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The IRIS/JOBS Project in Bangladesh: A Model for Innovating Development

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'What worked in 2003 - works now'

Reid B. Lohr

Ambassador A. Tariq Karim

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Introduction

Our hindsight of the last 50 years impresses upon us a cardinal lesson: framing development policies and devising programs to implement those policies cannot be conjured in a theoretical vacuum. Instead, out of necessity they must relate to the existing socio-cultural milieu, the challenges of the political dynamics, the identification and harnessing of the latent talents of the human resources available. They must also work around constraints posed by the legacy of inherited deep-rooted mindsets from the past, institutional weaknesses, and scarce and unevenly distributed resources. In other words, theoretical paradigms of development must of necessity relate in real terms to the situation obtaining on the ground.

This paper discusses these issues and is co-authored by Ambassador A. Tariq Karim (former Bangladesh Ambassador to the USA) and Reid B. Lohr (International Development Consultant and former JOBS Chief of Party during the redesign and transition). The paper consists of two independent, yet related, parts. Though each stands on its own merits, their joint context and relationship is important, not only from the historical perspective, but also in the overriding theme of both Part I and II combined, which is presented from a perspective of the inner-linkages between societies and economic levels, the factors that help shape that society and its norms, enterprise development as a means to economic expansion, and how it all relates to overall economic development considerations.

Part I discusses the uniqueness of Bangladesh and traces important aspects and considerations from its birth to the present day. It addresses and brings to light the larger picture that must be considered if any economic development project or philosophy is to work for the overall good of the country and its people. Chapter 1 looks at Bangladesh with comparisons to other countries and discusses social, cultural, and political realities; theoretical paradigms, and the advent of the micro-credit revolution. Chapter 2 examines challenges to development programs and the need to rethink economic development strategies. It is an important and valuable backdrop and introduction to Part II.

Part II begins at Chapter 3 and focuses on the practical “business” approach taken in Bangladesh by the IRIS/JOBS Project (a United States Agency for International Development- [USAID] funded initiative originally scheduled for 5 years that has been extended twice) and is based on a synthesis of field experience, social and cultural norms, factors of historical significance, and observations of micro, small and medium enterprise development approaches. It discusses the original design based on thoughts of the mid-1990s, which are also prevalent today, and follows the path and reasoning for its transformation into a project keeping with factors presented in Part I. Connections will also be made between the IRIS/JOBS Project (Project) and applications of the model to other developing countries.

Whereas Part I discusses the uniqueness of Bangladesh and traces important aspects and considerations from its birth to the present day, Part II fine tunes the larger picture that must be considered if any economic development project or philosophy is to

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work for the overall good of the country and its people. Part II also examines challenges to development programs and the need to rethink economic development strategies. It discusses the paradigm shift begun by the JOBS Project; then transitions application back to the larger picture, both in Bangladesh and other countries.

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I. Bangladesh – Policy and Program Implications

The plethora of new states that emerged in the post-colonial era following the end of World War II, while different from each other in a vast variety of ways, essentially shared one platform in terms of aspirations—the desire to develop and modernize as quickly as possible, and to be counted as equals alongside their past colonial masters in the brave new world into which they had emerged. The leaderships of these new states were all products of the modern educational systems of their colonial masters, and even the institutions they adopted to govern their new states were the imported institutions from the old European order. Paradoxically, while practically all of them had emerged as independent states after prolonged, often viciously fought, struggles against their former colonial masters, almost all of these new nation-states aspired to modernization and industrialization by “mimicking” or replicating the industrial revolution of their former European masters.” This was viewed as the silver bullet that had enabled the European powers to extend their imperial domain and to construct extensive empires embracing far-flung colonies.

More often than not, however, a yawning gulf existed separating the thinking and “pseudo-colonial” mindsets of these new leaderships. Ordinary citizens now occupied the vast political spaces that they had inherited and to which they had set themselves the daunting task of developing and transforming in order to catch up with their former masters. The conventional wisdom was to embark upon a development program heavily laden with mega, capital-intensive, urban-centered industrialization projects while relegating to a lower priority the tending of the rural, predominantly agricultural hinterland where the majority of the population resided, lived, and died in abject poverty. The generally held perception was that once they could industrialize their countries rapidly, they would acquire the same chariots, fashioned out of industrial might, technological advantage, and societal wealth upon which their former colonial masters had embarked to conquer the world. However, these states had also emerged into a much more vast world social system, their very ranks serving to swell the comity of nations that had been hitherto much smaller having been constructed into a form of cobbled cohesiveness by the old colonial order. This newly unraveled post-colonial world system also resulted in the generation of a new set of world market forces, with the industrialized Western states exercising far-reaching power over and consequences for these new states, as well as the societies they encompassed.

Robert Jackson described these new states as possessing “negative sovereignty” as contrasted with the positive sovereignty structure of their former colonial masters, the European states.¹ Jackson posits that these new states actually “lacked many of the marks and merits of empirical statehood postulated by positive sovereignty.”² The

¹ “Quasi States: sovereignty, international relations and the Third World,” Robert Jackson; Cambridge, 1990

² *ibid*, p. 1

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adjectives “negative” and “positive” that he uses are not necessarily, or automatically, synonymous with “bad” or “good” respectively. “They simply denote rights of non-intervention (freedom from) and capabilities to act or deter (freedom to)... To be free from the interventions from others is not at all the same as being in a position to deter such interventions or to engage in them.”³ There was, therefore, something inherently lacking in the new states that mushroomed into existence in the post-colonial order. No doubt these “juridical states” were enfranchised internationally; after all, the process of conferring new identities to these geo-political entities commenced with the League of Nations after WW I and increased with the birth of the United Nations after WW II. *Dejure*, they also possessed the same external rights and responsibilities as the older sovereign states; but *defacto*, they were (and many continue to be) still far from being complete, because in their domestic spheres they lacked the institutional features and capacity of the older states. Most of them have governments that are institutionally weak, deficient in political will, and lacking organized capacity to provide for human rights or socio-economic welfare of their citizens. In other words, since state building is primarily an internal process and evolutionary in nature over a long period of time, these new states with the so-called “negative sovereignty” are still not complete, and are, therefore, only quasi-states in the empirical sense.⁴

Since practically all these countries were resource-handicapped, they also tended to depend heavily on external assistance from their former colonial masters as well as other resource-rich industrialized countries and multilateral agencies for fulfilling their dreams of development and modernization. This subjected them to the early development paradigms of these donors, which reinforced the agenda of rapid industrialization while neglecting the development of the agrarian sector (for which food aid, a new source of dependency, was available). This was done in the belief that wealth would ‘trickle down’ to the lower rungs of society through the mega capital-intensive industrialization projects.

However, this strategy left large numbers of domestic political spaces untended, ignored, and without nurture from the state. The governments of these post-colonial societies either did not have the capacity to attend to their vast hinterland, or they were far too pre-occupied with the immediate concerns of the core areas they inhabited (the urban capital area) to have the time or the gumption to attend to the real development challenges of their large rural peripheries. In most cases, the development paradigms they adopted, by choice or by dictate from donors, created these situations. These deleterious effects were felt over a period of time, with great numbers of the poor people of these countries continuing to languish below the poverty line, while the division between the rich elite and the marginalized poor within these societies continued to increase. The prolonged neglect of these vast empty spaces affected the states in different ways—some teetered on the verge of failure as viable states, while others

³ *ibid.* p. 11

⁴ *ibid.* p. 21

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managed to avoid that fate, albeit only through intervention by non-state/non-government actors.

A: The State and Political Spaces – A Theoretical Paradigm

The term “political space,” drawn from the discipline of political geography, forces us to reconsider the extent to which politics and territory continue to be related and the shifts possible in that relationship. This is particularly true following aspects of global politics and governance that transcend territory or are “de-territorialized,” thus affecting societal development. The phenomenon of post-modern globalization, which linked all these spaces through a complex process of interrelationships and intermeshed networking among individuals, groups, agencies, and societies that deepened and expanded over the last 30 years to create one global society, contained grave implications for world order (or disorder). Such implications assumed particularly grave consequences for peace and security for an increasingly intermeshed world after the first significantly defining moment for this new global society—the events of September 11, 2001, or “9/11”⁵ as it is almost universally referred to now. Shock waves and consequences still reverberate from this event, as the world continues trying to fathom its cause.

In the post-9/11 context, scholars and practitioners of international relations, political economy, and the other social sciences are trying to ascertain the importance the role of political space has in a world where events and developments are increasingly telescoped, and intermeshed, in time and space. The host of significant changes, particularly in the last three decades of the previous century, has served to blur the distinctions among and between external and internal dimensions of states and societies. These changes include: power structures and their relationship following the end of the Cold War; the IT (or more appropriately the ICT) revolution; the rapid expansion of transnational transportation; the transformation of the world economy (including its dizzying roller-coaster effects); the resurfacing and reactivation of hitherto dormant ethnic fault lines; the emergence into prominence of radical fundamentalism (of more than one order); the global reach of terrorism; the hitherto unprecedented and massive migration flows; and the creation of resultant sizeable diasporas.

It is within this context that the need arose to scrutinize more closely the relationship between governance (or the lack of it) and the political spaces it occupies (or abdicates). We must also determine to what effect such a relationship brings to bear on societal development where it really matters—on ground zero of a developing nation, its vast but poor rural hinterland. It is increasingly apparent that there is a definite

⁵ On September 11, 2001, Islamist terrorists flew two hijacked planes into the twin towers of the World Trade Center in New York, a third into the Pentagon in Washington and a fourth foiled attempt on Capitol Hill, prompting the United States to launch its war on global terrorism

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connectivity between this dynamic and the phenomenon of global turbulence, although little study has been done to date in exploring this new territory in the social sciences.

Usually, one conceives of governance as being legitimately derived from some moral or legal authority, but some scholars submit that governance need not be legitimate to be effective.⁶ James Rosenau affirms that “systems of rule can be maintained and their controls successfully and consistently exerted even in the absence of established legal or political authority.” Rosenau also posits that “the world is not so much a system dominated by states and national governments as a coterie of spheres of authority (SOAs) that are subject to considerable flux and not necessarily coterminous with the division of territorial space.”⁷ Some believe that after assessing the degree to which political space is undergoing fundamental changes today, one has to apply historical perspective to any analysis of this change (Little).

Rosenau highlights the increasing role of Non-Government Organization(s) (NGOs) in the emergent global system. He views the world as “a globalized space that is not aggregated in terms of specific geographic territories so much as it consists of a wide range of fast moving, boundary-spanning actors, whose activities cascade erratically across amorphous ethnosscopes, mediascapes, ideoscopes, technoscopes, and financescapes.” The essence of authority in such a world, Rosenau asserts, must be its capacity to elicit “varying kinds and degrees of compliance.” He explores the different types or sources of authority that NGOs can draw upon to gain compliance and thereby enhance their own role in global politics. Moreover, border crossings by a variety of non-state actors and international interdependence, as manifested in institutional arrangements, have dramatically changed the modern democratic context. All these together serve to create a “democracy deficit” potentially inherent in a world in which states are less predominant than in the past, and to explore new forms of democratic practices in such important sites of global politics today like International Non-Government Organizations (INGOs), transgovernmental relations between regions and localities within two or more states and TNCs.

We shall apply the above theoretical paradigms in analyzing how Bangladesh defied the odds to not only survive as a nation, but also to present itself as a model for emulation by other states teetering on the precipice of failure. Of necessity, an historical perspective is essential to some extent and requires drawing a comparison with Pakistan, since Bangladesh had been a part of Pakistan before separating from the latter to go its own way. The concept of political space becomes particularly relevant in illuminating to a great extent why the two states, having separated and embarked on radically separate paths, have arrived where they are today in terms of performance, whether measured by

⁶ Ferguson and Richard Mansbach in “Remapping Political Space”: *Political Space*, ed. Ferguson and Jones, SUNY, 2002

⁷ James Rosenau, in “Along the Domestic-Foreign Frontier: Exploring governance in a Turbulent World”; Cambridge University Press, 1998, p. 147

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the yardstick of governance, societal development, institution building, or capacity development.

Consider, for example, the following scenario. When political space is almost totally abandoned by successive governments abdicating good governance, the state powers (for their own selfish motives) prohibit non-state actors (barring, perhaps, organized crime cartels in disguise) from filling the vacuum created by delivering the services the governments cannot deliver. This consequence sets off a chain reaction; thus, the vast vacant space is creepingly annexed by non-state entities with non-benign agenda (like “madrassahs”⁸ focusing on teaching a “jihadi” or similar obscurantist set of values). Funded dubiously, these new entities spawn the foot soldiers of militant radicalism. Also moving into this space and taking over leadership of non-state entities are radical extremists from afar⁹ who have been denied political space within their own countries and who hold yet more distant countries and cultures as responsible for their plight. These intruders, taking full advantage of the new global tools of easy networking, fast communication, and fluid financial highways, bring with them financial resources allowing them to bypass the state’s scrutiny, thereby furthering their own political agenda. They then hijack state power within that state (either directly or through creating, over a period of time, powerful internal lobbies/advocate groups). This allows them to spread their agenda and operational base beyond to adjacent external spaces, using the usurped political spaces at will for implementing their own global agenda. However, when vacated spaces are taken over by non-state actors with a benign agenda, they actually help fill these vacuum spaces with services that the governments should have been providing, but were not. In the process, the non-state actors become partners of, or challengers to, governments in societal development. They act as “informal governments” in the sense that they provide services, directions, and even a set of informal laws or regulations in carrying out their activities in the spaces vacated by formal governments.

The above scenario is very pertinent to the theme of this paper in the sense that Bangladesh was once a part of Pakistan. Bangladesh remained as the eastern province of East Pakistan until 1971, when it split through a bloody process of internal conflict (which drew in India¹⁰ as an external influence and agent) to wrest its independent existence as Bangladesh. At its birth, Bangladesh inherited the dubious legacy of

⁸ Centers of schooling. Madrassahs in pre-partitioned India were schools for Indian Muslims that combined a secular curriculum with teaching the fundamentals of the Islamic religion as well. Graduates of the Madrassahs would then mainstream with the main tertiary education system. Many prominent Indian Muslims, including Maulana Abul Kalam Azad, freedom fighter and an early president of India’s Congress party had his early education at the Calcutta Madrassah. Focusing on a solely religious agenda and excluding the secular components is a post-partition phenomenon, which was allowed to happen, both unwittingly and wittingly by subsequent Pakistani governments.

⁹ Largely disgruntled Arab *Wahabis* (conservative practitioners of Islam characterizing the Saudi regime and ulema or religious scholars there), and radical Islamic elements belonging to the *Deobandi* order (a very conservative school that originated in India in the earlier half of the 20th century).

¹⁰ Indian territory bounds Bangladesh geographically on three sides; when conflict erupted within East Pakistan following the army crack-down on the Bengalis, 10 million refugees streamed into India during the next nine months of the ensuing conflict, to seek shelter in camps there, thus effectively drawing in India as an interested party with its own security and other concerns.

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Pakistan's weak and intrinsically flawed institutions. It did not inherit any resources worth mentioning except the largest Jute (a natural fiber on which its economy was almost totally dependent) industry in the world¹¹ and a vast and fast-growing population,¹² overwhelmingly agrarian and teeming in abject poverty.¹³ Whatever infrastructure existed previously had been destroyed during the 9-month war of liberation waged by the Bengalis against the occupying West Pakistani armed forces. At its independence, Bangladesh also was saddled with the enormous task of resettling and rehabilitating almost 10 million Bangladeshis streaming back from refugee camps in India, where they had fled during the Pakistani military crackdown in East Pakistan in March 1971, and the resultant conflict that ensued. Bangladesh was not recognized as a sovereign entity by many countries during the first few critical years of its independent existence, a period during which it had to wage a concerted campaign to win universal recognition.¹⁴ Then in the mid-1970s, barely 4 years after its independence, the fledgling state was beset with political crises—the assassination of then President (and founder of the nation) Sheikh Mujibur Rahman¹⁵ and a series of coups and counter-coups. This resulted in the new nation becoming hostage to governance by military or quasi-military regimes for the next 16 years. Bangladesh, at this point, appeared to be regressing into the very state of existence that had typified Pakistan at the time Bangladesh separated. Many of the factors that are generally recognized as responsible for a state becoming a failing state (and which seem to be applicable to present-day Pakistan) existed at that time.

