



An innovative USAID/ Bangladesh initiative implemented by the IRIS Center at University of Maryland.

# Businesses Are Our Business

By **Imran Shauket**, Project Director

Well before “Business Development Services (BDS)” became a buzz word, USAID’s Jobs Opportunity and Business Support Project (JOBS), implemented by the IRIS Center at the University of Maryland, firmly believed that the engines for economic development in Bangladesh – indeed, in any developing country - are Small and Medium Enterprises (SMEs).

SMEs contribute to economic growth, poverty alleviation and employment generation by concentrating in labor intensive activities and using local raw materials, particularly in countries with high population densities. But they need a wide range of services to compete successfully in the market – both locally and internationally – and it is JOBS’ business to provide SMEs these services.

SMEs are significant contributors to manufacturing growth and employment creation in Bangladesh. Although complete official records are not available, and the definition of what qualifies as an SME varies, studies estimate that there are around 27,000 medium sized

enterprises and about 150,000 small scale enterprises operating in the country. SMEs comprise 80 percent of manufacturing establishments and 80 percent of the labor force.

SMEs also contribute up to 50 percent of the manufacturing output, and their share in the manufacturing sector in terms of fixed capital, gross investment and sales is 48

percent. There is a general consensus that new approaches are needed to improve the effectiveness of programs supporting SMEs. Most SMEs in Bangladesh face a number of interrelated difficulties, including severe limitations on both short and long term financing, marketing problems, and lack of development facilities such as various demand driven business development services.

To help foster enterprise development, JOBS offers a complete and unique package for SMEs. This package is based on JOBS’ holistic approach to SME development, which encompasses:

- creating an “SME friendly” regulatory environment by lobbying for appropriate regulations, in particular a Secured Transactions Act, the backbone for movable assets based lending;
- fostering access to credit (loan facilitation) through selective partnering with progressive banks;
- focusing assistance on specific growth sectors;
- developing a skilled labor



percent, 33 percent and 40 percent respectively. SMEs provide vital linkages to larger enterprises, particularly in the high growth export sector, and form an important part of the core business activities in rural and urban areas.

Given the importance of the sector, there is an emerging

Continued on page 3

# Cluster Development

Individual SMEs face difficulties achieving economies of scale in the purchase of necessary inputs such as equipment, raw materials and financing, and are unable to take advantage of market opportunities that require large production quantities, homogeneous standards and regular supplies. The need to preserve a narrow profit margin makes it difficult to introduce improvements in products or processes and limits their ability to take advantage of market opportunities that could be achieved



through linkages with larger firms.

On closer observation, however, JOBS realized that many of these obstacles result more from the isolation of individual SMEs, rather than from their size per se. Closer cooperation among SMEs and between SMEs and other support institutions are key to overcoming these obstacles.

JOBS therefore launched programs to promote linkages among SMEs as well as between

SMEs, larger enterprises and the institutional environment. The projects are custom designed to meet the requirements of individual sectors and individual SMEs, but they all share three broad aspects:

- The organization and development of clusters;
- The development of networks of SMEs; and
- The development of linkages between SMEs and larger enterprises.

JOBS focus in developing clusters is:

- Participatory vision building,
- Capacity building based on shared targets, and
- Sustainability.

The most important initial task is building trust among stakeholders, SMEs and institutions, because too often entrepreneurs, support institutions, local government and non governmental organizations blame each other for the stagnation of the local economy instead of working together to improve the situation.

The next step is to evaluate the economic situation, in particular:

- The production system (individual SMEs, their suppliers and buyers),
- The skill development system, and



- The degree of institutional coordination.

These are necessary preliminary steps to the identification of a shared vision for the cluster and the implementation of a joint action plan. Both the vision and the action plans are works in progress which evolve on the basis of “learning by doing.” In the early stages, an action plan is little more than a collection of loosely coordinated activities. As cluster development proceeds and a broader vision emerges, activities incorporate larger groups of local actors and focus on longer-term issues.

