training in New York City for two companies last January as a result of which both companies have been able to increase their sales. There are plans to set up a fully functional membership database in the Chamber for better administration and monitoring. The women entrepreneurs of these two companies, moreover, have become resource persons for the Chamber. Another workshop with 45 entrepreneurs as participants gave an orientation on the handicraft market in USA for their products. Eight companies also received one to one consultation from a handicrafts expert who gave them product specific advise. SEDF assisted two companies to participate in an International Trade Fair in Washington DC.

CHITTAGONG WOMEN ENTREPRENEURS

SEDF recently assisted the association in organizing a month-long trade fair for SMEs in Chittagong in December. The trade fair resulted in sale of about BDT 20 million (US\$334,000) of which about BDT 13 million (US\$217,000) was from companies owned by women entrepreneurs. SEDF also sent three women entrepreneurs for international training to Thailand which will help them to expand their product lines.



Mr. Zia U. Ahmed, Senior Consultant & Program Manager of Financial Markets SEDF, speaking at the closing ceremony on Training Workshop on Market Readiness for Exporting Handicrafts to USA organized by Bangladesh Women Chamber of Commerce & Industry (BWCCI) and SEDF.



Women entrepreneurs from the Chittagong Women Entrepreneurs (CWE) association seen at a workshop organized by SEDF in Chittagong. Ms. Deneb Z. Latif of SEDF seen taking part in the workshop.



Participants seen at a Workshop on Market Readiness Exporting Handicrafts to USA organized by SEDF and CWE.

ACCESS TO FINANCE

SEDF is exploring ways to remove some of the obstacles currently faced by women entrepreneurs. This includes access to finance, access to domestic and international markets, market intelligence and access to technology.

SEDF will assist in increasing sources of income for these business women's groups and make them financially sustainable and improve access to finance for women entrepreneurs who are the members of these business associations.

Surjomukhi Handicrafts – A Bright Future Awaits

When Naznin Ansary started taking lessons on doll making from a Dutch woman, it was purely because of her interest in making things with her hands. Naznin always had a passion for making handicrafts, creating batik designs, candles and of course, dolls. It was her teacher and mentor Stans Stolte who recognized her special talent and helped her to start selling her dolls sculpted in western-style, to buyers in the Netherlands. Naznin, who named her small business 'Surjomukhi (meaning sunflower) Handicrafts', also sold her products to Christmas fairs and then to Aarong, the popular retail shop sponsored by the country's largest non-governmental organization, BRAC (Bangladesh Rural Advancement Committee).

In 2002, she became a member of the Women Chamber of Commerce & Industry and through this association participated in trade shows in Bhutan and Nepal. She even managed to set up a small workshop and employ a few women workers. But Naznin's market was very limited and she was still not very confident about selling abroad. Through the Women's Chamber, Naznin was able to take advantage of SEDF's business counselling program. SEDF also arranged for her and another woman entrepreneur to go to New York to take a training course on market readiness offered by the US-based NGO Aid to Artisans. Naznin says she learned invaluable lessons at this training workshop such as how to improve quality of the product, how to capture the market and how to price her products for the export market.

At present Naznin sells a wide variety of hand made items including dolls, doll's clothes, children's costumes, jute bags and household linen. Naznin has already received a US\$20,000 order for stuffed toys from Aarong for a Belgian company and plans to expand her business. She is also currently negotiating with a Japanese specialty toy store chain for an order. "The training gave me immense confidence and also allowed me to make valuable contacts", says Naznin, who has a workshop in her house in Niketon, another one in Gulshan, and employs 45 women workers.



Export quality products of SEDF's client Ms. Naznin Ansary who exports to international markets and also supplies her works to local shops like Aarong.

Ms. Shyama F. Huq of SEDF with Ms. Naznin Ansary, proprietor of Surjomukhi, at the display of her products at her store in the city.

Business Enabling Environment

SMEs, unlike large corporates, usually cannot influence policy change themselves. Easing their many constraints to starting, managing, and growing a business is a vital step in transforming the private sector.