¹¹ With the international price of jute remaining stagnant, and even deteriorating progressively, the jute industry became a millstone around Bangladesh's neck. Apart from the short boom during the Korean War, it declined steadily as a post-Bangladesh SOE, from the mid-seventies, serving as a South Asian "iron rice bowl" replica which lost money and ate heavily of government subsidies and revenues.

¹² 75 million in 1971, crowded into 154,000 sq. miles of deltaic territory crisscrossed by numerous rivers, large and small

¹³ A phenomenon which prompted then Secretary of State Henry Kissinger to describe the new state as being doomed to be a "basket case."

¹⁴ The Nixon administration, for Cold War geo-political considerations, was fiercely opposed to the splitting of Pakistan and Bangladesh's creation, despite the fact that the movement for separation by the Bengalis of East Pakistan was universally recognized as a nationalist movement driven by a combination of economic, cultural and political factors, just as the atrocities committed by the West Pakistani military and its local (largely non-Bengali, but some Islamic parties as well) were also universally condemned, some even going to the extent of terming military action as genocide. China (also for geo-political reasons flowing from its stand-off with India and strategically close ties with Pakistan), as well as most countries of the Arab Middle East, did not extend recognition to it until 1974 (Saudi Arabia held off recognition for much longer). Even the United Nations did not admit it as member until late 1974.

¹⁵ As Leader of the Awami League Party of East Pakistan, he and his party had won an overall majority in the general elections held in Pakistan in 1970 to the Pakistan national Assembly; but the army and West Pakistani politicians (notably led by the late Zulfikar Ali Bhutto) were averse to transferring power to the East Pakistan-based leader and Party, that led to the resultant conflict between the two wings of the already geographically-divided nation. Mujib and almost his entire family (excepting his two daughters who were abroad at the time) were assassinated by disgruntled army elements on 15th August 1975.

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The relationship between governance and state viability

Helman and Ratner have listed, as follows, some of the criteria that identify a failing state:¹⁶

- Continuing civil strife deteriorating into violence and anarchy;
- Breakdown of governance, sucking the country into political instability and chaos;
- Prolonged economic collapse and deprivation; and
- Random warfare, displacing populations internally as well as resulting in outflows of refugees, which in turn have the potential of having a deleterious ripple effect on neighbors not only in the immediate region, but also assailing countries located far away.

In short, a failing state occurs when a government has stopped governing and has abandoned vast spaces that are then left alone to their own devices and subject to a multiplicity of negative forces. A case study of Haiti revealed a clear link between a failed state, rising population, increasing poverty, and environmental (PPE) degradation (defined as the PPE spiral by the UNICEF). Haiti was characterized by failed governance, poor (editor: weak?) and corrupt leadership, power grabbing, persistent human rights abuses, and almost total inattention to human development. This resulted in large-scale illiteracy (65 percent of the population) or no schooling (more than 59 percent) with only 9.3 percent of the population having a secondary school education. Haitian women were even more deprived, aggravating further the crunch of rising population. National fertility surveys of developing countries had already revealed that higher levels of maternal education were consistently associated with declines in fertility and infant mortality. In fact, this study revealed that as females' years of schooling rise, the total fertility rate falls.¹⁷ At the same time, household economic security in Haiti had been assailed by the combination of an oppressive tax regime, an unfair crop marketing system, and lower pricing of produce, all of which were aggravated by a parasitic elite. Even some well intentioned "development efforts" of donors had only served to further exasperate the problem. For example, when African swine fever was detected among Haitian pigs, the United States, fearful of the disease traveling to its borders, persuaded the Haitian government to eradicate native pigs and replace them with imported swine from the United States. Unfortunately, the imported breed did not do as well as was expected and could not adequately recompense Haitian farmers for the loss of their indigenous breed, thus vitiating further the PPE spiral. Given such circumstances, Haitian women also faced challenges. While on the one hand the women could not opt for smaller families even when they so desired, they were also compelled to have more

¹⁶ Gerald B. Helman and Steven R Ratner in "Saving Failed States," Foreign Policy # 89, Winter 1992-93.

¹⁷ Alex de Sherbinin, (citing Muhuri, Blanc & Ruttstein's 1994 study on "Socioeconomic Differentials in Fertility") in *Human Security and Fertility: The Case of Haiti*: The Journal of Environment and Development, Vol. 5, No. 1, March 1996

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children, who essentially helped their parents scavenge on the habitat to eke out enough of a livelihood to survive. The more children one had, the larger turf they could cover, raising the chances of survival. Paradoxically, even women who desired fewer children were economically disadvantaged, and therefore, totally at the mercy of promiscuous men-folk. With a penchant for roving, the men used childbearing as a bonding agent between themselves and their partners. This had a devastating effect on the environment on which they fed. Coupled with this increasing population, the prolonged neglect of the infrastructure also drove away any prospect of foreign investment coming in to alleviate the situation. Caught in this vicious cycle, Haiti plunged from bad to worse. The Haiti study reveals that a lack of social and political order leads to human insecurity, which tends to induce the affected (largely poor) people to have ever-larger families. A key lesson can be drawn from this situation: it is imperative to not only address security concerns of the people and provide them with education and the means of sustainable livelihood, it is equally important to address the concerns of women.

If social turmoil is an essential ingredient of failed and failing states, then one must first address the factors that cause such turmoil. Homer-Dixon predicted that “degradation and depletion of agricultural land, forests, water, and fish will contribute more to social turmoil in coming decades than will climate change or ozone depletion.”¹⁸ Citing the case of Bangladesh, Homer-Dixon hypothesized that environmental scarcity (resulting from depletion of water resources from a traditional open source), progressive land ownership fragmentation with each successive generation, and poor governance (what he calls the “push factors”), combined with better economic conditions in India and Indian politicians using illegal immigrants to inflate their vote banks (the “pull” factor) caused large population movements, which in turn triggered group conflicts.

Pakistan was characterized by some or all of the above factors leading to the separation of its two components—East and West Pakistan—in 1971. These factors, some more than others, continue to plague Pakistan even today. They also plagued Bangladesh for the first 20 years of its existence as a separate independent state. However, one could conceivably argue that Bangladesh was able to contain, and even overcome, the debilitating effects of some of these factors, enabling it to survive as a nation and demonstrate a measure of viability that confounded earlier doomsday prognosis.

Globalization and the State

What effect has globalization had in the world economy? Saskia Sassen identifies a “new institutional spatio-temporal order,” in which states are not so much phasing out as being transformed and repositioned with reconfigured tasks “in a broader field of power.” She sees the emergence of a mostly, but not exclusively, private institutional

¹⁸ Thomas F. Homer-Dixon in *Environmental Scarcities and Violent Conflict: Evidence from Cases*; International Security Journal, Summer 1994, Vol. 19, No.1

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order whose strategic agents are not the national governments but a variety of non-state actors.

However, there is another perspective of globalization that is increasingly being shared by many. Ankie Hoogvelt has propounded this alternative concept most lucidly.¹⁹ In her perspective of the phenomenon, Hoogvelt “privileges” sociology above economics. She views the world as a “single social space” that emerged out of the conditions created by the previous period of economic internationalization (but not quite globalization) of the colonial era. This single social space appears today to be driving the economics of globalization. Today, the world is in a transition, an *interregnum* so to say (an opinion shared by some others, notably James Mittelman²⁰). We are witnessing progressively unprecedented higher levels of intensifying economic, financial, cultural, and social border networking. However, this has been accompanied by disintegration; older political structures and social and economic organizations are eroding even as new ones are forming to replace them. The current crisis and transformation are both equal products of this pulsating process. And once again, the expansion of the 1970s is being replaced by yet another phase of shrinking or “implosion,” with ever-larger segments of the world’s population (including from developing societies) being expelled to the peripheries from the ever-thickening “core” networks of human social and economic interaction. This has been one of the major contributors to either spurring development for a change for the better or setting up the *mise-en-scene* for fomenting disorder.

B: What Makes Bangladesh Different?

With practically everything going against it from the very beginning, how is it then that Bangladesh, more than three decades after it separated from Pakistan, reflects today better human and economic development indicators than Pakistan, which qualifies eminently as a failing state on the verge of imminent total failure? Why is it that Bangladesh today is regarded by the world as a poor Third World country,²¹ which nevertheless has a functioning democracy, while Pakistan (with qualitatively and quantitatively a better share of resources and infra-structure) continues to struggle without much success in its half-hearted attempts at establishing any viable democratic institution 56 years after its emergence as an independent nation? Why is it that despite

¹⁹ “Globalization and the Post-Colonial World,” by Ankie Hoogvelt; Johns Hopkins University Press, 2001

²⁰ “The Globalization Syndrome: Transformation and Resistance,” by James H. Mittelman, Princeton, 2000

²¹ It is classified by the UN as a Least Developed Country (LDC), with a per capita GDP of about \$360. Forty-nine countries are currently designated by the UN as least LDCs. The current criteria are: low national income (per capita GDP under \$900 for countries now joining the list), weak human assets (a composite index based on health, nutrition, and education indicators) and high economic vulnerability (a composite index based on indicators of instability of agricultural production and exports, inadequate diversification, and economic smallness). Different thresholds are used for addition to, and graduation from, the list of LDCs. A country qualifies for addition to the list if it meets inclusion thresholds on all three criteria, and if its population does not exceed 75 million.

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its Muslim-majority demography, Bangladesh²² has nevertheless been largely tolerant of other faiths and projected a secular and moderate world vision, while Pakistan has become a hotbed and springboard for Islamist bigotry, fanaticism, and religious intolerance?²³ Why is it that general elections in Bangladesh are marked by impressively large voter turnouts (more than 70 percent of registered voters) while Pakistani society continues to remain generally unenthusiastic and largely apathetic to such events?²⁴ Why is it that women in Bangladesh are increasingly coming into the societal mainstream—economically (as evinced by the large numbers of women who benefited from micro-finance lending in setting up micro-enterprises that gave them economic emancipation), politically (as demonstrated by the fact that more than 56 percent of the total votes counted in the last general elections in 2001 were accounted for by women voters), and socially (as evinced by the numerous women’s rights activist groups and organizations that flourished)—while women in Pakistan²⁵ continue to remain largely marginalized (the abuse of women’s rights in Pakistan is not only rampant but has increased in recent years rather than decreased, despite international pressures and criticism)?

In 1971, the combined population of the four provinces of West Pakistan²⁶ totaled about 60 million people, while the province of East Pakistan²⁷ alone accounted for about 75 million. Today, three decades later, Pakistan has about 145 million people, Bangladesh 135 million. In 1971, Pakistan (including Bangladesh) had a population growth rate of 3.2 percent per annum. Today, Bangladesh has a population growth rate of 1.6 percent, while Pakistan’s population growth rate still is perilously close to the 1971 figures. Literacy in Bangladesh is almost twice as much as that in Pakistan.²⁸ Bangladesh has had at least a functioning democracy since the end of 1990,²⁹ from that time, it has held three general elections for the national Parliament (largely free and fair as testified by a host of international observers), and has husbanded three relatively

²² 88 percent Sunni Muslims, about 10 percent Hindus. Additionally, Bangladesh is host annually to the second largest gathering of Muslims, after the Hajj, with attendance ranging in the millions according to international media (Reuters & BBC), and participant Islamic delegations from about 80 countries.

²³ The Taliban regime in Afghanistan was largely a creation of Pakistan’s military-backed dispensation, as were the Al-Qaida and other similar groups. Although both have been routed in Afghanistan by the US’s War on Terrorism, large numbers of both are suspected of having sought refuge in Pakistan. In Pakistan’s last “elections,” the coalition of Islamist parties succeeded in emerging as a political force to be reckoned with in national politics. This coalition also won the majority in the NWFP where they form the provincial government today. Anti-US and generally anti-West sentiments (and conversely pro-Islamist mobilization) have been rising phenomena in recent months.

²⁴ About 34 percent turnout in the last Pakistani general elections

²⁵ Although one would be tempted to qualify this by saying that it is essentially a rural phenomenon, feudalism, which remains entrenched in Pakistan, cuts across the rural-urban divide here; this is not gainsaying that there are not emancipated women, mostly among the urban elitist society and from the upper middle-classes, but they are still a relatively marginalized in terms of constituting a critical mass for generating change.

²⁶ The four provinces of Punjab, Sind, Baluchistan, and the North West Frontier Province in the western wing of Pakistan were lumped together to comprise one political unit and re-designated as “West Pakistan” in 1957. This new dispensation also propagated “parity” between the eastern and western wings in allocation of national resources, thus abjuring the federal principle and origins of Pakistan, and also ignoring demographic considerations—a move viewed by the Bengalis of East Pakistan, who had hitherto constituted the majority population of the country in the previous federal configuration, as an instrument of deliberately depriving and disadvantaging them economically and politically.

²⁷ Geographically separated from the western wing by more than 1,000 miles of Indian territory

²⁸ Almost 64 percent in Bangladesh

²⁹ Marked the fall of General Ershad’s authoritarian regime. Also marks a defining moment in Bangladesh’s political evolution.

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smooth transitions of power. Pakistan, on the other hand, continues to struggle with disastrous experimentations in democracy. Undisputedly military-driven, these experiments continue to keep Pakistan hostage to authoritarianism. Its ruling elite and even non-military leading political figures continue to nurture a deeply vested interest in determinedly maintaining a feudal social structure as a means of preserving their respective power bases, thus ensuring continuing marginalization of the masses in the political process.

Here is the central puzzle, or the series of puzzles. Pakistan was a state carved out of India in 1947. Why did India not display in the post-colonial era these same characteristics as Pakistan did? Bangladesh was a state carved out of Pakistan. What enabled it to break the mold in which it was formed first as a part of Pakistan? Was the centrifugal tendency inherent in the pre-colonial Indian subcontinent, or was it a result of something else? This needs to be understood in order to comprehend the genesis (or root causes—a phrase looked askance by some today) for the progressive failure of Pakistan as a viable state as well as why Bangladesh did not follow a similar path as Pakistan, but rather a quite distinct path from the one embarked upon by India. To fully understand this it is necessary to delve into the larger historical perspective. One would need, therefore, to examine closely the multi-faceted factors that helped shape this divergent trend of development in two post-colonial societies in South Asia that emerged from similar shared colonial experiences in undivided British India.

The Partition of India, the Birth of Pakistan, and Political Developments post-1947: Historical Propulsion towards Failure?

The people of the Indian subcontinent had generally lived together for ages, more in harmony than at war with each other. But there were also latent fault lines mainly between communities within this vast sub-continent, which comprised of a mosaic of different ethnic, cultural, and religious component groups. When the British East India Company elbowed its way into India, the vanguard of British imperial power over India (as part of the great contest between the pre-eminent European powers vying with each other for colonial expansion), the “Company Sahib” and later the British government exploited these fault lines to exercise and extend their control over their newly acquired jewel in the English crown.³⁰

³⁰ Maulana Abul Kalam Azad in his book “India Wins Freedom” (complete version, 1988, Orient Longman) says that the decision of the British government to partition Bengal in 1905 was governed by “the belief that this would weaken the Hindus and create a permanent division between the Hindus and the Muslims of Bengal... (which) was politically the most advanced part of India.” Although the partition was annulled in 1911, it provided the Muslims unique opportunities for self-advancement in Bengal. Most historians generally accept that political consciousness and activism of the Indians in Bengal triggered off and inspired the greater wave of political awareness and activism in the rest of India. Historically, therefore, the partition of Bengal was a turning point in Hindu-Muslim relations. According to Maulana Azad, at that time the revolutionary groups or activists against British rule in India were recruited exclusively from the Hindu middle classes, and all of them were actively anti-Muslim because the latter were perceived as “playing the British government’s game” against India’s political struggle for freedom. This suspicion was further exacerbated when the British, in dealing with the revolutionary activists in Bengal and distrusting Hindu officers, brought in Muslim officers from the United Provinces in Northern India to man the Intelligence Branch of the Police.