Implementation of an action plan includes training programs, technical assistance, workshops, and the recognition of best practices. JOBS’ goal in facilitating these services is the promotion of an autonomous governance framework that can ensure the continuation of local development after completion of The JOBS Project.

## Successful Clusters

Before 1999, the twelve individual footwear manufacturers in Mirpur produced poor quality products and lacked access to finance, credit, and markets. Their annual sales averaged only US\$ 16,560. After JOBS helped the SMEs develop a cluster and linked them with a large export firm, they made sales of US\$ 6,970 in the last three months of 1999 alone. During 2000-2001 sales increased to US\$ 40,090 and the cluster hired 86 new



workers.

JOBS developed the Munshiganj leather goods cluster with Apex Leather Craft Limited in the beginning of 2001. After 6 months training and technology transfer, Apex started exporting directly from the cluster to very competitive international markets. The training and services provided to these small enterprises allowed the quality of their products to achieve standards high enough to merit their display at a fashion show at the Asia Pacific Leather Fair in 2001.

### Four C's Spell Success for Clusters

The success of clusters can best be explained by "The Four C's" – collective action, customer orientation, cumulative learning, and close supervision. Clusters are most successful when:

- They are driven by the need to meet **customer demand**. A customer orientation forces firms to tackle key problems and obtain the technical assistance needed to meet demand.
- A **collective approach** is adopted which lowers transaction costs and fosters relationships between enterprises that improve their efficiency.
- **Cumulative learning** allows for product upgrades and decreased dependence on support from outside sources.
- **Close supervision** of the whole process develops trust among the stakeholders and ensures sustainability.

## Access to Credit Through Moveable Asset Financing

Easy access to working capital is critical to the success of any business. Under current financing laws, a lack of fixed assets such as land or buildings makes it impossible for SMEs to obtain loans from mainstream financial institutions.

Moveable asset financing would permit SMEs to obtain credit by pledging their machinery, vehicles, computers, inventories or accounts receivable. To address this need, JOBS developed the Secured Transactions Act in consultation with local lawyers, a former secretary of the Ministry of Law and an international consultant.

The main elements of the law are:

- Clear rules for creditors' rights in moveable property used as collateral. The property may be tangible, such as goods, or intangible, such as accounts. Right or charge can be created by any form of business: sole proprietorship, partnership, limited liability company or public limited company.
- An Electronic Collateral Registry providing information on claims on

all movable property for all debtors. The registry will inform potential creditors of any preexisting claims; it will permit good debtors to build a positive credit history while bad debtors will be marked after any single occurrence of default.

- Methods to establish priority among competing claims when more than one creditor has rights in the property. The Act would assist creditors in judging the credit risk and worthiness of a debtor by fully disclosing the priority of different creditors to a particular moveable asset.
- Swift and easy enforcement of rights. The Act enables a creditor to repossess charged goods upon default; creditors can also dispose of pledged property by public or private sale without court intervention.

The Secured Transactions Act will benefit creditors by allowing them to tap a large new market of Small and Medium Enterprises while debtors will benefit by having access to credit from mainstream financial institutions.

## Businesses Are Our Business from page 1

force through a cluster approach;

- encouraging product development through technical assistance and training;
- creating market linkages by facilitating participation in venues for market exposure;
- facilitating export growth by using international experts, and much more.

Since its inception in 1998, JOBS has been working in the footwear, bakery, leather goods, handicrafts, home textile, light electrical and electronics, and personal protective equipment

sectors. We have been guided and helped in this work by many partners, including various donors and business associations. We have facilitated SME participation in numerous local and international fairs, resulting in approximately \$33 million in export sales.

JOBS' success is due to its highly motivated staff and partners and, most importantly, its flexibility. We mold our approach to the whims of the ever-changing market. While we are proud of our many successes, we readily admit to a few failures. Without the failures, we wouldn't have learned

how to improve our services. Without the successes, we would not be continuing past the original project end-date of September 2002.