Expanding Markets, Increasing Competitiveness

Formulating an SME-friendly business environment for SMEs to flourish requires the co-operation of the government, private sector and donors. But in Bangladesh, the last 20 years of small enterprise-related policies indicate that SMEs are still faced with a very restrictive and difficult regulatory environment. They face a larger burden of inspection from government authorities than do larger firms. Corruption too, increases their costs of doing business. The high cost of complying with regulatory policies is a strong deterrent to growth of SMEs, often encouraging firms to remain small and informal to avoid regulations.

SEDF's business environment strategy in Bangladesh takes into account the existence of an emerging class of relatively successful entrepreneurs who are trying to grow. The strategy has three components:

- Developing policy framework for SMEs
- Strengthening of business membership organizations
- Facilitating inter-regional and intra-regional trade

REGULATORY, POLICY AND ADVOCACY WORK

SEDF participated in the World Bank/Bangladesh Enterprise Institute Investment Climate Assessment that covered over 1,000 companies, (25% of which were SME's) and also arranged workshops to help discuss the findings. Going forward, we will also be doing follow-up panel surveys on 250 of these SMEs, improving coverage to include industries from the service sector like IT and tourism that were not extensively covered in the original round, and work on implementing suggested reforms. These are semi-annual surveys that will be carried out for three consecutive years to track down the changes in performance of these firms in the investment climate that they operate in.

SEDF also has recently financed participants from Bangladesh and Nepal to attend a World Bank organized workshop on Investment Climate in Colombo, Sri Lanka. The purpose of this workshop was to share the findings of Investment Climate Assessment (ICA) Reports of the South Asian Countries with the representatives from the respective governments and private sector and get their feedback on how the World Bank group could engage in facilitating the removal of the constraints identified. The materials presented in this workshop are available at <http://www.investmentclimate.org/southasiaic03/>.

The BEI-SEDF Advisory Services (BSAS) project has assisted SME clients to set up businesses through information dissemination on regulatory requirements. It is assisting firms to obtain trade licenses from Dhaka City Corporation (DCC), a Certificate of Incorporation from Registrar Joint Stock Companies (RJSC), Certificate for Import and Export from Chief Controller of Imports and Exports (CCI&E), and dealing with National Board of Revenue on VAT issues.

Billboards have been provided in these offices and process charts have been published in a newspaper. SEDF has prepared manuals for other statutory requirement as well and made recommendations to reduce paper work and improve regulatory procedures. These are being discussed with the representatives of these regulatory bodies.

A report is also being prepared on VAT Policy for Agro-Processing Enterprises which is examining the tax structure of these enterprises on a comparative framework with other countries like Thailand, Pakistan, China

and Sri Lanka. Bangladesh Agro Processors Association (BAPA) claims that they are faced with double/multiple taxation on their products which make these uncompetitive in the local and international market. The study will verify this with the National Board of Revenue (NBR). On the basis of a comparative analysis with VAT structures in Pakistan, Sri Lanka, Thailand and China, it will make recommendations on a more user friendly VAT structure that can promote the agro-business sector while retaining a fair share of revenue for the government.

The Registration project is an important step to ease company formation and improve corporate governance by automation of the office the Registrar Joint Stock Companies (RJSC). Undertaken at the request of the Ministry of Commerce (MOC), it is a joint effort with the Australian High Commission. As a first step, a System Requirement Analysis has been prepared by international and local experts by analyzing the current situation, identifying the gaps and specifying what needs to be done. The Ministry is keen to start this project as part of its E-Governance program.

The MOC has now requested SEDF to take the lead and prepare the Technical Assistance Project Pro Forma (TAPP) for this project. Once the TAPP is approved by the External Resource Division (ERD) of the Ministry of Finance, the project is expected to kick off.

Under this project: (i) the manually kept files at the RJSC will be electronically archived in an electronic data base; (ii) the website will be updated and Online name clearance will be made possible, (iii) the whole system of registration will be automated from submission of application to approval by the Registrar including other post registration formalities, (iv) digital signatures may also be introduced in future but this will need regulatory changes.

To improve the administrative functions of the RJSC, steps are being undertaken as a part of public awareness campaign to reduce the information gap among entrepreneurs on regulatory requirements. An animation film on how to register a business is being produced for television. A Registration Kit has been prepared by SEDF for the RJSC consisting of the brochure, contents of the billboard, all forms needed for registration, and filled out model forms of Memorandum and Articles of Association.