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As was bound to happen, prolonged colonial rule by a foreign power from a distant land also generated an intense desire for freedom and national independence among all Indians, regardless of which community they belonged. The first concerted uprising against British rule took place in 1857 (described by British historians as the Indian Mutiny, but viewed by South Asians as the first phase in their struggle for independence). After 1857, the British overthrew the last Moghul Emperor and banished him into exile until his death in Burma. They incorporated India formally as part of Britain's Imperial domain overseas. India then entered into treaties of patronage with the princes of the numerous large and small states within itself, and governed the rest of India, divided into provinces headed by a British Governor, through its Viceroy at Delhi.

The British had not only exploited divisions among the indigenous peoples of their colonies to exercise and extend their own domination, but in extending *Pax Britannica* over their colonial domains, they had also tried to transplant their own institutions and value systems (like English education, English Law, and the Westminster style of Parliamentary democracy). This was all very good in that it opened up for India (as it did for their other colonies overseas) an important window to western industrialization and scientific developments and progress. In fact, Britain progressively introduced into India the same process of elections, contested by political parties to the respective Provincial legislatures. But these same new institutions also tended to activate the fault lines, predominantly between the Hindus and the Muslims, and set them in motion towards a tectonic collision of mammoth proportions.

The process of de-colonization in India was, in fact, governed and to a great extent driven by these two factors described above. However, the factors that ultimately resulted in the partition of India into India and Pakistan were complex and were made more confounded by singular shortsightedness on the part of leaders across communal divides. Initially, even after the British began their program of creeping annexation of India, Muslims had continued to enjoy prestige and many held "important positions in the government especially in revenue collection and dispensation of justice... (but) as Persian was substituted by English as the official language of the courts of law in 1837 they lost this advantage too."³¹ Sullen at being thus displaced, Muslims largely boycotted English education, falling back upon religious education instead and relapsing into obscurantism.³² Hindus, on the other hand, particularly in Bengal, surged forward eagerly to embrace modern education and fill the gap left by the Muslim elite retreating into isolationism. By the late 19th century, the plight of the Muslims had sunk so low, that it provoked in them a re-evaluation of strategy for survival. The only way Muslims would be taken seriously by the British was if they proved "their loyalty to the rulers first and then compete with the Hindus who had the advantage of an early start."³³ The Muslim intellectual renaissance in India inculcated not only the embracing of scientific inquiry, the learning of English and western education, but also acceptance of British rule

³¹ A.M.A.Muhith, in "Bangladesh: Emergence of a Nation," University Press Ltd., Dhaka, 1992, p 36

³² *ibid*, p 36

³³ *ibid*, p38

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and loyalty to the rulers.³⁴ The process served to deepen the divide along communal lines, and was skillfully exploited by the British rulers to their advantage.

When independence from the British became a realistic goal, for many Muslims the specter of the sudden departure of the British, who had supplanted their Muslim Moghul rulers, generated on the one hand a sense of vulnerability in the face of prospective Hindu majority rule which would inevitably be expressed through the imported institution of democracy. For some Muslims³⁵ perhaps, the nostalgia of having been part of the prolonged and continuous Muslim rule (whether of Afghan or Central Asian origin)—essentially a rule of the minority over the vast majority in India—would not allow them to envisage or even sanction being ruled by the representatives of the majority community. For most Hindus, independence opened up the vista of regaining for themselves, at long last, their rightful place in the sun, so long overshadowed and denied by successive conquerors, first of Muslim Afghan, then Muslim Central Asian, and finally Christian European origin. This process led to the gradual divergence of the pre-independence mainstream Indian political process into two separate channels. The Congress (formed in 1885) primarily led at first, followed by the Congress and the Muslim League (which evolved through a process of dissent from the former and was established at Dhaka on December 30, 1906).

Along this process, the British had introduced in 1909 the system of “separate electorates” for the respective communities, allocating separate seats in the Provincial assemblies for the Muslims to assuage their fears of domination by the Hindus. The seeds of the “two-nation theory,” on which Pakistan was created, were given first formal status here. Over a period of time, this caused a deeper divide in the communities through the mechanics of the politics.

However, the Congress remained by far the larger and better organized party and included many Muslims who could not conceive of an India divided. The India Act of 1935, adopted by the British Parliament at Westminster, was a partial concession to the demand for self-rule by Indians. In the elections of 1937 held under the Act, although both parties agreed to give it a try, negotiations on electoral compromise between the two failed. The Congress succeeded in capturing the majority of the seats, including more than 95 percent of the Muslim seats, and formed provincial governments in almost all the British Indian provinces, while the Muslim League, although vociferous, remained on the fringes. Relations between the two communities deteriorated further because of insensitivity to Muslim culture, religious beliefs, and aspirations on the part of some Congress elements, resulting in bitter clashes between communities along communal lines that deepened the rift.

³⁴ *ibid*, p 38

³⁵ These were the “Ashraf” class of Muslims, the scions of successive ruling elites and descendants of the invaders who established Muslim rule over India (for more information, see Sushila Jain’s *Muslims and Modernization*, Rawat Publications, Jaipur, 1986

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When Great Britain entered World War II, it automatically drew into the war its colonies overseas and their military units. The decision was made by the Parliament at London, and the Indian provincial assemblies were not consulted in the process. The Congress, the pre-eminent party in all the provinces until then, protested vehemently being drawn into a war without having been consulted first.³⁶ The protest was an expression of their nationalist sentiments (a part of the Congress party led by Subhas Chandra Bose was also ideologically opposed to the war against Japan, a fellow Asian country). They demonstrated their protest through a typically imported tradition—resigning from the provincial governments in which they had participated in order to distance themselves from the British government. In the process, they lost their leverage with the Raj, became largely incarcerated, and left the political space vacated by them open for takeover by the Muslim League. The Hindu-Muslim divide deepened irrevocably and caused political polarization to occur among the communities.

Fresh elections to the Provincial Legislatures were held in 1946. In these elections, the Muslim League won more than 90 percent of the seats allocated for Muslims. In effect, the elections in 1946 served to crystallize the demand for Pakistan among the Muslims.

On June 3, 1947, the Labor Prime Minister of Britain, Mr. Clement Atlee, introduced the Bill for the Independence and Partition of India. This bill was passed on July 14, 1947, as the Independence of India Act. It created two independent dominions.

In the meantime, the Muslim League had rejected the Federation Scheme of the government of India Act of 1935 and had instead opted to utilize the Provincial Scheme of the Constitution. It authorized its president to formulate suitable proposals as alternatives to the British package, respectively, with the Muslim federation comprising the northwest part of India and Kashmir only (but not Bengal in the southeast part of India).

The All-India Muslim League, in its 27th.session at Lahore, adopted on March 23, 1940 the Lahore Resolution. The Resolution proposed the formation of geographically contiguous units into regions “which should be so constituted, with such territorial adjustments as may be necessary, that the areas in which the Muslims are numerically in a majority, as in the North-western and Eastern Zones of India, should be grouped to constitute Independent States in which the constituent units shall be autonomous and sovereign...providing for the assumption finally, by the respective regions of all powers, such as defense, external affairs, communications, customs, and such other matters as may be necessary.”³⁷ A subsequent amendment to the above in 1941 emphasized the

³⁶ According to Maulana Azad, there was a serious difference of views between Gandhi, who was opposed to war as a creed, and some other leaders, including Azad, who were willing to consider participating provided the British government gave clear and unequivocal guarantees about granting India independence. Cripps had initially held out such assurance, but subsequently was perceived as backing out from his earlier commitment, which led to the Congress's rejection of his plan.

³⁷ Hasan Zaheer, “The Separation of East Pakistan,” Oxford University Press, 1995; p. 6

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establishment of more than one independent state in a confederal set-up. However, what is important to note here is that while the Muslim leadership of Bengal voted for this resolution for a separate homeland, their conception of such a homeland differed fundamentally, since they were driven by differing concerns. For the Muslims of Northern India, “the demand for Pakistan was the culmination of the Muslim renaissance movement initiated by Sir Syed Ahmed Khan in the latter half of the nineteenth century...(and) to safeguard the religious, cultural, and political rights of the Muslims of the entire sub-continent. They assumed a linguistic and cultural unity of Muslims which was not there.”³⁸ However, the Muslims of Bengal looked towards attaining state power primarily to emancipate themselves from the economic domination of the Hindus, since linguistically and culturally they had no problems with the latter. Suhrawardy, incidentally, also represented Bengal at the Lahore Conference, where he argued that “each of the provinces in the Muslim majority areas should be accepted as a sovereign state and each province should be given the right to choose its own constitution or enter into a commonwealth with the neighboring province or provinces.”³⁹ It should be noted that Suhrawardy later founded the Awami League party in East Pakistan, which, under Sheikh Mujibur Rahman’s leadership, led the country to independence from Pakistan in 1971.

The two separate modes of governance that India and Pakistan chose to adopt at their independence served to set the pattern for their future development. India adopted the British model of parliamentary democracy, with the prime minister as head of government and the governor-general (later president) as the ceremonial head of state. The parliament became the fount of all powers. India also set about methodically building upon the institutions left behind by the British, reforming and adapting them to their independent circumstances. Institutional democracy in India served to underpin the relative political stability in federal India, a mosaic of many cultures and sub-nationalities. It also served as a major check to forces of authoritarianism and bigotry. Pakistan, on the other hand, chose to have the governor-general as the chief executive and head of government, albeit assisted by a cabinet headed by a prime minister in an elected parliament. But the Constituent Assembly of 1947, which was charged with the framing of the constitution, took 9 years before a constitution acceptable to all parties was finally framed, reflecting the nature of the deep fissures inherent in Pakistani body politic. For this reason, the parliament proved itself to be weak and ineffective while the office of the governor-general became steadily more powerful, further exacerbating the fissures within the parliament. Governments changed frequently; thus the bureaucracy became the lynchpin in holding the country administratively together and became more powerful than the politicians in parliament. The conflict with India over Kashmir, which flared up in 1948, levered the military establishment into a dominating voice in national security. This formed the nexus between the military and the bureaucracy that has been Pakistan’s most enduring legacy in more than 50 years of self rule.

³⁸ *ibid*, p. 7

³⁹ *ibid* p. 6

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By virtue of these dynamics, the feudal structure inherited by West Pakistan at its birth also remained its most enduring institution.⁴⁰ In this structure, traditionally it was the custom for one son to go into the army, another into the bureaucracy, while a third would remain at home to manage the feudal estates and keep the peasants in control and a fourth would go into business and trade (there were usually more than enough sons to go around under one patriarch, whether from one marriage or more). The feudal landlord, for the peasant, was looked up to as “mai-baap” (literally: “mother-father”) figure, and the former’s writ was the final word on all aspects of the latter’s life. Therefore, by virtue of the fact that the principal institutions of the new state were drawn from this configuration, the state became, subliminally and often overtly, the biggest patron of this collective but authoritarian vested interest group. The tragedy of Pakistan is perhaps that this pattern became immutable, mooring Pakistani society in a time warp. And just as earlier Muslim rulers in the sub-continent and elsewhere co-opted official “ulema” to validate their rule and actions the authoritarian leadership in Pakistan, particularly the military-authoritarian leadership, more often than not pandered to religious parties (primarily the Jamaat-i-Islami, but later more virulent mutants) to buttress their own legitimacy.⁴¹ At the same time, since the creation of Pakistan was based on the bedrock of the “two-nation theory” nurtured by the British in undivided India, it served Pakistan’s purpose to underline and flaunt the Islamic roots and foundations of the state. It also further deepened Pakistan’s divide with India from which they had separated on grounds of being a separate faith-based nation. Thus, authoritarianism and bigotry both became institutionalized within the establishment at the expense of those institutions that should normally have been the bulwark of a democratic and progressive state.

The security bogey (of threat from India on one side and from an unstable Afghanistan, whether or not Soviet-occupied, on the other) has been consistently used by its military establishment in Pakistan since 1947 to guzzle roughly 70 percent of the nation’s revenue budget, leaving little for education, health, women’s development, and other development needs. In such a situation, the spending agenda of successive governments was essentially establishment-centric, dictated predominantly by the concerns and needs of its military-bureaucracy elite, and not a whit societal-centric. This

⁴⁰ East Pakistan had shed the feudal vestiges long before partition, when the British instituted land reforms in Bengal between 1918-1920. Although initially not achieving its intended goals, it set into motion the process of dismantling of whatever feudal divisions had existed in Bengal.

⁴¹ The most blatant nexus between the regime in power and the mosque was during the 11-year rule of General Ziaul Huq. It is during this period that the ISI formalized the use of the war cry of Islamic jihad against the Soviet occupation in Afghanistan primarily, but also with an eye to its eastern neighbor, spawning numerous groups. Among these groups, the most notorious were the Gulbuddin Hekmatyar and his forces, the Taliban, and Osama bin Laden and the al-Qaida. These were the organizations targeted towards Afghanistan. A parallel set of organizations with similar agendas were created, nurtured, and targeted towards the liberation of Kashmir. These are based in Pakistan and in Azad Kashmir (Pakistan-occupied Kashmir), and are still active today.

In order to retain its grip on power domestically, the military government of the late General Ziaul Huq and the notorious Inter-Services Intelligence (ISI) also deliberately fomented ethnic rifts and conflicts within Pakistan, between Sindhis and non-Sindhis (or Pakistanis of North Indian origin, otherwise known as Muhajirs), and between Sunnis and Shias, in Pakistan. In the process, obscurantist forces were unleashed who have grown in stature and developed their own agenda which is quite independent of government control; in fact, their agenda now seeks to control and direct the government’s agenda.

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inevitably left vast empty spaces in the country's societal fabric where no services were reached in any appreciable measure.

These vast empty political spaces did not vanish because the government ignored them or did not have the resources to tend to them. The demand for basic services by the poor people also did not disappear. Following the Islamic injunction of charity enjoined upon believers of the faith, numerous charitable or social welfare-oriented organizations started moving in, with charity money from rich Arab sources flowing to a poorer Islamic nation. Such charity was ostensibly for social welfare purposes, but contained in them the agenda of deepening religious education in the image of the source of the funding. Saudi Arabia was the principal source of such funds, complemented by funding from the rich Arab Gulf Sheikdoms as well.

More often than not, such institutions would also establish a madrassah to run alongside other welfare-oriented activities. Usually these madrassahs offered merely the learning of the Arabic Quran by rote by its pupils (from the age of 5 and above). In a sense, where alternate formal educational facilities were not available, these madrassahs were viewed by their clients as fulfilling a very important need of society. Most of these *Sunni*-funded institutions were influenced by the ascetic "Wahhabi" mode of Islam extant in Saudi Arabia, and later increasingly by the Deobandi school of Islam, which is doctrinally anti-Shia, anti-woman, and at best obscurantist in its perspectives on societal development and its non-Islamic worldview.⁴² These countless madrassahs are the feeder institutions for the foot soldiers of terrorism today.