This Special Edition of the JOBS newsletter provides a history of our activities to date and highlights our approach, our areas of support and the results of our efforts. JOBS owes its success to a variety of individuals and organizations too numerous to list, but prominent among them are its staff and partners, the USAID Mission, and of course, the SMEs – JOBS primary business.

# Technical Assistance Plays A Key Role in SME Development

Natural disasters, frequent political instability, labyrinthian processes for state approval, and a negative global image are just a few of the difficulties Bangladeshi entrepreneurs face in their attempt to attract foreign investment and penetrate export markets.

To help overcome these barriers and meet The JOBS Project's core objectives of increasing sales and generating employment, the SME Development Program identifies sectors where technology transfer programs and technical assistance can lead to consistent sales growth and increased employment opportunities.

To successfully compete in the global export market, producers must be efficient, prompt, flexible, specialized, and competitive. Market savvy entrepreneurs expand their businesses by meeting the demands of the ever-changing marketplace and identifying niche markets for their products.

In Bangladesh, the absence of technology and information affects all stages of production, from raw material collection to finishing, resulting in high-cost but low-value products. Consequently, Bangladeshi products can't compete in international markets. This is true for sectors the Project is currently involved in: leather footwear and accessories, hand loom products, handicrafts, and textiles. Thus, introduction of new technology is a



prime concern.

Footwear production for export requires extensive training to meet strict standards. JOBS provides basic skill development training to address the lack of skilled manpower evident in the labor-intensive leather goods industry. To date, JOBS, using veteran trainers from Europe and India, has trained over 1,000 unskilled workers. Leading firms have since employed 98% of them.

Similar skill development and technology transfer activities are taking place in the textile and handicraft sectors. Over 100 rural entrepreneurs have been trained on vegetable dyes and natural color block printing and have begun to develop new products. Many have used their knowledge to train others in their communities.



Inferior quality products, lack of information on the latest trends, and an absence of government policy support and assistance have prevented Bangladeshi textiles from thriving in foreign markets. JOBS hired a US consultant to work with clients from five SMEs to develop new products for the US market and prepare for the New York Home Textile Fair.

JOBS also helps producers acquire knowledge of the markets they target. Research is carried out before intervention in any new market. Professional consultants help local producers to successfully market their goods globally,



providing information about products suitable for particular markets, presentation styles, prices and quality expected from exporters, and design samples for different markets and fairs. Before participating in a Tokyo fair last year, four footwear firms were trained by a reputed designer, who developed new designs and provided information and guidelines regarding quality, production procedures, and standards to be met for the Japanese market. The firms returned with orders worth approximately US\$3 million.

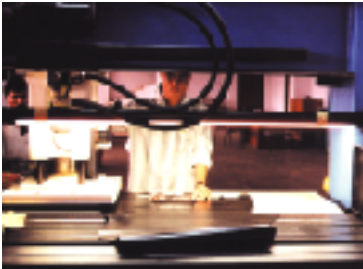
"Clusters" is an innovative program that transfers technology to grass root producers and links small producers to larger exporters. Collections of unskilled workers trained in association with export-oriented firms, clusters help create wage-based earnings for small producers and direct employment opportunities. Most clusters are comprised of members of cooperatives or NGOs.

Because one reason for the slow growth of the leather goods sector was the fragmented nature of the industry, the SME Team began organizing clusters. Workers are trained for six months under the close supervision of associated firms, which eventually hire the graduates. Follow up training is also provided. More than 400 workers are now engaged in six footwear

clusters and 150 workers have been trained at a leather goods cluster.

Technical training on pattern making, grading, quality control, and supervising has also been carried out in association with the Footwear Design and Development Institute (FDDI), India. In the leather goods sector the program has finalized technology transfer training for small producers. An experienced consultant from the Product Development Institute of Dhaka will be in charge of the program, which will train 200 workers.

Similar programs have been designed for the textile and



handicraft sectors, focusing on design and product development, pattern making, cutting, color trends, new designs, costing and pricing, marketing, and display techniques. The firms are encouraged to participate in international trade fairs.