SEDF is jointly conducting an Investment Incentives Review with the World Bank Group's Foreign Investment Advisory Service (FIAS) for the Board of Investment. This will look at the overall investment scenario in Bangladesh, particularly the fiscal incentives for local and foreign investors.

SEDF is also a part of a committee that is coordinating a Donor Consortium Project led by DFID/USAID that has surveyed over 10,000 private micro/SMEs. The survey provides updated and reliable data on this sector's characteristics.

BUSINESS MEMBERSHIP ORGANIZATIONS

Under this component, SEDF focuses on strengthening existing business associations mainly through training and technical assistance. The aim is to understand as well as address the needs of the members to make them internationally competitive. Through these programs, entrepreneurs learn how to use IT applications, how to develop their marketing and planning skills, how to use management information systems, how to improve quality control systems, finance and accounting systems etc. SEDF also tries to improve the sustainability of Business Associations by helping them to offer commercially viable services to members.

INTER-REGIONAL TRADE

Inter-regional trade is crucial for increasing the access of SMEs to resources and markets. The Chambers of Commerce in Bangladesh, India, Nepal and Bhutan have already initiated measures to stimulate inter regional trade with the support of the respective governments. In addition, a number of donors and institutions such as ADB and the World Bank are trying to facilitate inter regional trade with SEDF complementing this work, focusing especially on SMEs. The goal is to ease the burden for export oriented SMEs.

At the request of the Chittagong Chamber of Commerce and Industry and the Tripura Chamber of Commerce and Industry, SEDF facilitated a study on the non-tariff barriers to trade between North East India and Bangladesh. The results of this study have been instrumental in furthering trade negotiations between India and Bangladesh.

These interventions are aimed at removing business constraints and stimulating markets for SMEs. They will also help to better represent SME interests and expand their overall market.

KEY RESULTS

- Process charts of RJSC, DCC, CCI&E published in the *Financial Express*. Billboard in RJSC & CCI&E providing information on the registration process. Recommendations to reduce paper work of regulatory processes.
- System Requirement Analysis on Automation of RJSC at the request of the Ministry of Commerce.
- Partnerships in the World Bank/Bangladesh Enterprise Institute investment climate assessment that included an extensive study of SME sector characteristics.
- SEDF and NBR signed an LOU to undertake a study on VAT Structure of Agro-Processing Enterprises.
- Study highlighting non-tariff barriers in trade between India and Bangladesh and how they could be reduced.
- TA to 4 Business Membership Organizations to develop capacity for advocacy and services to members.

Investment Climate Assessment (ICA)

A productive investment climate can be broadly thought of as an environment in which governance and institutions support entrepreneurship and well-functioning markets in order to help generate growth and development. SEDF participated in the Investment Climate Assessment jointly carried out by the World Bank and Bangladesh Enterprise Institute (BEI). Its focus was on the institutional and policy environment that determines whether investments pay off in terms of greater competitiveness for firms and in sustained growth for the economy.

Six industries were included in the survey: garments and textiles; food and food processing; leather and leather products; electronics; chemicals and pharmaceuticals. The survey collected data from a total of 1,000 firms in Dhaka and surrounding areas and Chittagong and compared findings with neighboring countries. The hope is that its results will help identify the reforms most critical to private sector development and facilitate consensus on a more far-reaching agenda of reform.

KEY RESULTS

Some of the main findings from the ICA:

- Infrastructure poses some of the most severe obstacles facing firms. Bangladesh fares worse than its neighbors on general measures of infrastructure, and the vast majority of firms report that problems in infrastructure seriously hamper their growth.
- Electricity problems plague firms in Bangladesh, which has less generation capacity per capita than its neighbors. Firms report experiencing power outages or surges nearly every day they operate. As a result, more than 70 percent rely on electric generators—at great expense. On average, these generators cost more than US\$20,000 to purchase and 50 percent more per kilowatt-hour to operate than the price of power from the public grid.
- Corruption is pervasive. Bangladesh ranks worse on measures of corruption than its neighbors, with more than half the firms reporting it as a major or very severe obstacle.
- Firms view regulation as a serious problem. Starting a firm in Bangladesh is fairly difficult. And once firms are running, they receive frequent visits from government agencies—about 17 a year on average.
- Access to finance is a problem. For those firms that have access, it is mostly short-term and nearly 60 percent of firms with a line of credit report having exhausted that credit. Moreover, the very large share of non-performing loans portends potential difficulties.
- SME's are disproportionately affected by all these problems. The smaller the firm, the more of its resources it devotes to "unofficial" payments and to deal with government visits and inspections, and the less likely it is to have access to formal finance. These problems can pose great barriers to market entry and growth for small firms.

ICA related activities of SEDF

- Contribution to the SME segment in the World Bank/Bangladesh Enterprise Institute investment climate assessment
- Six monthly panel survey of SMEs underway with BEI and WB
- Initiatives to reduced registration time of companies including automation of the Registrar of Joint Stock Companies underway
- Contributed to reduction of VAT on packaging of agricultural products



Bangladesh Investment Climate Assessment: Opinions Expressed by the Private Sector

SUPPORT NEEDED FOR:

- Incentives to help private sector channel resources to high-yielding investments
- Reforms in business entry regulations
- Promoting more "interactive dialogue"
- More focus on SMEs in the ICA (not large manufacturing sector only)
- Promote more collaboration and harmonization of tax structures in South Asia so that the region can compete with the West or other regions
- Assistance in knowledge transfer within South Asia
- Creating one standard definition for SMEs for all South Asian countries
- Focus and promotion of women-based SMEs
- Develop professional human resources personnel, including recruitment and training specialists who would, in turn, develop good managers in local companies
- Assistance to promote Free Trade Agreements between countries bilaterally and regionally (for example Bangladesh-India)
- Promoting private sector investment in Nepal and therefore helping in reforming regulations, income tax reforms with particular attention to Nepal's accession to the World Trade Organization

FACILITATION MEASURES REQUESTED:

- A promoters guide to explain, in simple terms, the steps required for company registration
- Registration services provided to eight cities in Bangladesh
- The records of 43,000 existing companies should be transferred to an electronic data base
- Human resources development through recruitment of professional staff and their intensive training
- Close interaction between the head office and the regional offices
- System of annual conference of all heads of regional offices
- Creating an external World Bank Institute website for the workshop materials—PowerPoint presentations, key readings, and for updated materials on the investment climate as they are developed
- Development of infrastructure



Corporate Governance for Financial Institutions

TOWARDS A SUSTAINABLE FINANCIAL SECTOR

Although corporate governance is based on internationally accepted ground rules it must take into account the local conditions of a country. Banks in particular have a specific role to play with respect to corporate governance both internally and in their client's companies. Trust and transparency, however, are universally accepted as being the most important elements in this area.

SEDF and the Dutch development finance company FMO jointly organized a workshop on corporate governance in January 2003 in Dhaka. The importance of the workshop was marked by the presence of Bangladesh's Minister for Finance and Planning, the Governor of Bangladesh Bank and several distinguished speakers including the managing director of International Credit Rating Agency (ICRA) Advisory Services, an independent credit rating agency in India affiliated with Moody's Investors Services of the US. The workshop was attended by 21 participants from leading banks, both senior executives and directors.

With the help of resource persons from Bangladesh and abroad, the participants made important recommendations to promote good governance. These relate to the functions and composition of the board of directors, proper functioning of internal controls, and relationship with regulatory bodies and with the public including depositors. There should be, for instance, a clear division between tasks and responsibilities of the Chief Executive Officer (CEO) and the Board of Directors (BoD).

A bank's day-to-day management must be mandated by the board to function in accordance with policies and guidelines so as to be accountable to the BoD at all times. Policy guidelines of the board to the management, therefore, have to be clearly defined with no ambiguity regarding their interpretation. If the management deviates from these guidelines it must inform the board and get its approval. Banks must be pro-active in promoting a self regulatory framework that works and realize that when the banking industry fails in this respect, the authorities will be forced to impose stricter regulations. The initiative thus must come from the banks themselves to put good governance into practice.