C: Pressures of Poverty, Scarce Resources, and Early Development Paradigms

In any developing country, the government is at best able to extend its services to only a portion of its entire population. Depending on how much or how little it is endowed with natural resources, and not counting corruption, poor governance, and the plethora of malaise that tend to bedevil most of the poorer countries, the government can at best effectively reach its services only to parts of the population it governs. This depends, to a greater or lesser extent, on its capacities and capabilities, neglecting significant parts of its populace who are left to fend on their own (anywhere from 40 to 60 percent of its total population). Since this untended mass needs someone to fulfill its needs one way or another, the empty space rarely remains untended; non-state actors step in. How these neglected sections of society shape their activities (productive vs. unproductive) depends largely upon the nature, and more importantly, the agenda of the non-state actors filling the breach. We have explained in the preceding section the process that created the empty spaces in Pakistan, the dynamics of how those spaces were

⁴² Following the Islamic Revolution in Iran in 1979, Iran also joined in competing for the soul of Islam by generously funding similar madrassahs/charitable institutions in both Pakistan and Bangladesh, but the majority of the madrassahs are of the *sunni* order.

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filled by non-government actors with their own agenda, and what implications (or not) they carried for the development of that societal structure.

As was demonstrated in the case of Haiti, for example, possibly at the lowest rung of the ladder of the least developed countries, political instability and poor governance triggered off a desire for larger families, leading to rapid population growth. According to the UNICEF, there is a close relationship between Population, Poverty and the Environment (what it refers to as the PPE spiral).⁴³ This growing population, simply in order to survive, made increasing encroachments upon the local environment, setting off a vitiating cycle in the PPE spiral. Additionally, the vulnerability of women was an additional critical factor, which not only aggravated the PPE spiral but also poor governance. The Haiti case showed that addressing the security concerns of women was imperative to first arresting, and then reversing, this vicious cycle.

In Pakistan, post-1971 (that is after the separation of East Pakistan from Pakistan), the population of Pakistan actually spurted unchecked and overtook in size the population of its former eastern province. Part of this is ascribable to factors similar to the Haiti scenario, but this was also perhaps exacerbated by the religious orthodoxy of the religious organizations that forbade birth control measures as being un-Islamic.

Such a fate could easily have engulfed Bangladesh as well soon after its birth. Bangladeshis had inherited a wasteland, in the making of which they had also contributed through sabotaging the infrastructure in their 9-month war of liberation against the Pakistani occupation forces. Whatever moveable assets had existed had been spirited out by Pakistani forces well before their surrender at Dhaka to the Joint Indo-Bangladesh Command. Governance structures were weak and some, such as the Foreign and Defense Ministries, had to be built from scratch. The systematic killing of a large number of intellectuals by Pakistani collaborators shortly before the end of the war had a traumatizing and debilitating effect on civil society and the civic institutions that existed. The government in exile had returned with little, if any, experience in actual governance. Immediately after the war ended, the country first had to face the gigantic task of rehabilitating 10 million refugees returning from India. Factionalism between competing groups and local commanders (a somewhat scaled-down version of the factionalism between warlords that plagues Afghanistan today), as well as insidious factionalism within the government (including one group with links to the USA and the other to Moscow) existed. The situation was aggravated by the fact that the thousands of youthful freedom fighters returning with the refugees had no occupation or schools to which to return, nor were there any income-generating avenues available. This meant that they took free and easy resort to the use of their guns. Bangladesh, like Pakistan, also had a large number of “madrassahs.”

Such a situation would be a daunting challenge of almost insurmountable proportions for any government. A host of international organizations and international

⁴³ UNICEF Report on *State of the World's Children* (1994)

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NGOs stepped in to help the fledgling government, as did many foreign governments with bilateral assistance. Simultaneously, alongside the international NGOs, a number of small indigenous or local NGOs started working in relief and rehabilitation projects at first, then subcontracting the projects to larger foreign NGOs. In the process, they developed their own capacity to take over larger areas of unfilled space, expanding their sphere of activities essentially through a learning process.

When Dr. Henry Kissinger described Bangladesh as destined to be a “basket case,” his gloomy prognosis was based on sound foundations derived from the knowledge and wisdom of the day. With more than 75 million people multiplying at more than 3.2 percent per annum crammed into a land not much larger than the size of New York State and possessing no notable high-yielding natural resources (except jute as the primary cash crop, with increasingly diminishing returns) and no remarkable industrial base, the future looked very bleak indeed.

The economy of Bangladesh is predominantly rural, with agriculture providing 78 percent of employment, but unable to expand because of technical constraints.⁴⁴ Poverty is high in Bangladesh, higher in rural than in urban areas. Although 90 percent of cultivable land is used for food-grains production, the low agricultural growth of about 2 percent and the cyclical vagaries of nature ranging from floods, cyclones, and drought of disastrous proportions visiting the land at regular intervals have prohibited Bangladesh from achieving food autarchy (barring a few years of exceptionally favorable weather in the 1990s). The pressure on land is, therefore, of such extreme nature as to force a large proportion of the labor force to seek marginal, and more often than not, barely subsistence-level activities within this rural economy. Consequently, malnutrition is a serious problem, particularly among women and children. Any serious effort to arrest poverty must, therefore, seek means of augmenting non-farm employment opportunities as well as strive for slowing population growth, advancing literacy, and addressing the twin curses of malnutrition and poor health—factors that detract from optimal development of human resources and increasing productivity.⁴⁵ Poverty cannot be eradicated without proactively involving participation in the process by the most important constituency, the poor people themselves. They should have a role “in identifying and creating livelihoods that are consistent with the material circumstances and the cultural milieu in which they live.”⁴⁶ Escobar offers a similar opinion:

The most important exclusion, however, was and continues to be what development was supposed to be all about: people. Development was – and continues to be for the most part – a top-down, ethnocentric, and technocratic approach, which treated peoples and cultures as abstract

⁴⁴ “Fighting Poverty with Micro-credit: Experience in Bangladesh,” by Shahidur. R. Khandker; Oxford University Press, 1998

⁴⁵ *ibid*

⁴⁶ Dr. Harka Gurung, Director of the Asian and Pacific Development Center, Kuala Lumpur, in his remarks in preface to the book “Microfinance and Poverty Alleviation,” edited by Joe Remenyi and Benjamin Quinones, Jr.; Pinter, London & New York, 2000

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concepts, statistical figures to be moved up and down in the charts of ‘progress’. Development was conceived not as a cultural process ...but as a system of more or less universally applicable technical interventions intended to deliver some ‘badly needed’ goods to a ‘target’ population.⁴⁷

However, like many other post-colonial societies or states, after shaking off the yoke of colonial rule towards the middle of the previous century, Pakistan/Bangladesh adopted and pursued growth-oriented strategies for development. These strategies relied on the “trickle-down” effect, in which the important issues of distribution and poverty alleviation were considered either peripherally or as part of the macro-economic vision. These new fledgling states inherited the mantle of their previous colonial masters, whose success as economic-political-military-industrial powers were perceived to have flowed as a direct consequence of the industrial revolution and development and application of innovating technology. These new states sought to mimic that by adopting the goals of modernization in industry and agriculture. In industry, they invested in highly capital-intensive mega projects that presumed higher profitability spawning higher investment for increasing growth. In agriculture they supported and implemented what was known as “the Green Revolution” technology, a perceived silver bullet strategy that was comprised heavily of irrigation and modern cultivation methods and required the government to subsidize the farmers heavily through inputs like rural credit, fertilizers, irrigation equipment, and pesticides. These were essentially top-down, centrally-planned approaches that did not quite produce the revolutionary transformations expected from them.

The earlier experiments with rural credit and cooperatives

The early government-sponsored rural credit programs were based on displacing the traditional, informal but rapacious, rural money lenders with what were meant to be “benevolent and right-thinking government-sponsored development finance institutions or delivery programs.” They involved subsidized rural credit channeled through specially created rural finance institutions or through programs of rural cooperative or farmer’s associations.⁴⁸ Quite often, such programs were components of a broader macroeconomic scheme attempting to construct community development. However, more often than not, these schemes failed to help the poor to whom they were targeted because disbursement was done through bureaucrats who worked in collaboration, or collusion, with local elites looked upon as “exemplars of modernity,” leaving the poor as marginalized as they were earlier.⁴⁹ Similarly, the cooperatives the government tried to cobble together in those earlier years in order to implement its green revolution strategy tended to comprise, or be dominated by, the rural elite and large land owners, leaving the poor once again as marginalized as before, and non-stake-holders.

⁴⁷ Arturo Escobar, “Encountering Development: The Making and Unmaking of The Third World,” Princeton, 1995; p. 44

⁴⁸ Joe Remenyi: “Is there a ‘State of the Art’ in Microfinance?” *Microfinance and Poverty Alleviation*, eds. Joe Remenyi and Benjmin Quinones, Jr.; Pinter; 2000

⁴⁹ *ibid*

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The first major and institutionalized approach to developing cooperatives in Bangladesh took place with the establishment in the 1960s of the Academy for Rural Development in Comilla by Akhter Hamid Khan. Khan's model envisaged organizing farmers into cooperative societies for distribution of modern inputs, HYV crops, fertilizers, pesticides, irrigation, and subsidized credit. Organizationally, primary farmers' cooperative societies were formed that were then federated into larger central cooperative societies at the *thana*⁵⁰ level. However, the earlier optimism over the Comilla cooperatives model as an engine of agricultural growth and social equity turned out to be largely unfounded because subsidized inputs tended to encourage capital-intensive methods of production and used a supply-based approach and hence, discouraged a demand-induced growth strategy. The supply-based approach assumed that "there is a latent demand for inputs as credit and schooling and those households with access to such inputs can improve their welfare through increased production, consumption, and investment."⁵¹ Based on this hypothesis, the government introduced subsidized rural credit programs through public sector banking and cooperatives also supervised by government, with assistance received bilaterally or from multilateral donors. However, these programs tended to exclude the poor farm households from these services (reaching only about 7 percent of landless households) because they did not have sufficient collateral; medium-sized and large farmers who already had sufficient collateral had access to such services. A major criticism of these supply-based policies is that they did not directly address the problems of income and employment generation for the poor.⁵²

Such government-subsidized inputs failed to alleviate poverty, nor were they able to mobilize rural resources for modernization. They did not catalyze rural agricultural development, promote any degree of micro-entrepreneurship, or generate new employment avenues. They were marked by rampant corruption, significant leakages of earmarked capital to non-target groups, and were plagued with large-scale defaults in repayment. In sum, they failed utterly to lessen the gap between the rich and poor. Some authors ascribe the failure of earlier experiments with cooperatives not to any intrinsic *hubris* in the concept of group ownership or ineptitude on the part of those owners, but an excess of zeal and misdirected efforts by the governments and other agencies that attempted to promote them.⁵³ In other words, too much government involvement also carried with it the usual baggage of patron-client relationship with government as the patron doling out perks to the elite clientele of its selection, and in the process, marginalizing those whose interests the cooperatives were intended to serve in the first place. Harper and Roy caution against the generalization that any group enterprise must be self-initiated and self-managed by the members themselves who group together in

⁵⁰ A *thana* (literally "station" or more appropriately "police station") is the basic administrative unit having jurisdiction over a number of villages.

⁵¹ "Fighting Poverty with Microcredit: Experience in Bangladesh" -- Khandker

⁵² *ibid*

⁵³ "Co-operative Success: What makes group enterprise succeed" – Malcolm Harper and A.K. Roy; IT Publications, London; 2000

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order to derive benefits from such a grouping; therefore, any outside ingress or assistance to the group will be inimical to the group's autonomy and to its success. However, it has to be recognized at the same time that outsiders have some role to play. This concept is based on the fact that most societies came into existence because the members were either coerced, bribed, or led to accept the underlying thesis that the formation of such a group was in their greater collective and individual interests.

D: The Micro-Credit Revolution – Its Evolution in Bangladesh

India had earlier implemented some micro-credit financing programs, but these were all confined to small enterprises in suburban areas. Bangladesh adapted the strategy, against all conventional wisdom and banking principles, to the rural countryside. It was in the mid-1970s that Professor Yunus went from government door to bankers' and donors' doors, trying to muster support for his novel idea of micro-credit financing for the rural poor that was detached from the baggage of requiring collateral for loan-eligibility. The main thrust of his argument was that the poor must have access to credit to be able to acquire assets and become productive. However, since they do not have any assets whatever, they could not provide the collateral required by conventional banking to be able to secure loans. Therefore, they were enchained by a vicious circle of poverty. The poor were, however, creditworthy; they only needed the opportunity to prove their *bonafides*. The only collateral they could provide was peer collateral, and this could be effective if the poor borrowers were in a group. Frustrated by the initial skeptical and negative response, Dr. Yunus embarked on a modest privately funded experiment to test the viability of his concept. The Grameen Bank, established by Dr. Yunus as a personally funded private venture in a small pilot area, started lending micro-loans without any collateral to a target constituency of rural women. His experiment was hugely successful, even when tested in ever-expanding circles of poor constituencies. Nothing succeeds like success, and the rest is history.

Other local NGOs started replicating the Grameen model, some with their own innovations. The scheme proved remarkably successful, with up to a 100 percent success rate in terms of loan recovery despite the high interest rate.⁵⁴ The Grameen Bank gradually expanded its program—with international assistance—to cover almost the entire country. Its micro-credit program has been critically important in helping empower women, giving them choices in decision making and in life, and has transformed societal development. The Grameen model is today a widely traveled model, having been adapted by many other developing countries in their efforts to begin empowering women economically and spur national development. The economic empowerment movement has also translated directly into the political scene, positively promoting the growth of democracy in Bangladesh.

⁵⁴ Typically, micro-credit loans would carry an interest rate at least twice as high as conventional loans given by banks. The latter, unfortunately, have a history of huge numbers of bad loans.

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Pakistan, in contrast, has not developed any NGO program as significant as the Bangladesh program in the last 30 years. Part of this is because of the military/authoritarian establishment's aversion to having intrusive NGO operations subverting their turf. In other words, the vast open spaces left by the government were left open to "madrassahs," or religious schools, with obscurantist/jihadist curricula. In Bangladesh, NGOs not only set a benchmark for the government to compete with, they also posed a challenge for survival to the Madrassahs in Bangladesh (numbering about 60,000 by some estimates, many of whom had existed from earlier-Pakistan times), forcing the latter to "secularize" their curricula in order to survive. Pakistan did not have a micro-credit finance program of the kind launched in Bangladesh until recently, when the government started such a program under state auspices, which will automatically doom it to being hostage to the same inherent constraints that have retarded or prevented Pakistan's overall societal development.

E: Some Comparisons with Other Developing Countries

Once the Grameen Bank, which pioneered the micro-finance paradigm, had established itself as a successful micro-finance institution (MFI), it was forced to overtake the management of a number of past activities or investments that turned out to be technically indivisible or not conducive to group ownership and management—such as several hundred deep tube wells, or fish ponds. This was, however, essentially peripheral to its primary goal. Professor Yunus himself believed that joint activities should eventually comprise a major part of its members' economic activities generated in the first instance by its micro finance (MF) programs creating micro enterprises (MEs). But he envisioned this progression to the higher stage of joint enterprise as happening a generation later, after the groups had developed intrinsic resilience and capacity by accumulating sufficient savings through their credit operations.⁵⁵

However, the Grameen paradigm of microfinance, imitated and replicated by many others who followed in Grameen's wake, is based upon a "minimalist" approach. It did not include in its services, at least not in the initial stage until the mid-1990s, a larger range of services including, for example, education, health, or adult education. Members were taught to be disciplined, but not how to conduct their business. If some of these members then embarked on other initiatives, they resulted from the members having become empowered through credit, not at the instigation or facilitation of Grameen Bank. In other words, MEs spawned by such MF operations would be expected to evolve by themselves, over a period of time, to the next higher levels of activities. Harper and Roy, however, believe that even for a group with inherent entrepreneurial capabilities "to perform one very simple function, such as savings and credit, or the ownership of a common piece of equipment, or those which are to be part of a comprehensive materials supply and marketing or 'linkage' system, an escorting function" by some benign agency would still be required. In other words, some external non-predatory catalyst was still

⁵⁵ Harper and Roy. P51

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required to propel the nascent ME's up the entrepreneurial ladder, short circuiting the natural evolutionary process. In Bangladesh, this catalyst came in the form of the JOBS program and its cluster model in the late 1990s.