These programs create employment opportunities and contribute to the growth of industries by expanding markets, encouraging efficiency and providing the best services possible. The combination of marketing and technical assistance plays a role in the program's success. Market and producers' needs determine the type and structure of technical assistance



introduced. The groundwork and research done by the SME Team before designing the programs also contributes

to their success. The team considers factors such as language, cultural similarity, and experience working in the targeted market when hiring expatriate trainers.

JOBS is particularly successful in the transfer of international standards technology because it operates closely with solid partners. Transferring technology at grass root levels and collaborating with export firms eases the process.

The cluster concept is based on the premise that the firms to which participants ultimately supply products supervise the clusters. Thus, the

Mirpur Cluster has contributed to the increase in sales of Apex

Footwear, the Munshiganj Cluster produces for Apex Leather Craft, and the Gazipur Cluster is connected to Legacy Footwear.

JOBS' success is due to its hands-on involvement in designing, implementing, managing and monitoring its programs. Unlike other efforts, where teams are involved solely in channeling funds, JOBS' teams are closely involved in every aspect of the program, giving new dimension to technology transfer programs. The relationship helps to identify needs quickly, react promptly, organize efficiently, and monitor the process to ensure effectiveness.



## Technology Transfer Increases Efficiency 45%

Crown Leather Craft catered to a small market in Dubai. Occasionally, European orders came through, but Crown's business never expanded. Able to make do with small, steady orders, Crown's Managing Director Mr. Shirajul Islam nevertheless felt he could do much more, and he jumped at the chance to fill an order from a German company. Happy with Crown's product and terms, Piccards returned with another order, four times the size of the first and beyond the capacity of the little leather firm.

Mr. Islam sought assistance from JOBS, which referred the company to

Mr. Franz Baur, a renowned designer and technician

who had been working in Bangladesh for five years. Mr. Baur realized that Crown's cottage industry needed to use a more mechanized process.

"The secret lies in the introduction of the right technology and redesigning the production process," Mr. Baur said. He began redesigning the total production process. He measured the time needed for every step and determined where system loss was highest. Mr. Baur explained that while the inefficiencies seemed small and insignificant, they resulted in huge production losses.

Within 30 days of receiving assistance from JOBS and Mr. Baur, efficiency rose by 45% without the use of extra machines or manpower. Waste was reduced by 12%, and the workers were more confident. Piccards received its huge order and continues its relationship with Crown, and Mr. Islam is ready for even bigger buyers in the future.



# JOBS Assistance Increases Exports

Bangladesh's SMEs potential in export markets have increased recently. The WTO agreement has created a framework for more open global trading. Technological developments in communications and reduced



transport costs make it easier for smaller firms to enter international markets. Globalization of trade, investment and production has altered the comparative advantages of large and small firms.

To take full advantage of these developments, however, SMEs need a range of services. This is where JOBS can help.

Most importantly, JOBS

provides market information and market research services.

Bangladeshi SMEs are aware of the competition abroad, but they need specific information on markets, buyers, suppliers, price trade regulations and business procedures in target markets. Trade information and commercial intelligence

## To date JOBS has conducted:

- 22 management development programs for exporting SMEs
- 18 worker development programs
- 9 technology transfer training sessions.
- 8 advanced technical training sessions.
- 8 cluster training programs to strengthen backward support linkage
- 7 product and design development workshops, and
- 6 market access workshops

JOBS has also facilitated participation in 11 international trade fairs.

gathering requires market research and information analysis skills as well as

expertise with modern information technology. JOBS



has the infrastructure and the trained human resources to provide this support, as well as access to leading market



information providers such as the Center for the Promotion of Imports and WTO. JOBS also helps firms develop the capacity to collect market information

## Success in the Japanese Shoe Market

When JOBS identified Japan as a prospective market for the Bangladesh shoe industry in the beginning of 1999, only two or three firms dominated exports to Japan. From September 1998 to September 1999 only 170,000 pairs were exported despite the market's huge potential. Because Japan charges no duty on Bangladesh imports, Japanese buyers were very interested in Bangladeshi producers who could deliver quality products.