The workshop also recommended that membership of boards should not exceed 15, preferably about 11. Members should be independent directors and appointments should not be based on political affiliation or to persons working for the government. Another important conclusion the workshop came up with was that internal control is a prerequisite for good corporate governance that must be embedded in a bank's infrastructure. One of the key elements of internal control is information and communication. For good corporate governance, a sound Management Information System (MIS) is essential. Internal and external audit functions, moreover, should be improved to higher levels of expertise.

Regulatory bodies in addition, have to be accountable and transparent towards the banking industry. They must also make their reports available to the banks within a short time so that the banks can use the findings to take corrective actions. Regulatory bodies must ensure that their inspectors are highly qualified and properly trained. These bodies need a business-like approach to understand the financial business environment. The Bangladesh Bank, for example, should grant banks on-line access to the Credit Information Bureau to facilitate prompt credit decisions on the part of the banks.

Finally, a positive relationship with the public is another essential element of good governance. In the depositors' interest, banks should publish quarterly bulletins on key operational and financial highlights. The banks and their clients should also implement internationally accepted accounting standards such as IAS.



From right: GM SEDF, Hon'ble Minister of Finance, Governor of the Bangladesh Central Bank, and officials from FMO of the Netherlands at the workshop on corporate governance for financial institutions.



Representative from FMO sharing his notes with participants from local banks during the corporate governance workshop with the assistance of Ms. Anushe A. Khan of SEDF.

Special Projects, Linkages & Sustainability

Linkages between large corporations and SMEs, environmental and social sustainability, and good governance programs for SMEs are also important points of SEDF's agenda.

Linkages

One of SEDF's key goals is to link SME suppliers to large corporations so that large producers are ensured consistent supply of such products and SMEs have access to markets and best practices through them. In the present environment, most large corporations are reluctant to procure from SMEs as they lack the capacity to meet their needs and are not very efficient in terms of delivery and quality control. SEDF activities include working to improve supplies from SMEs, assist them in developing quality control systems and to introduce innovative ways to finance these small and medium enterprises.

Sustainability

SEDF recognizes that economic growth must be pursued in a sustainable manner. In order to integrate sustainability in all its development activities, SEDF has three levels of interventions: i) company level assistance-direct and through local service providers, ii) assistance to banks and business associations and iii) corporate governance program.

- i) **COMPANY LEVEL ASSISTANCE** Each SEDF project is assessed to ensure compliance with local environmental laws. In addition SMEs are advised on best international practices and how to implement them. SEDF helps SMEs to acquire international certification, where possible.
- ii) **ASSISTANCE TO BANKS AND BUSINESS ASSOCIATIONS** SEDF works with banks to create awareness of sustainability issues and helps introduce environmental and social compliance checks as part of their credit appraisal process. This includes training of bank staff and introduction of needed systems and procedures. Business associations are also informed of rules and best practices and encouraged to create awareness among their members.
- iii) **CORPORATE GOVERNANCE PROGRAM** This includes sensitizing stakeholders (such as authorities and associations) and SMEs on governance issues.



Worker at a Superior Footwear factory preparing safety shoes for export.

Superior Footwear: A Bangladeshi Entrepreneur Pioneers A New Sector

INTERNATIONAL MARKETS

SEDF has assisted Superior Footwear Co. Ltd. (SFL), a pioneer in manufacturing safety footwear in Bangladesh, in achieving international quality standards and penetrating new markets. Safety footwear is part of the 'personal protective equipment' (PPE) segment which is mandatory for a wide class of industrial and professional workers.

SFL was the first company in Bangladesh, and to date the only one, to have established a plant to manufacture safety footwear. However, given the sophisticated requirements of manufacturing safety footwear, SFL faced problems in mastering the 'Goodyear welted' technology and in penetrating the important North American and European markets.

SEDF designed and delivered a technical assistance program to SFL which resulted in

- SFL obtaining European certification for selling its products in the European Union (the first Bangladeshi company to do so in the PPE segment)
- Orders from a large Canadian company
- Establishing its presence in the European market

SEDF shall soon offer the second phase of TA to SFL for worker training, better productivity and shop floor layout.