Harper and Roy list a number of criteria for co-operative or group activities to be successful. Drawn from case studies carried out by Baviskar and Attwood⁵⁶ and Tushar Shah⁵⁷ which inter alia, they include: autonomy from state control, effective ownership and control over the activities by the members of a group/society, and competition with other businesses (Baviskar and Attwood). Additional criteria include: patronage cohesiveness (agenda of directors and members should coincide rather than compete), internal focus of control, genuine business competitive advantage driven by performance demand, and based-on-performance support (Shah).

MF programs in India

In India the number of households below the poverty line in 1993-94 was around 300 million, or roughly 34 percent of the total population. Prior to the reforms undertaken in the 1990s, credit to the poor was largely channeled through government-owned programs that demanded large subsidies. The bulk of the government's program was implemented through the Integrated Rural Development Program (IRDP), looked upon as a direct instrument for reducing rural poverty by providing access to assets, skills, services, and institutional support in order to enhance income and employment. It was possibly one of the world's largest poverty alleviation programs, having reached 45 million households by 1995 with financial assistance in the amount of \$6.17 billion.⁵⁸ The bulk of its aid was channeled through the National Bank for Agricultural and Rural Development.

Despite the magnitude of the assistance disbursed, an evaluation of the program by the government in 1989 revealed that the IRDP had not achieved the results that had been expected of it: only 28 percent of the targeted audience was actually able to cross the poverty line. In contrast, private-sector led services and business micro-enterprises performed a little better with 33 percent of their targeted audience crossing the poverty line. So, in fact, both government- and private-run programs had limited success; obviously, something more needed to be done. The failure of banks, cooperatives, and non-banking financial companies to provide financial services to the poor ensured that moneylenders, traders, friends/relatives, and neighborhood self-help groups remained the primary source of credit for the poor. The financial reforms of the 1990s were part of a policy package of structural adjustments, targeted at accelerating economic growth and

⁵⁶*op cit*: "Finding the Middle Path"; B.S. Baviskar and D.W. Attwood,; Westwood Press, Boulder;1995

⁵⁷*op cit*: "Making Farmer's Co-operatives Work"; Tushar Shah, Sage; 1995

⁵⁸ "Microfinance in India: Adjusting to Economic Liberalization"—Sanjay Sinha, John Samuel and Ben Quinones in *Microfinance and Poverty Alleviation*, eds. Joe Remenyi and Ben Quinones; Pinter, London 2000.

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reducing poverty. The financial liberalization measures adopted by the Reserve Bank of India in 1990-91 removed ceilings on interest rates. That, in combination with the policy adopted by the National Bank for Agricultural and Rural Development to promote self-help groups as channels for MF services to the poor, proved instrumental in inviting NGOs in as MF providers to the poor, as alternatives to traditional informal sources mentioned above.

A study in 1996 of eight of the better-known and larger MFIs in India, all focusing on women as their target audience, were seen to have achieved a combined outreach total of 143,374 clients (as contrasted with Grameen Bank and ASA in Bangladesh, which expanded their outreach by more than 100,000 clients annually). Only some of these institutions provided their member-clients with non-financial services, such as promoting group enterprises for marketing their products. Generally, the NGO-MFIs activities were non-profitable and at high cost. The only reason they were able to continue was because donors continued to provide them with grants to carry on working. In other words, neither the MFIs nor their clientele could hope to attain financial viability or self-sustainability within the paradigm under which they operated, creating a dependency syndrome for both. It was observed that only when self-help groups increasingly took over the motivational work and service delivery functions of the MFI—federating village-level savings and credit groups—were they able to strengthen their capacity to handle service delivery functions at the grassroots level. However, it would appear that all this still did not significantly enhance the capacity, or capability, of the poor or the self-help groups to really “take-off” in their respective micro-enterprises beyond maintaining themselves at barely subsistence levels.

Indonesia

Since the early 1980s, Indonesia’s policies of gradual deregulation of the financial sector, privatization, and budgetary reform had enabled the country to successfully attain a significant measure of growth and stability. The first half of the decade of the 1990s was marked by a per capita GDP growth of 5 percent, population growth rate had declined to 1.9 percent, inflation was in the single digits, and the Rupiah remained a fairly stable currency. Sustained economic growth over two decades had significantly reduced rural poverty, from more than 60 percent before 1970 to under 20 percent at the beginning of the 1990s, while urban poverty had practically been banished. Microfinance did play an important role in poverty reduction, but it did little to reduce the persistent inequality in income and wealth distribution in the country, with the poorest 40 percent of households accounting for less than 15 percent of the national income.⁵⁹

However, the financial meltdown of 1997 was disastrous and served to reverse the above trends considerably, reviving the specter of urban poverty once again. One of the principle victims of this meltdown was the banking system, which was under-capitalized

⁵⁹ “Microfinance in Indonesia: Experiments in Linkages and Policy Reform,” Uben Parhusip and H. Dieter Seibel in *Microfinance and Poverty Alleviation*, eds. Remenyi and Quinones

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and over-extended with insupportable volumes of foreign currency debts. Fortunately, the deposit and loan portfolios of many MFIs were separated, and therefore also insulated from the asset and liability basket of the country's more than 400 commercial banks, enabling many to survive the macro-meltdown, continue operating their programs, and even launch new programs.

Since the early 1970s, the government had recognized that access to credit was a key instrument for reducing poverty. Two major channels were used by the government for enabling access to credit: a program of subsidized credit disbursed through government banks; and the establishment of semi-formal financial institutions at the provincial levels that could mobilize their own resources and were exempt from interest rate regulations that applied to conventional banking until 1983. After having been found ineffective and wasteful, the subsidized credit program was largely scrapped in 1990. The state-owned commercial bank, BRI, was one of the main channels of subsidized credit to a targeted rural clientele until 1983, when, after deregulation, it crafted two new commercial products: a rural savings scheme with a lottery component to mobilize its own resources at local level and a rural credit scheme that operated on market terms. This enabled the BRI to transform itself into one of the most successful banks with rural mandate in the Asia-Pacific region, serving some 18 million clients by the end of 1996.⁶⁰ Although there were numerous MFIs of heterogeneous character operating in Indonesia, the BRI outperformed the totality of services rendered by the MFIs in mid-1995, with almost 17 million MF accounts as opposed to a little more than 7 million accounts held by some 9,000 MFIs across the country.

Parhusip and Seibel, in their study of the microfinance scene in Indonesia through wide-ranging case studies, draw a number of conclusions,⁶¹ which include *inter alia*:

- Private rural banks can and do provide financial services to the rural poor.
- The non-poor are more likely than the poor to be net borrowers, while the poor are more likely than the non-poor to be net savers.
- The group approach serves to extend outreach to the poor; it is also most successful in providing access to credit by the poor, thus providing financial deepening.
- The adoption of a systems approach to MF that gives special emphasis to the poor as a market segment as well as potential owners of member-based financial institutions, merited attention. Such an approach would:
 - Assist informal financial institutions in upgrading their financial operations and acquiring legal status, thus graduating and deepening services and increase outreach.
 - Assist semi-formal financial institutions to upgrade and graduate to village banks.

⁶⁰ *ibid*

⁶¹ *ibid*

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- Assist informal, semi-formal, and formal MFIs to link up with banks as refinancing institutions, thus strengthening their financial services capacity and deepened outreach.
- Assist the poor in poor villages, in the informal sector, and in pockets of poverty to organize themselves in self-help groups by addressing the needs particularly of small farmers and women clientele and helping them to upgrade their activities and in gaining access to the financial services of banks.
- Linking MFIs to rural and commercial banks through the establishment of business relationships, enabling the latter to refinance projects of the former and their clientele.

Where programs and institutions are perennially dependent on external assistance from donors for continuation of their programs, such programs do not develop self-reliance and self-sustainability. Institutions and programs that have attempted to adopt a commercial approach (backed by linkage-banking) and provide training to NGOs and self-help groups to transform into more viable financial intermediaries have a greater probability of attaining self-sustainability and continuing viability. And in the long run, only viable financial institutions with sustainable financial services can successfully increase their outreach.

Philippines

Despite much progress and development on many fronts since the early 1990s, the persistence of poverty featured as a rallying issue for many Filipinos who voted in 1999 for the opposition candidate, whose platform was based on poverty alleviation. Since 1991, the largest numbers of the poor were in the agricultural sector, a fact generally attributed to the prevalence of large land holdings and failed land reforms.⁶² Rural poverty, at more than 50 percent, was highest among farming and fishing families. The urban poverty level was somewhat lower, hovering around 30 percent. The situation was exacerbated by the very wide income gap between rich and poor. Commercial banks rarely lent to the poor who had to fall back on traditional sources of lending (moneylenders, family network, friends and cooperatives).

The Philippines is a country awash with NGOs; more than 30,000 NGOs and community-based People's Organizations are listed with the Securities and Exchange Commission. Of these, more than 7,000 are listed as development NGOs, nearly 500 are credit NGOs and about 50 provide credit on commercial terms. Despite these huge numbers, their outreach was abysmally low. The lending footprint covered barely 2 percent of the poor borrowers. Some 2,800 MFIs had a combined outreach clientele of fewer than 650,000. While government credit programs were found to be inefficient and

⁶² "Microfinance in the Philippines: Battling the System," Calanta, Garcia, Llanta and Seibel; in *Microfinance and Poverty Alleviation*, eds. Remenyi and Quinones

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costly, the MFIs did not reflect much better performance. Weak institutional capacities and an inability to develop competence in product development hampered them. They also lacked legal identity. They were found to be not only operationally weak, but financially dependent on grants and concessional loans for continuing operations. One of the main reasons poverty continued to remain an insurmountable problem was that policy-makers tended to rely largely on government intervention and credit channeling through rural banks rather than encourage self-reliant intervention by market-oriented MFIs. NGOs were also not permitted to mobilize deposits, effectively barring them from financial intermediation and developing sustainability. The MF programs in the Philippines, therefore, failed to effectively address in any considerable measure their primary goal of poverty alleviation. Only by the late 1990s was the government finally getting the message that in the long run only viable financial institutions could provide sustainable financial services to all segments of society.

Malaysia

Prior to the Asian Meltdown, Malaysia had reached almost full employment. Additionally, the booming economy of the “Asian Tiger” had generated excess employment opportunities, prompting the importation of foreign workers (mostly from Indonesia, but also from the Philippines and South Asia). It had also attained remarkable success in reducing poverty, which had been more extensive in rural rather than in urban areas. By 1990, which marked the end of its New Economic Policy period, it had slashed poverty to 15 percent, more than its targeted goal. While robust economic growth played more than a small part in this achievement, it would not have been possible to achieve such remarkable success without specific poverty alleviation programs targeted at the poor. Between 24-30 percent of federal development expenditures were specifically allocated by the government for the purpose. Since its sixth Development Plan (1991-95), the government has focused attention on the hardcore poor with the adoption of the ongoing Special Development Program for the Hardcore Poor.

Traditionally, the role of microfinance providers was shouldered by government agencies, public enterprises, semi-government institutions, or credit institutions specially created to meet the National Economic Plan (NEP) objectives of alleviating poverty among the Bumiputras and enhancing their ability to mainstream into commerce and industry. While these institutions catered well to farmers, fishermen, and tobacco growers, they were unable to make much headway among the hardcore poor, which were characterized by: low income, low education levels, a fatalist outlook, a belief in the caste system, an inferiority complex, fear of the landlord/master, superstition, alcoholism, and the oppression of women.⁶³ In 1986, two social scientists decided to adapt the Grameen Bank model as a pilot project to a selected area. This transplantation experiment proved successful and the project was then expanded to cover other areas with the government providing interest free loans. The financial products offered were mainly loans and

⁶³ “Microfinance in Malaysia: Aiming at Success,” Siwar Chamhuri and Ben Quinones; in *Microfinance and Poverty Alleviation*, ed Remenyi and Quinones.

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savings programs. Chamhuri and Quinones find that while generally the Malaysian MFI programs have succeeded in reaching the poor, they need to go beyond their present framework of operations which may include, inter alia: developing new savings products, broadening their institutional base for resource mobilization by developing linkages to other financial institutions, and looking at Bangladeshi innovations in the capital market, accessing commercial loans, and augmenting capacity building.

II. Challenges for Development Assistance Programs

The ultimate goals of most development programs tend to focus around the alleviation of poverty and installing institutions and processes that will result in sustainable and economically vibrant democracies. Business improvement has been one of the vehicles to accomplish these goals. However, in the case of poverty, this can only happen if society is supportive of the potential of the poor and unskilled to improve their lot. Therefore, in order to facilitate this potential, development organizations must provide an enabling environment conducive to building skills, providing and facilitating access to credit, markets, and technical assistance, and advocating for necessary changes. These changes should not only be regulatory but just as, if not more important, in the everyday business practices that are often entrenched and based on unrealistic perceptions.

Yet, many donor organizations fail to either consider or comprehend the diverse cultural and societal aspects that are ingrained within a particular country or economy. Because of this, they tend to design and develop assistance projects from the outsider's perspective and thus, are doomed to repeat the same mistakes. This approach often appears to be a vicious circle with no way out.

A: Problems of the “One Model Fits All” Development Approach

Since one of the key elements to economic development is a fairly robust and functioning private enterprise sector, most development programs dedicate, in one fashion or another, a great deal of resources to these initiatives. Furthermore, since the vast majority of the funding for these programs comes from western countries, they often take a western “idealist” model and force it on one country or another. These models presume that economic growth will come through job creation and is best achieved through self-employment, especially at the micro or lower level of the economy, which can best be achieved with some training and enough money. They often take myopic approaches without considering the cultural and social norms, history and frames of reference, the realities of the market and lack of sustainable mechanisms, or the inner relationships between these factors. Instead, they try to insert new belief and business systems. These one-size-fits-all strategies tend not to take a “holistic” view—one defined as “emphasizing the importance of the whole and the interdependence of its parts,”

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according to *The American Heritage Dictionary*. There is little wonder that with so many implementing non-inclusive approaches that so few countries have made real progress when compared to the energy and money invested by donor organizations. There is often little attention paid to bring together the diverse skills, knowledge, expertise, human and material resources, and financial assets of organizations and programs that have, heretofore, been working independently of one another, and as a result, at considerably less than their full potential. If development organizations began pooling their resources, strengths, and areas of expertise amongst one another as well as within their own organizations, it would bring to bear wider ranging initiatives that promise to benefit the larger community.

Most approaches and programs tend to be narrowly focused and to concentrate on a single purpose, such as poverty alleviation activities, but without consideration of a larger picture. Though noble objectives, they are proving to be short on results given, especially given their cost, and they fail to actually attack the root causes or position the targeted beneficiaries in such a way as they may participate in and have a voice in the design and outcome of programs geared to help them. Only recently are donors beginning to notice that money alone does not cure poverty. Development programs often try to address issues such as the lack of skills, insufficient access to credit, and wider access to markets with targeted technical assistance. While attempts are made at improving laws and regulatory issues as well as institutions, improvement is seldom done in a holistic or integrated manner. Rarely is the entire interconnectivity throughout the chain realized in one unified approach. Though intents may be good, it is often like using a shotgun to go fishing—there is a lot of noise but seldom are there any lasting affects. Connectivity between all the various levels of the economic structure must be linked if positive impacts are to remain as a new norm.