JOBS found that the industry's problems included poor market promotion, lack of market oriented product design, and lack of skilled local workers needed to penetrate the Japanese market. The JOBS SME Development Team designed a three-year plan to help exporters. The first step



was to hire a Japanese shoe expert to identify the strengths and weaknesses of prospective firms, with the threats and opportunities of the Japanese market in mind.

JOBS then provided four product and design development workshops, three skill development training sessions for workers, and four technology transfer workshops for supervisors and participants.

After the first year of our assistance, exports to Japan increased to 203,000 pairs; when JOBS ended its assistance in 2002, the export figure was 933,000 pairs, an over 200% increase over the previous year. "Footwear Press," the largest shoe and fashion magazine in Japan, specifically mentioned JOBS as the factor behind this increase in exports to Japan.



and conduct market research independently.

SMEs need to undertake product development, redesign or adaptation to differentiate their products, create a brand image, and meet consumer preferences. SMEs also need to upgrade product quality and packaging to meet internationally accepted standards. This calls for expertise that is in short supply in Bangladesh. SMEs here do

not employ quality control technicians or have quality control laboratories. JOBS conducts training and technology transfer workshops to address these issues and brings in foreign as well local experts to help on a short term basis. JOBS is also working with stakeholders to



develop capacity within the country to address these issues from a long term perspective.

One of the biggest difficulties SMEs face is access to markets. Market access requires careful

planning and sophisticated marketing campaigns, including participation in trade fairs and marketing missions. JOBS provides the logistic support, training, and planning to make this possible. JOBS' Bangladesh pavilions in international trade fairs are now models for other developing countries.

These services have helped exporting SMEs from a variety of sectors achieve significant results both in terms of export sales and employment creation.



## Sectors Benefiting from JOBS' Services

- Footwear
- Home Textiles
- Leather Goods
- Garden Furniture
- Light Electric and Electronics
- Corporate Gifts and Stationary
- Personal Protective Equipment



# Features of JOBS' SME Development Program

A few unique features of The JOBS Project's SME Development Program are key to its success. JOBS programs are:

- **MARKET LED:** the overall strategy of our programs is derived from the market in which the client operates. Careful analysis of these markets allows us to choose strategic points of intervention.
- **DEMAND DRIVEN:** Because our business services provide immediate value, firms are willing to pay for or share their cost, allowing for our flexible response to changing customer needs.
- **HIGHLY FOCUSED:** JOBS targets specific firms in strategic growth sectors or clusters. This focus allows us to provide better quality services, add real value to firms and build market credibility.
- **DELIVER SUSTAINABLE SERVICES:** Cost sharing and payment for services provides immediate market feedback on the quality of our services and creates incentives for efficiency and effectiveness.
- **INNOVATIVE PARTNERSHIPS:** Programs identify the specific services needed and then find resources that can offer those services. JOBS partners with large firms to provide business to business information and essential sector knowledge.

## Credits

### Contributor:

A. Imran Shauket, Asif U. Ahmed, Faisal Saeed, Nazbul H. Khan, Abuhena Md. L.I. Bhuiyan, Khairul Azad

### Layout Artist:

Md. Abdur Razzak

### Photos:

Jobs Project

### Managing Editor:

Kathryn Uphaus

### Associate Editor:

Faisal Saeed



House # 1 A, Road # 23, Gulshan-1, Dhaka-1212  
Tel : 8829037, 8826154, 9885141 Fax : 8826154  
E-mail: info@jobsiris.dhaka-bd.net



**Job Opportunities and Business Support (JOBS) is an innovative USAID/ Bangladesh initiative implemented by the IRIS Center at University of Maryland.**



This publication was made possible through support provided by USAID/Bangladesh, U.S. Agency for International Development. The opinions expressed herein are those of the author(s) and do not necessarily reflect the views of the U.S. Agency for International Development.