Shapla Filter : Safe Drinking Water for the Rural Poor

Bangladesh has long grappled with the problem of providing low cost arsenic free drinking water to the poor in the countryside. Estimates suggest that there are potentially between 30-40 million people at risk of arsenic poisoning from drinking water sources. Fifty-nine out of sixty-four districts have arsenic contaminated water and officially over 7,000 people have been affected by arsenic poisoning.

SEDF has supported the development of the Shapla Filter, an indigenous low cost arsenic filter developed by an ex-professor of chemistry from the Rajshahi University in Bangladesh. The filter is highly effective and based on locally available raw material. IDE International, an NGO based in the USA and operating in Bangladesh for 21 years, has teamed up with the professor to develop the filter as an affordable commercial product and make it available to the rural population in Bangladesh. SEDF is also supporting the field testing of the Shapla Filter which will enable it to receive BCSIR approval required for commercial marketing.

The project was a finalist in the World Bank's prestigious annual innovation grant contest, the Development Marketplace 2003.



A housewife in the rural part of Bangladesh serving drinking water to her husband from the Shapla Water Filter.



Acronyms

ADB	Asian Development Bank
BB	Bangladesh Bank
BDFC	Bhutan Development Finance Corporation
BDS	Business Development Services
BDT	Bangladesh Taka
BEE	Business Enabling Environment
BGMEA	Bangladesh Garment Manufacturer & Exporter Association
BNB	Bhutan National Bank
BoB	Bank of Bhutan
BoD	Board of Directors
BOI	Board of Investment
BTTB	Bangladesh Telephone and Telecommunications Board
CCCI	Chittagong Chamber of Commerce & Industry
CEO	Chief Executive Officer
CIDA, Canada	Canadian International Development Agency
CME	Canadian Manufacturers and Exporters
CWE	Chittagong Women Entrepreneurs
DCCI	Dhaka Chamber of Commerce & Industry
DFID	Department for International Development, UK
EC	European Commission
EOF	Environment Opportunities Facility
FBCCI	Federation of Bangladesh Chambers of Commerce & Industry
FIAS	Foreign Investment Advisory Service
FMO	Finance for Development/Dutch Development Finance Company
GDP	Gross Domestic Product
GoB	Government of Bangladesh
IAS	International Accounting Standards
ICA	Investment Climate Assessment

ICRA	Investment Information & Credit Rating Agency of India Ltd.
IDE	International Development Enterprise
IDLC	Industrial Development Leasing Company of Bangladesh Ltd.
IFC	International Finance Corporation
IIF	Indian Institute of Foundrymen
IT	Information Technology
LES	Light Engineering Sector
LoU	Letter of Understanding
MIS	Management Information System
MoU	Memorandum of Understanding
NCBs	National Commercial Banks
NECCI	North East Chamber of Commerce & Industry
NEDFI	North East Development Financial Institution
NGOs	Non-government Organizations
NORAD	Norwegian Agency for Development
NPPFB	National Pension and Provident Fund Board
OEM	Original Equipment Manufacturer
PFI	Partner Financial Institution
RICB	Royal Insurance Corporation of Bhutan
RMA	Royal Monetary Authority
RMG	Ready-Made Garments
SEDF	SouthAsia Enterprise Development Facility
SIDBI	Small Industry Development Bank of India
SMEs	Small and Medium Enterprises
TA	Technical Assistance
TFOC	Trade Facilitation Office of Canada
ToR	Terms of Reference
WCCI	Women Chamber of Commerce & Industry

Financial Report

SEDF's accounts are audited by Deloitte and Touche International.