One of the most common approaches is to deliver training programs designed to teach basic business management and promote self-employment. However, the vast majority of these programs fall short on the valuable aspects of enterprise development, which includes learning the techniques of production and financial, marketing, and organizational management. The capacity building is then often delivered through third in-country parties who have minimal frame of reference and whose primary motivation is to collect funding from a particular donor organization. Seldom are such programs delivered by a combination of a donor's or implementing organization's own operational and training teams in such a manner that a cascade of training efforts is developed. This would result in an increase of both the numbers trained and the sophistication of the training received, thereby developing a resource base of entrepreneurs not only able to manage their own businesses successfully, but able to share those skills with their communities. Comprised of individual, active business people running their enterprises locally, this resource base could be an integral part of the community.

As previously mentioned, in many developing countries a central theme revolves around the growing and pressing social problem of poverty reduction. Considering the high levels of poverty in these countries and their pervasive 'gray' economies, this goal is

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certainly on target. Yet, most programs tend to address only isolated aspects of the consequences and quite often do not get at the means or causes, nor consider the inter-linkages between the factors. These programs will attempt to address certain needs involving social aspects, or the problems of MEs, or those of small and medium enterprises (SMEs), but they will not examine how they may be connected or related through a practical “business” economic integration.

Currently, only one business approach—micro credit or finance—seems to focus on the issues. As a loan-side driven business, it is often left up to the enterprise to select the nature of their business, which is typically left to what they see around them. This often results in an over saturation of local markets, minimal business opportunities, or jobs but no wealth creation. This proliferation of similar low-tech enterprises also minimizes cash flows, increases debt, and hinders sustainable economic development in most communities. It also makes the huge assumption that most these beneficiaries are “entrepreneurs,” which is simply not the case—being self-employed is as much a survival concept as is being an entrepreneur.

The premise that countries such as Bangladesh are swarming with skilled entrepreneurs whose only need is a little finance is a fallacy; therefore, the premise based on putting credit in the right place is also false for it will not create opportunities for self-employment or new job opportunities. Even when an enterprise begins to function there are no guarantees that it can survive longer than a few months. And, if they do manage to live a little longer, they are generally unable to provide any new job openings as most are one-person or family-run operations. Unless they are able to expand to the extent that they can employ outside help, they will never contribute to the overall economic growth of the country. Since almost 80 percent of the jobs in developing countries are derived from entrepreneurial-based employment, a new job creation paradigm must be sought and applied. It should be one that will focus on the realities of job creation, not self-employment, by helping to create sustainable employment bases and opportunities for the “entrepreneurial disadvantaged” and focuses on mainstreaming them into the formal economy. This shift must be to solid market principles and be combined with support mechanisms.

If economic growth is to be followed through the market, then the goal of support policies and structures should be to raise and encourage a population that is both aware of and intelligent about its own long-term self-interest. This is a fine ideal but often hard to make a reality. Many borrowers, especially at the micro level, are quite poor. Often their situation encumbers their mind and body and they are unlikely to become a part of the “formal” market. Therefore, if micro credit is to be a tool for poverty alleviation, it must also be a tool for economic growth. This means it must be used to help enterprises choose a production-oriented business with which they are somewhat familiar and is needed at the local market. It must also be used to enhance skill capacities and business opportunities. However, products often reach saturation, quickly requiring the enterprises to switch products overnight just to retain the status quo. Therefore, there

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must also be access to alternative markets, which, because of social and/or infrastructure restraints, may not be possible.

In the last two decades, this single-minded philosophy has contributed greatly to micro credit growing into a worldwide industry. If the ongoing donor support for micro credit institutions is to remain, it needs to enlist these institutions as an important engine for economic growth. This means that they must not be approached as the band-aid for poverty but treated as businesses. Although over the years access to credit via micro loans is believed to be an important element in development, there has been little evidence that by itself it has helped alleviate poverty or been an engine for growth. After all, what good is a loan to weave baskets if there is no market in which to sell them or no road on which to transport them? Some fear that the continuation of micro credit as it is today could push people deeper into poverty if the social and market conditions are not considered and addressed.

If loan schemes, accompanied by some training, and current development approaches are to be seen as means for reducing poverty and generating the economy, it is clearly because no alternative has captured the imagination of donors in the same way. Though current programs have not been able to capture much in the way of sustainable success, until development actors begin to question their usefulness, they will remain as accepted practices. Improving conditions is more than addressing a particular hardship. Recipients are also affected by the social and psychological effects, whether it is living in poverty or any hopeless situation, business or otherwise. Even today, most are still prevented from reaching out for help, even if it is nearby, due to inner fears. This only serves to aggravate situations and increase social deprivation and discrimination. In the case of micro credit, this needs to be viewed as a lifeline of keeping target groups afloat; it most certainly will not turn most into entrepreneurs the way the development world currently functions. An example of this is the popular objective of empowering poor women, which has proven to be questionable at best. The industry needs to look beyond helping individual poor (not abandon) and begin a shift to identify bigger borrowers who can contribute to economic growth and create employment bases at this level of the economy.

As opposed to stimulating the real business opportunities and support structures for entrepreneurs through the commercialization and development of marketing and distribution networks for producer and service-oriented products and technologies, the single focus, one-size-fits-all approaches actually deter this natural development. The current approaches do try to address technology transfer issues, however, they tend to emphasize quantity as opposed to quality and the individual as opposed to an industry sector, which has prevented the proper transfer of knowledge, know-how, and procedures that are essential to the success of all enterprises. Finally, many of today's practices tend to discourage local market research that can translate social problems "on the ground" into local market opportunities that can help address real world needs within communities. If promoted, this could provide a unique solution to problems that currently have little or no solution outside what an NGO may be providing. *"Research*

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and development must be reconfigured to focus on both global and local concerns. First, local research must focus on the unique, basic needs of those at the bottom of the pyramid in particular regions or country. Second, it must seek to adapt solutions from other markets and other applications to local need. Finally, it must examine local practices to identify useful principles and potential applications.”⁶⁴

Development objectives must call into question today’s concepts that seem to rely on a one-size-fits-all approach. There needs to be a shift away from an emphasis that focuses on the distribution of money among enterprises to one that instills a measure of self-confidence that comes from a degree of exercising control over the recipients’ lives. The only thing that will help is to simultaneously improve the other constraints that keep people poor, hinder enterprise growth, prevent market and channel integration, and refrain from facilitating self-support mechanisms, all of which result in stagnating meaningful economic development.

B: The Need for Aid to Reach Constituency at Ground Level – a “Bottom-up” Approach: NGO’s Critical Role in Bangladesh’s Metamorphosis

The need for economic and enterprise development aid to reach constituency at the ground level, while ensuring its overall impact and sustainability, has been a concern of development programs over the years. However, the answers to what seemingly are basic questions continue to elude many. In broad terms this sustainability should encompass the capacity of the recipients to: 1) to progress toward and maintain financial and social wellbeing; 2) have the ability to adapt to social-economic changes; 3) access knowledge and skills enabling them to change business or operate structures to remain viable as markets and conditions change; and 4) incorporate new technologies and practices that allow them to not only survive, but grow their enterprises. “Program interventions that directly assist enterprises and organized [‘formal’] associations of similar enterprises have had the greatest impact. This ‘bottom-up’ approach has proven successful because the beneficiaries of the assistance are truly committed to improving the [status quo] environment. If an enterprise fails, the damage to its owner or owners is substantial. Associations can offer members-owners much greater opportunities for accessing policy change [and other support services].”⁶⁵

In the midst of the realization that enterprises at all levels of the economy, micro small or medium, need such assistance. There is need for new approaches to address these issues. Thus, a compelling challenge resides in determining what type of interventions work best at the micro level. The complex array of challenges and opportunities that are characterized at the micro level are also intertwined with social issues that play a larger role in the enterprise’s success or failure. To make significant

⁶⁴ Raising the Bottom of the Pyramid: C.K. Prahalad and Stuart Hart

⁶⁵ USAID/Bucharest: SME Growth and Development in the 21st Century: Vision for the Future and Assistance Strategy – Summary of September 1998 Meeting with Implementors

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changes that focus on a bottom-up approach, this level will require methods of research, consideration, and assessment that are systematic and inclusive of the entire socio-economic structure. To approach aid interventions in any other way will only serve to divert aid from the ground-level recipients. This, in turn, will require structured and multi-stakeholder dialogues and strategies at field-level that reach across self-imposed boundaries and which will result in integrated activities and interventions.

In an effort to reach recipients at the ground level, it is not only almost impossible but also unwise not to use existing indigenous resources—especially NGOs that have a special connection to this constituency. Developing this local capacity as a network to serve as a support mechanism to provide ongoing assistance for access to training, credit, and marketing assistance beyond any intervention is critical element of sustainability. Opportunities exist for programs to provide outreach to thousands of individuals through a network of NGOs, providing an excellent means to reach into rural and urban areas and provide efficiency, both in fund and program impact. These linkage infrastructures can serve as a viable channel for accessing market linkages and market information, as well as knowledge, skills development, and credit resources. Additionally, the outreach and client base of an NGO network will serve other development interests, such as healthcare, child nutrition, and community mobilization—all factors that effect enterprise sustainability at this level. These ground level organizations are especially important in taking leadership roles in the transformation and growth of a young country.

In the case of Bangladesh, NGOs have played a critically important role, as partners of government, in helping Bangladesh achieve such commendable break-through as discussed in Chapter 1. In the country's notable progression towards democracy, NGOs have played an important role in Bangladesh's 30-year history. In the main, this role has been positive, indeed essential, to the survival of millions unserved by the state in basic needs. NGOs played a seminal role in Bangladesh's development efforts from its very inception, although there were essentially three phases in their evolution.

Initially, immediately after Bangladesh's independence in 1971, there was a proliferation of NGOs, mostly foreign but some local as well. Their main preoccupation was the rehabilitation of almost 10 million returning refugees from India as well as those who were internally displaced as a result of the struggle against West Pakistani forces by the Bengali freedom fighters and their local supporters. These NGOs were small in size, each with its own limited program and coverage area. During the 1970s, there was not much interaction between the government organizations (GOs) and these NGOs, because their respective "activities neither overlapped nor contradicted with each other."⁶⁶ Although these programs did serve in providing the poor with needed goods and services,

⁶⁶ "GO-NGO Relations: The BRAC Experience"—Bangladesh country paper presented by Dr. Salehuddin Ahmed, Deputy Executive Director, BRAC at an Expert Group Meeting on Development Strategies for Multi-sectoral project Planning and Implementation by Government in Partnership with NGOs and the Private Sector, held in Lusaka, Zambia, April 20-24, 1998

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they failed to address the root causes of continuing poverty, which required the improvement of human capital as well as their productive capacity.⁶⁷

While Grameen's fundamental basis was that the poor simply needed access to credit in order to create and expand self-employment opportunities, Bangladesh Rural Advancement Committee's (BRAC's)⁶⁸ philosophical moorings were founded on the premise that the poor need skills development and organizational support. It believed that persistent poverty was caused by the entrenched exploitative economic structure imbedded in the villages, with the wealthiest households dominating rural society. As a result, the rural poor, who were totally dependent on this upper class, fostered a feudal relationship as insurance for their own protection and security. This could only be changed if the poor were given the training and the means to develop their own skills and trades. So BRAC's tools were to combine lending with delivery of organizational inputs like skills development and consciousness raising. Over time, Grameen and BRAC both learned and adopted from each other, although in their operations they differ in that BRAC insists on skills training as a prerequisite before lending credit, while Grameen continues to disburse credit before providing social development and other inputs.⁶⁹

The successful performance of these NGOs attracted for them progressively larger amounts of funding by international donor agencies, which also helped the indigenous (Bangladeshi) NGOs in enlarging their sphere of activities and to grow. Inevitably, this growth of NGOs also resulted in inviting suspicion of their role and activities and hostility from the bureaucracy and the government, particularly during the late 1970s and through the decade of the 1980s (marked by military/quasi-military and authoritarian rule in Bangladesh). Government and establishment officials tended to view NGOs as encroaching upon their turf and usurping their responsibility, and thus, saw them as potential threats to their own power bases.⁷⁰ However, in the 1990s, with the return of democratic governance, an increasingly symbiotic state of co-existence and cooperation emerged between NGOs and the GOs, which actually helped Bangladesh achieve remarkable results in alleviating poverty, economically empowering women, eradicating illiteracy, and reaching health and family planning education and services and myriad other programs to the rural population. The NGOs today parallel the government's own primary education program, with one NGO, BRAC,⁷¹ alone operating nearly 40,000 non-formal primary education centers.

While the government of Bangladesh has a major poverty alleviation program, more than 13 government departments/corporations/ ministries have implemented 64

⁶⁷ "Fighting Poverty with Microcredit," Khandker

⁶⁸ Acronym for the Bangladesh Rural Advancement Committee, established in early 1972 as a charitable organization geared primarily to help rehabilitate the mass of refugees returning from India. BRAC is today the largest NGO in Bangladesh.

⁶⁹ Khandker

⁷⁰ *ibid*

⁷¹ Acronym for the Bangladesh Rural Advancement Committee, a name that still exists in the registration records but is hardly ever used by the organization today.

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projects/programs having a direct bearing on poverty alleviation. The government programs/projects have diverse sectoral orientation (small and cottage industries, crop cultivation, fishery, livestock, infrastructure), providing varying inputs (credit, training, mobilization, health services, and education). In the NGO sector, there are some 13,055 registered voluntary social welfare agencies, an overwhelming number of which are local associations or sports/cultural clubs that do occasional social work. However, of these, there are 98 foreign NGOs and 438 local NGOs that receive foreign assistance and are registered with the NGO Affairs Bureau (under the Prime Minister's Office), engaged in poverty alleviation programs/projects. Of these, only a handful may be classified as truly "development" NGOs.⁷²

To give an idea of the respective "space" covered by GO and NGO, consider that in the poverty alleviation programs/projects, the government reaches 5.5 million people, while the NGOs cover 3.1 million (GO: NGO ratio of roughly 60:40). According to Bhattacharya, "the GOs in Bangladesh are coming to terms with the fact that they have to incorporate in their operational modalities the features which account largely for NGO success in poverty alleviation. However, NGOs, too, cannot operate in isolation from the extensive government delivery mechanism."⁷³ The latter also makes the NGOs somewhat vulnerable to the forces of corruption where they exist in the government structures.

As economic and enterprise development programs strive to reach more recipients at the ground level via a bottom-up approach, they must also address a multitude of issues from a wider perspective. NGOs have the potential to be much more than just social-based or credit-giving organizations and to aid greatly in this endeavor. They have the ability to transition into organizations and networks that can help spur economic growth at the micro levels and thus, contribute to the larger economic picture, just as they have in Bangladesh's evolution. As a participatory development institution, they can work as "partners" to complement and supplement the interventions of both the government and donors. In the last several years, there has been an increase in the viability, as well as in the contribution, of these organizations in Bangladesh. Unfortunately, much of it has not been channeled towards the larger picture scenario and several organizations have been accused as self-serving. Much of this criticism lays with donors who have contributed to this image through a massive inflow of funds but do not have the responsibility for overseeing its use or determining how much actually makes it to the ground-level constituency. At times, it seems like many donor programs have been more interested in the amounts they are giving to different countries than making certain it is spent in the manner or for the purposes intended. This includes the program dollars actually reaching the intended recipients, plus the effectiveness and the direct collateral benefits of a specific program activity.

⁷² Debapriya Bhattacharya in *Rural poverty alleviation in Bangladesh: An overview of programmes*; published in "Rural Poverty Alleviation," ed. Joseph Mullen, Avebury, UK 1995

⁷³ *ibid*

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However, the value of NGOs to positively impact and implement donor objectives should not be underestimated. They have the capacity to contribute to the quality, sustainability, and effectiveness of most donor-driven programs. They have the ability to upgrade their activities and extend impacts well beyond the micro level and become a major support mechanism in the overall economic development chain. While most NGOs are credible, have strong community ties, and are striving to make a positive impact on development, a large number still work in isolation and have very limited opportunity to learn and to grow to be viable and lasting support resources for economic and enterprise growth. Therefore “partners” should be carefully chosen based on a defined criteria for engagement.

The effectiveness in using NGOs is not only dependent on their internal strengths, but also on an enabling environment that can help them grow and expand their own capabilities to serve the constituency. In Bangladesh, as in other countries, the viability and recognition of NGOs as an avenue to reach the micro level has created a number of challenges for them that should be addressed within the program intervention. The first and most important of these is the enhancement of their competencies to recognize and address the changed reality of today. This includes being organized and professionally managed, and serving as a support mechanism. The second challenge revolves around the quest for long-term sustainability, increased pressures, and demands from various stakeholders and the ability to balance larger human and financial resources. The third challenge is the increasing importance of cooperating with other development actors, including other NGOs, to create linkages and synergy of efforts.

As development programs strive to focus their interventions and initiatives via an inclusive “bottom-up” approach, the partnering of a well-chosen NGO in an appropriate manner is critical. Long-term is often best accomplished if NGO capacity building is an integrated part of the development approach and the partners actively work together.

C: The Need to Rethink Strategies for Economic Development

“According to the International Labor Organization in Geneva, nearly a billion people (roughly 30% of the world’s labor force) are either underemployed or have such menial jobs that they cannot support themselves or their families...Creating buying power is thus the first priority among the strategies for the bottom of the pyramid...To break this vicious cycle of poverty, population growth and environmental degradation, two interventions are crucial – providing credit [on a commercial bases as opposed to government/donor subsidies] and increasing the income earning potential of the poor. A few farsighted companies [organizations] have already to begun to blaze this trail with startling results...”⁷⁴

⁷⁴ Raising the Bottom of the Pyramid: C.K. Prahalad and Stuart Hart

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Despite these needs most economic development processes often exclude more than 80 percent of the population, especially the entrepreneurially disadvantaged, from business opportunities, employment creation, and consumer participation. This results in a long-term economic impact that tends to benefit only a few and not the country overall. Intense local research in collaboration with a variety of organizations and universities, both in the United States and in the target country, is needed in order to get at the root causes and develop quality and sustainable production or service-oriented business opportunities that will generate employment while contributing to the national economy. These should be developed and implemented by facilitating alliances with private businesses, NGOs, investors and universities in the areas of agriculture, environment, energy, health, technology, communications, transport, distribution systems, cultural preservation, and growth industries where the country can position itself to have a strategic advantage. This alliance can make increased market penetration a reality, develop self-sustaining support mechanisms, and promote sustainable economic development at all levels. However, this will necessitate a rethinking of attitudes and strategies toward economic development from all development stakeholders, especially the donor community.

Too many economic development initiatives are designed around the particular objectives of either the individual donor or the implementing agency at that time (flavor of the month) and often tend to overlook the economic wellbeing of the recipient country as a whole. They fail to address ethical obligations and commitments to the country's people and, instead, are focused around special agendas. To a large degree, the decentralization of leadership and critical management decision making has led to this outcome. Project managers tend to focus on what will "make them look good," enhancing promotions and such without regard or even knowledge of similar (conflicting or synergistic) programs within their own organizations, much less those of others. Quite often there are people in a decision-making capacity that have no legitimate "on-the-ground" field experience beyond their office or education, but who are determining how things will be designed and operated. These people, both those within the donor's organization and those who have been contracted to implement the objectives of a program, are telling others how to operate a large project and/or business yet they have never done so in real life. There is a lot of classroom theory but little of it is mixed with real-world experience or organizational and operations "street-smarts." Too often the design and development of the assistance programs do not pay attention to barriers, financial or operational, political realities and environments, or the sometimes conflicting agendas from a multitude of participants. Many programs are often number driven to the point of obsession as opposed to valuing qualitative impacts and long-term results. There needs to be a renewed dedication to a new model featuring "holistic development economics" that emphasizes quality and stability. Any successful large private firm will testify that there is no substitute for quality—it must come first. Quality will yield quantity but seldom will quantity result in quality.

The rethinking must incorporate the development and use of available local resources, expertise, and services that are currently not being mobilized to any significant

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extent. Not only does this diminish the effectiveness and stifle the growth of area businesses; it is a major factor limiting the effectiveness of poverty alleviation efforts because income will never be secure until other community resources support it. At the micro level, increased personal income that must be spent on children's medical bills can't be used to enhance the quality of a family's life, much less generate business growth. The efforts of the hardest working heads of households will still come to naught if their sons and daughters don't have the opportunity to learn the skills they need to take their place in the larger economic community and become contributors to their families' and their community's growth. An example of this would be encouraging the use of existing local government and private facilities that could potentially solve some economic issues, as well as health and/or social problems.

The fact is, local support and service resources from private, donor, and governmental organizations, such as skill development training programs for youth, pro-poor loans given by commercial banks, and agricultural extension services are largely underutilized in many areas. In most cases, people are simply unaware of the existence of such services, or are too unsophisticated to avail themselves of them. In other situations, it is a case of the left hand not knowing what the right hand is doing; lack of communication and cooperation among development actors operating in the area have resulted in numerous missed opportunities to take advantage of support services that already exist in their own backyards, often in each others' organizations. Many of these problems could be addressed more effectively by development programs that tend to suffer from self-imposed restrictions. In short, the development approaches generally do not address issues from a holistic approach to economic development, resulting in missed opportunities for cooperation and resource sharing. They tend not to help people help themselves build mechanisms for sustainability.

Most large development missions are well intended and include a rich diversity of programs ranging from environments and social needs to enterprise development and rule of law; they bring a wealth of knowledge and skills. But often their objectives are unclear and the purpose (reason for being) is hard to realize. In addition, the government, other donors, private entrepreneurs, NGOs, MFIs, Chambers of Commerce, and commercial banks, and other stakeholders have seldom been brought together to help determine a synergistic direction. These organizations can be facilitated as a group to direct their many and varied resources to activities focused on providing beneficiaries' access to technical assistance, institutional finance, alternative markets, and valuable local resources, and on assuring long-term, sustained economic growth through enterprise development. They serve a variety of clients, urban and rural, and can help unite efforts to work toward *three distinct but* appropriately business-like objectives: *1) to promote micro and small enterprises as a means of poverty alleviation by mainstreaming them into the local, regional, and national economy; 2) developing down and upstream linkages throughout the chain, especially with medium-sized enterprises, and 3) reducing program costs and maximizing resources in an effort of self-sustainability.* It is their diversity and various strengths that promise to enrich and elaborate these easy-to-understand objectives.

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By facilitating the micro and small enterprises into the larger economy, providing them knowledge, timely information, and support mechanisms on how to access the markets, credit, skills, services, and the human and material resources they need to flourish in a modern economy, the overall pace of development would move much more quickly. This access to dependable local resources, technical knowledge, and markets will ensure that all enterprises (micro, small, and medium) begin to participate as viable market forces.

The goal of rethinking new strategies should be to position the organization's approach to serve the needs of its stakeholders in a way that integrates its mission, public relations, financial, and human resource objectives and strategies. Therefore, a critical measure of success will be whether the expectations of these stakeholders have been met in an integrated way that promotes self-reliance. The organization can be any one of a number of entities (donor, a specific project, or program, etc.) but will be serving multiple stakeholders including the targeted group, suppliers/providers, government officials/representatives (both donor and host country), NGOs, private companies, and the community at large, etc. Expectations may certainly vary with such a diverse group and conflicts may arise from time to time, so one of the most difficult aspects of the approach will be getting all implementing staff rowing in roughly the same direction. After the strategy is formulated, the task will be to develop an operational, marketing, financial, and human resource plan that supports the new direction and overall "big picture" objectives. To this end, the use of performance measures that are quality focused can help multiple component organizations operate better as a whole. If the performance measures are carefully selected, they should help concentrate on serving the needs of the various stakeholders. Focusing on stakeholder satisfaction by reducing the problems associated with fragmentation is a central tenet of an integrated approach. As simple as it may sound, the challenge comes in evaluating the stakeholders and determining which criteria and tools should be used for measuring.

Innovation and growth is vital in most large businesses today as is seen in the mantra "innovate or solidify." Unfortunately, in many development programs the opposite seems to prevail—that is, protecting the status quo and avoiding risk taking is the management and operational motto. For any long-term development program to produce sustainable impacts, it must continue to grow and promote innovation and initiative. Everyone involved in the operational aspects as well as stakeholders have an interest in whether the program can innovate and grow. Like quality, innovation may be more difficult to measure, although indirect measures can be used. Measures for growth are usually straightforward and often spelled out quite directly from the beginning. They generally include sales and specific numbers of something (x) created. Measures of innovation can include percentage of sales coming from new products and new markets or even "new" initiatives taken by staff that relate to the overall mission of the program. In addition, the percentage of the budget or expenditures that are devoted to these new initiatives and research or staff training are indirect measures of innovation. However, far too often local missions will not allow such development and evolution within a

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program because it is out of the immediate scope of work or does not fit a particular personal agenda. Few will take the responsibility for saying yes, hence, innovation is stifled and programs stagnate due to outdated thinking and approaches. Any proactive, private firm would certainly die if it did not reinvent itself and its thought processes for doing business on a regular basis. In today's world, development programs need to begin taking a similar approach if they are to have lasting impacts.

Engaging the various decision makers in determining how the organization will define success can bear fruit in and of its self, with performance measures being used at all levels of the program. These indicators should be selected by an interdisciplinary team comprised of various stakeholders and key program management who will be held accountable for these objectives and who will be responsible for implementing strategies to reach these objectives. This approach is intended to promote "buy-in" from all the various components even though their work may be fragmented and their areas of immediate responsibility different. These strategic measurements can be driven further into the program by having them direct the organization's performance-evaluation process. These important measurements will obviously take on more meaning for staff if there is a reward system (bonus, merit awards, etc.) that is driven by pre-agreed upon criteria. However, a key point to reinforce in this management process is that responsibility cannot be assigned without also giving accountability and authority to the same person—all three must come as a package. As with any performance measurement tool, reliability, validity, and accessibility of the necessary data all need to be taken into account. Also, performance measures are generally descriptive data that alone do not identify clearly the cause of success or failure. Programs should not be held captive to numbers, yet they will help formulate appropriate questions and focus on critical strategic objectives and the allocation of resources.

In the design and implementation of development programs the challenge to think broadly and across functions, such as having cross component teams develop performance measures, is often complicated by the limited capacity to understand complex situations. There is a risk of diagnosing the program's issues incorrectly and then proposing inappropriate solutions. "The strategic-planning and [implementation] process must uncover ways for participants to break through narrow worlds, and interact with people in different functions so that people can get a larger sense of the whole."⁷⁵ This is not an easy process in many development programs, especially since often there are minimal frames of reference and a necessary one is usually absent. While techniques such as group problem solving can help overcome flawed reasoning, it must be recognized that there are often serious barriers to change, some of which are regulatory but most of which are self inflicted. This does not imply that programs should be run by committee; this is a recipe for failure. However, "decisions of minimal consequence will and should be guided by instincts [based on experience], but important decisions, such as the [program] directions and strategies, must involve multiple perspectives."⁷⁶ This

⁷⁵ Mintzberg, *The Rise and Fall of Strategic Planning*, 1994

⁷⁶ Nibett and Ross, *Human Inference: Strategies and Shortcomings of Human Judgment*, 1980

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course of design and management tends to be absent from field programs today, or at best, is only done superficially, but it should be incorporated in tomorrow's economic development approaches utilizing local staff as key decision makers in the process.

In summation, countless reasons have been given to explain the failure of many development programs and/or the organizations that try to implement them to respond to the changes in the environment in which they operate. Often, the search for solutions to problems never extends much beyond already known or perceived solutions. "The organization is motivated to transform ill-defined problems into a form that can be handled with existing routines."⁷⁷ Like many private firms, economic development programs tend to fall into the same trap, which is why we must rethink their design and approach and above all the way they are implemented and managed. The strategies used should be ones that constantly teach key decision makers about the important issues that are confronting the program and how they can best be resolved. Historically, the strategies of most development projects have only focused on the issues at the top. However, strategic issues are present and emerge from anywhere in the organization and initiative to push these issues forward should be encouraged by staff at all levels. This is especially true at a program's supervisor level, where insights about strategic issues affecting the overall objectives of the program are often missed by senior leadership.

The other key point is that the staff implementing the overall objectives of the program should be involved in the program's conception. Yet, the importance of leadership in crafting strategy and tactics is paramount. Development programs and the organizations that implement them at field level need strong leadership that promotes systematic thinking and behavior among all staff within their own organization, something that too often is missing. These leaders must be encouraged to create organizations that are responsive to the ever-changing environments and realities of these transitioning countries, and accordingly, develop structures that promote collaboration and minimize territorial claims within the overall development program or their own organization. Only in this way will a program or organization be able to function in an integrated manner where it begins to address the overall implications of its objective.

This rethinking of design and management of economic development programs will place leaders in situations forcing hard choices, but in the long run the program and the country will benefit through a well-led organization. Strategic thinking and acting that promote initiative and ideas throughout the field-implementing organization should be more important than any particular approach. Through instilling this sense of purpose and wide-based involvement, expectations of all stakeholders will be exceeded.

The previous discussions and relationships serve as an important context and were valuable factors in the redesign of the JOBS Project. Chapters 3-6 will discuss the JOBS Project specifically and its successes in Bangladesh. It will focus on the practical "business" approach taken, while examining how and why the Project rethought its

⁷⁷ Miles, *Coffin Nails and Corporate Strategies*, 1982

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original/traditional development approach to one that was much more integrated and economically sound and used many of the above-mentioned principles. As is the case with Part I, it based on a synthesis of field experience, social and cultural norms, factors of historical significance, and observations of micro, small, and medium enterprise development approaches.

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III. The Genesis of the JOBS Project

In examining any development project and its success or failure, it is important to understand where it was, where it is today, and where it is going tomorrow. The dynamics and reasoning for any transition are often critical to this evaluation.

Donor-sponsored projects intended to improve grassroots economic development should base their mission, purpose, design, operation, and management on successful, private multidimensional firms. Although these types of projects will necessitate management with a corporate operations background, it is worthwhile for a variety of reasons. On the surface, this may seem to create a conflict between the “social” aspects at play and the realities of economic development through enterprise growth; if properly led and managed, this should not be a factor, as such firms deal with these issues daily and can better integrate them. In order for a development project to be successful, these two agendas must be considered and melded together where possible. When these principles are not fully considered and inclusive, the project’s overall impact on individuals and the country is often minimal compared to the resources and energies spent—in short, not sustainable.

Small and Medium Enterprise (SME) is often the target of policies and programs aimed at creating growth and employment in developing countries and is believed to play a key role in sustaining economic growth. However, most countries are unable to capture market opportunities requiring large production quantities, homogeneous standards, and regular supply channels. They tend to have difficulty achieving economies of scale in the purchase of inputs, such as equipment, raw materials, credit, and consulting or support services. While there are many reasons for this, there are two primary reasons: 1) development projects tend to take a myopic approach attacking the pieces as opposed to considering the whole (a private firm in a developed country would never last using this approach); and 2) there needs to be a shift in overall economic development strategies to one of advocacy for new ideas and practices within the country. Advocacy is essential to ensuring the success of any new idea. By strategically linking people with different perspectives to find a common ground regarding something that will benefit them (what’s in it for me), advocacy creates the critical mass for acceptance of new concepts, policies, relationships, and business practices.

This chapter of the paper will focus primarily on the initial JOBS Project design, its direction, its management and the evolution of the organization as a whole. It will also highlight its transition to one emphasizing overall economic wellbeing that encompasses social and enterprise development through advocating integrated relationships.