SEDF Donors' Funding Position as of December 30, 2003

Donor	Committed	Paid to Date	Unpaid
	Original Amount in US\$	FY 04 (till Dec '03) in US\$	Commitment in US\$
IFC	5,000,000	3,000,000	2,000,000
United Kingdom (DFID)	5,680,000	2,179,660	3,500,340
Netherlands (MoF)	2,030,000	1,792,191	237,809
European Commission	11,580,000	5,852,000	5,728,000
Asian Development Bank	750,000	0	750,000
Canada (CIDA)	5,840,000	943,997	4,896,003
Norway (NORAD)	7,030,000	3,587,311	3,442,689
Total	37,910,000	17,355,159	20,554,841

SEDF Budget/Expenditure for CY 2003 (Amount in Million US\$)

A. Program Cost (US\$ millions)	Budget (For CY 2003):	Expenditure (For CY 2003):	% of Expenditure
Finance	2.48	0.89	24%
Business/sub-sectors/special projects	1.49	1.63	43%
Business Enabling Environment	0.87	0.70	19%
Sub-Total	4.84	3.22	86%
General Admin & Contingency	1.33	0.52	14%
Sub-Total	1.33	0.52	14%
Total (A)	6.17	3.74	100%
B. IFC Admin Fees	0.47	0.47	
Sub-Total	0.47	0.47	
Grand Total (A+B)	6.64	4.21	

Notes:

1) Expenditure relates to cash outflow. Additional committed expenditure is approximately US\$1.05 (m)

FY:03		
Bangladesh	3,241,070.00	88.10
Nepal	662.00	0.19
N. India	127,914.00	7.33
Bhutan	68,969.00	4.38
Total	3,739,996.00	100.00

2) Apart from above expenditure, since inception SEDF has utilized IFC Managed Trust Funds of approximately US\$440,000

Denmark	US\$110,000.00	
Denmark	US\$140,000.00	
Norway	US\$190,000.00	Estimated

Summary of Results

Since operations started October 20, 2002, SEDF has brought a business-like approach to its development work. Outputs are agreed on an annual basis and monitored every quarter through scorecards. The summary scorecard below indicates that, despite ambitious targets, SEDF is well ahead in terms of achievements.

SEDF SUMMARY SCORECARD (THROUGH DECEMBER 31, 2003) 15 MONTHS OF OPERATIONS

Access to Finance

Activities/Programs	5 year target	2 year target	Completed/Achieved (15 months)	Remarks
Diagnostic of Financial Institutions	16	8	12	Targets exceeded with excellent results
Numbers of PFIs Signing MOUs	12	6	9	Targets exceeded with good results
Numbers of referrals from Partners	72	22	22	On target
Number of persons attending SEDF training	750	150	424	Targets exceeded with excellent results
New Products	4	2	1	Targets expected to be exceeded with good results

Access to Business Services & Sub-Sector Development

Management Development & Training

Activities / Programs	5 year target	2 year target	Completed/Achieved (15 months)	Remarks
Management training materials produced	11	7	26	Targets exceeded with excellent results
Training package developed	28	10	2	On target
Training sold (number of persons)	1460	260	139	On target
Issues papers of workshop & focus group discussion	25	12	7	On target
Service providers franchised	20	7	5	On target
Sub-sectors summary				
Sub-sector mapping & related studies	12	4	20	Targets exceeded with excellent results
Company diagnostic	145	40	61	Targets exceeded with excellent results
Direct assistance projects	90	25	15	On target

Business Enabling Environment

Activities / Programs	5 year target	2 year target	Completed/Achieved (15months)	Remarks
Policy & Advocacy				
Survey / Research papers	10	5	9	Targets exceeded with excellent results
Policy / Regulatory changes facilitated	7	3	7	Targets exceeded with good results
Business Associations				
MOU signed with business associations	22	7	11	Targets exceeded with good results
Publications with business associations	14	4	2	On target
Increase in sales of business associations members, as per MoUs	10%	3%	4%	Targets exceeded with good results
Trade				
Increase in trade (US\$'000)*	4000	250	17000	Targets exceeded with excellent results
Gender				
Increase in sales by women-owned SMEs	1700	600	437	On target
OTHERS				
Environment & Social				
Environment assessments performed	165	45	4	**Below target but expect to make-up in next 12 months
Companies assisted to improved E&S standards / governance	97	22	0	Below target but expect to make-up in next 12 months
Knowledge Centre				
Number of franchises	6	2	2	On target

* Intra-regional (North East) and inter-regional trade (Canada)

** This is the only area where SEDF has had a slow start, essentially because of recruitment issues. However, program now underway and expects to meet targets by Year 2.