A: Surveying the Landscape – Concept, Design, and Management

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The USAID-JOBS Project began in September 1997 (presumably it was designed in 1996) as a 5-year project to help alleviate poverty by creating jobs—hence, its name, Job Opportunities and Business Support (JOBS). The original design was consistent with the thinking of the time and focused directly on job creation centered primarily on direct assistance to enterprises. It was created in response to USAID Strategic Objective 5, “Growth of Agribusiness and Small Business.” The original Project was composed of three primary components for technical assistance: 1) Micro Enterprises (ME); 2) Small and Medium Enterprises; and 3) policy interventions. Each of these components was operated independently, but within the overall project, like many development programs, it was totally number driven. There was minimal attention given to the factors that contributed to “sustainable” development or the inner linkages between those factors. It was very insular in design and structure. The following is a brief description of each of the components as it was.

1. *The Micro Enterprise (ME) Component* worked primarily with two large NGO organizations to deliver needed training and technical assistance to member micro enterprises. This followed an approach whereby access to credit combined with training would create micro entrepreneurs—that is, self-employment jobs. (It is important to point out that there is a fallacy with this assumption. Most MEs are not micro entrepreneurs at all but more self survivalist because they have no alternative.) There was little attention given to markets, neither needs nor demand, nor were upstream linkages established. The model was a fairly standardized methodology at this time in which an NGO stakeholder assists in the identification and selection of potential MEs through criteria of the NGO’s design; again, numbers “touched” was the driving motivation. Third party providers (training organizations) were then contracted and paid by JOBS to deliver basic business management training modules to the ME at the NGO’s field office. There was some followup by JOBS, but the majority of the accountability was the responsibility of the NGO.
2. *The Small and Medium Enterprise (SME) Component* worked directly with specific enterprises in a variety of sectors deemed to have potential for job creation. The focus was primarily on developing exports for the individual enterprise. There was minimal attention paid to developing the industry as a whole or the linkages, upstream or downstream, which could be developed. Again, the overriding focus of generating immediate sales—and thus, jobs, was the driving force for all technical assistance. JOBS facilitated customized training and technical assistance for different level SMEs, as well as design and marketing interventions as needed.
3. *The Policy Component* operated at the outset as the driving focal point or core driver of the Project. There was almost no interaction or cause-effect relationships designed between the various components. However, the component focused on effecting major policy changes and initiatives that it perceived would enable SMEs to operate in an environment more favorable to

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economic growth and activity. Once this was established, the actual enterprises could grow and generate sales to create more jobs.

At the initial phase of JOBS, the Policy Component set the agenda and initiated the background research that would be used to determine the necessary intervention strategies by the SME component, and to some degree, the ME component. Once the research was in place and the sub-sector studies completed, the operational needs of the other components would move forward with the Policy Component playing a support function and moving into other areas of interest. From an organizational standpoint, the Project was policy driven as opposed to operational/field driven.

During this time period many projects and endeavors, JOBS included, were about “putting numbers on the board” as opposed to realizing impacts on the overall economy and the relationships between various levels, such as societal and economic. This often lead to an array of activities comprised of too many unfocussed issues, sporadic efforts, and unattained expectations in a changing organizational and operational setup. To break this common development cycle and reality, JOBS brought in new leadership and management that insisted on the freedom to design a strategic shift in thinking and the overall development strategy. USAID recognized the need to foster a “new” approach and permission was given for JOBS to transition into an economic development-centered project.

In an effort to reap a higher degree of achievement in the shortest possible time, emphasis was placed on extensive networking with enterprise development organizations, training institutes, chambers, trade associations, banks, NGOs, and other donor programs/organizations. This, combined with a closer collaboration amongst the other components, served as a means to create greater synergy and develop an overriding central strategy within JOBS that was inclusive. Additionally, acknowledging the fact that policy matters by nature are extremely difficult to change in a predetermined time frame, the Policy Component actively encouraged institutional capacity building as well as create linkages, therefore facilitating a mechanism for longer-term enterprise development interventions.

The building blocks were being put into place to transition the Project into a “flagship” model that had greater outreach to the overall aspects of the Bangladeshi economy and emphasized “genuine” sustainability of its activities and the beneficiaries of its technical assistance.

B: Lessons Learned – the Transition Begins

As JOBS restructured its operational philosophy and integrated its diverse programs and activities to focus more on strengthening the important underpinning of the economy, the Project noticed an immediate increase in sales growth (both overall and per

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enterprise) and the creation of wage-based employment opportunities, as opposed to the previous self-employment direction.

JOBS made quantum leaps in image, outreach, and positioned itself for significant economic impacts. The Project began its transition into an integrated “business-oriented” operation but still maintained focus on the key result areas (KRA) on which it was being judged and the overall impacts to Micro, Small and Medium Enterprise (MSME) job growth and sales generation.

Several important changes during this transition involved the environmental and organizational structure that the Project’s staff worked under. The individual program components (programs) maintained their uniqueness and special needs while at the same time being integrated into a unified and synergistic Project, an approach often lacking in many development programs. Through implementation of this process and its mechanisms, the Project began to realize its potential, those of its staff, and position itself to exceed all its benchmarks in a cost-effective manner, while maximizing its impact on all KRAs.

To accomplish the Project’s operational transition from one with a single myopic perspective, the management realized it also needed to strengthen interactions and create productive relationships between USAID, the Government of Bangladesh (GoB), and its stakeholders, beneficiaries, and recipients, as well as other donor programs. These became essential elements as the Project sought to extend its outreach and overall economic impact to the Bangladeshi economy. This approach manifested itself in a more intensive long-term business approach throughout the entire organization and the manner in which the Project operated its various programs and initiatives. Key ingredients of this new approach included a cost analysis of operational activities with an emphasis on long-term sustainable impacts, both up and downstream. JOBS continued to put a high priority on its ability to work closely with the above-mentioned groups while at the same time improving its own organizational effectiveness and development.

The economic and political environment within Bangladesh, as in most developing countries, can fluctuate; therefore, while plans were designed to address projected activities, the management was also flexible enough so the Project could take advantage of opportunities as they availed themselves. It should also be noted that while quantitative goals were a focus, additional emphasis was put on determining the qualitative aspects and the economic impacts of the numerous programs and Project activities to be described later in the paper.

An important point not to be missed during this transition is that while the Project was moving toward a totally integrated organization, both operationally and functionally, it still retained the integrity of its three distinctive programs (SME, ME, Policy). Each of these functioned in collaboration, yet independently, due to the differences in their respective beneficiaries, focal points, and targeted objectives. Each of these distinct programs also began to expand and comprise various auxiliary programs and targeted

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initiatives under the overall umbrella of JOBS. A universal mission; the continuing philosophy of open program communications, staff interactions, responsibility, authority, and accountability coupled with hands-on management (not micro-management) fostered a work environment conducive to producing extraordinary results.

The SME Program made a strategic change to focus on developing four key industries/economic sectors. The criteria involved relatively new growth sectors with high export potential and if developed properly could also impact domestic markets. The final criterion was to address sectors where donor programs were not concentrated and JOBS would have a real value-added impact. The SME program became very client focused working with firms that would contribute in cost sharing and had potential to be industry leaders. The emphasis was on sales generation, first, and employment creation, second. It also placed emphasis on export capability and cluster development—downward linkages to Micro Enterprises. This did not mean that all clients were currently, or would be, exporting during the life of the Project, but the majority at least had the desire and capacity to in the future. This new approach resulted in tremendous leaps in the program’s impacts and set new heights in both domestic and international sales. An example of the success of this approach was evident in the footwear industry. The SME team identified Japan as an opportunistic niche market for Bangladeshi footwear, but knew it had to be addressed very strategically. By taking a long-term approach, combined with a series of targeted interventions before market entry was attempted, the result was nearly \$2.2 million generated in its first entry—far exceeding our estimate of \$300,000. In addition to the export sales increases, there was an additional 141 percent increase in sales in the domestic market, much of it linked downstream to ME clusters.

Both the SME and ME programs had similar KRAs but in reverse importance; hence, the strategies of the programs were different. Whereas the SME program was very industry and sector specific, the ME program was much more region driven in an attempt to cover as much of the country as possible. Though there was interaction with specific recipients, the program utilized a diversity of NGOs and resource organizations to implement its objectives as opposed to the original two organizations. Its KRAs were first, employment creation though the development of a sustainable employment base at the ME level of the economy, and second, sales generation.

The programmatic transition included a new philosophy and enthusiasm in the Micro Enterprise Program, which went from “supporting” two large NGO organizations in previous years to a much more focused approach of reaching the “grassroots” organizations. The program began working with eight different “regional-based” stakeholders that had demonstrated a desire and focus to truly help alleviate poverty. The Project’s new emphasis on cost sharing and joint management, coupled with responsibility and accountability from its partners, allowed JOBS to cut its per recipient cost by more than 50 percent.

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Since two of the missing ingredients with most ME programs are addressing the lack of proper pricing and the inability to effectively reach markets at this level, the ME program further diversified its outreach and technical assistance (TA) through the development of a proactive marketing team. A separate market linkage team was established to foster linkages with leading SMEs, to facilitate market access, and to maximize sales and profits at targeted ME product sectors. The Project's ME marketing team quickly began to find remedies to this problem. An example of this success occurred in the design and implementation of two successful initiatives. One linked pineapple growers directly to the country's largest manufacture of juice products, while the other linked dairy farmers to a major distributor. In each case, the profit margins of the local producers were more than doubled.

The Policy Program defined three distinct areas of operation in which it could effect change as well as have both an immediate and overriding impact on economic development. The programs were E-Commerce/ICT, Access to Credit, and Loan Facilitation. Each of these was a major activity in its own and spanned from access to alternative credit resources at the grassroots, to SME capital and lease financing, to macro-level policy issues involving secured credit. The Policy Program crosscut both the SME and ME programs and served as a vital link in each of the other program's interventions and actions. Tying all the programs together under the JOBS umbrella was an array of training and facilitation programs, plus selected media, advocacy, and public relation activities. The Project quickly became recognized as the leading expert in all its focused involvement areas.

As the Project continued to build upon its successes, it reached new milestones exceeding all USAID and in-house benchmarks. During this transition, JOBS maintained its focus on KRAs and overall impacts to MSME growth, sales generation, and facilitating an environment conducive to employment creation. The change in direction and "larger" economic outlook began to manifest itself in a further expansion of the Project's outreach efforts—some of it self-driven—while others were at the request of USAID and the GoB. A project that was fairly self-contained had transitioned into one that was "innovative and showing initiative in breaking new ground."

A new "Law of Secured Finance" was one of the standout achievements of this new direction. The Ministry of Finance formally introduced it into the legislative process for passage. This was the successful culmination of an enormous effort and collaboration between JOBS, GoB, and various private Bangladesh entities. Policy victories were also realized through the Project's E-commerce/Internet Communication Technology (EC/ICT) activities, which were engaged to work with the GoB's IT Task Force (ITTF) to implement its objectives and help develop an environment that would be conducive for the growth of E-commerce. Because of the diverse, yet interrelated, work with which the Project was now being challenged, a separate policy component was developed that focused on "Micro" policy issues. This team began addressing practices and presumptions at the ME level of the economy as opposed to actual laws or regulations

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that the “Macro” Policy Team focused on. This team helped facilitate the first-time realization of commercial inter-banking activities to serve the rural needs.

The MSME development programs continued to move forward with greater enthusiasm and thrust, intensifying efforts to not only increase export sales and generate employment, but also strengthen linkages within the economy. The entire Project was focusing much more on developing and facilitating mechanisms and “processes” that will help spur and support economic growth rather individuals. The other primary shift was emphasizing quality activities with lasting, long-term impacts and TA rather than quantity.

The Project’s increasing direct involvement in program operations by its “partners” and stakeholders also enabled JOBS to remain flexible and to focus objectives based on realistic impacts. During the transition period, the MSME teams were fully involved in all program designing, planning, and implementation, which resulted in program “buy in” and the achievement of accomplishments formerly unattainable. Previously, the direction, and to some degree the administration, of the Project was dependent on stakeholder decisions. This resulted in severe limitations for adopting changes in program objectives, direction, and approach. However, the Project transformed into one of multiple complementary and cost-effective programs in which, to a large degree, it was able to control where its resources were utilized.

It is important to note that the operational and programmatic changes positioned the Project to provide impetus for lasting positive impacts to Bangladeshi enterprises and overall economic development. By getting the major programs to function in a collaborative and synergistic manner with a universal mission, JOBS was now extending its outreach and influence well beyond the original design. As time went on, this entailed further pragmatic modifications in the future direction and the manner in which JOBS conducted its business. To help determine this direction, JOBS staff (including expatriates and local management) and USAID representatives regularly worked together to identify a series of SMART objectives. Entrepreneurs, GoB officials, practitioners, and NGOs were also consulted. The theme was based on “What Is JOBS Leaving Behind?” with a focus on how we can continue to evolve the Project to maximize our efforts of sustainability, self-reliance, and long-term impact with the end results being greater job opportunities, as well a significant increase in the employment base.

C: Strategic Shift to an Overall Economic Development Strategy

Much of the ground work for JOBS’s strategic shift to an economic development strategy, utilizing actual enterprise development as the key ingredient, was designed by the Project’s management and summarized in the previous section. The philosophy was based on the reality that although there may be multiple agendas (at times conflicting) running continuously between the contractor, various donors, and the host country, the

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ultimate ethical obligations must be toward the economic wellbeing of the country. For JOBS to function as an enterprise development project producing sustainable impacts, it had to focus on the overall economic development and linkages between the various layers of the economy in a much more “holistic” manner. The premise was the “ultimate” responsibility and obligation of the Project should to look ahead and beyond its “on-paper” activities or preset conditions. To do this the Project had to position itself in a leadership role and be recognized as such, both among other donor programs and with the GoB. In this role, the Project could then have the capacity and ability to help facilitate direction in specific areas of the Bangladesh economy that would ultimately benefit MSME business expansion, job creation, and the economic wellbeing of Bangladesh as a country.

To materialize this goal, it was essential to develop and enhance human resources, support institutions, and policies and practices conducive to growth through both technical assistance and capacity building. This can only happen through a systematic change and improvement of attitudes, knowledge, skills, and behavior patterns required by individual entrepreneurs, advocacy groups, and decision makers in order to make possible activities leading to sustainable growth and expansion. This is often associated with further education and support systems, that is, skill based knowledge and resources based on the increasing needs or requirements that must keep pace with the progress of enterprise growth, and thus, the economy overall.

Despite the potentials for political and regulatory uncertainty, business in general, and MSMEs in particular, can be major contributors to a transitioning economy, helping to improve the poverty burden through wage-based employment and enterprise development. Bangladesh is a prime example. Furthermore, in the new global environment their potential impact upon economic growth has gained added importance—both domestically and internationally. However, unless businesses can successfully introduce and compete with their products in the marketplace, their exports (MEs to the larger and more lucrative city markets in the country and SMEs to the global markets) are likely to be insignificant and will fail to make any measurable or positive economic change. Hence, JOBS began to build upon achievements of the past with the purpose of leaving behind sustainable enterprises, supported by independent mechanisms and resources to further expansion and growth.

Since JOBS was somewhat restricted to being primarily a TA development project, it relied heavily on teaching skills, facilitation, and the transfer of knowledge from both domestic and international experts. This was coupled with long-term oversight, consultation, and follow-up. It provided a series of interventions and trainings through all its various programs that led local decision makers to making decisions on their own that were “home grown and not forced.” In all program activities, that is, enterprise development and policy, teaching, training, and facilitating, played an important role that was followed by a series of activities to ensure proper and effective implementation and maximum benefits—all geared toward expected results. Thus, the wider role of the training aspect of JOBS was to extend technical assistance to the

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recipient organizations and institutions and their clients through specific programs or component teams.

As with any organization, JOBS went through a series of transformations as it has evolved into a showcase project; it was always searching for new and innovative means to deliver significant results. Despite changes in management, philosophy, and personnel within the Project and USAID, unforeseen obstacles, and factors beyond the control of field management, the Project maintained its focus and developed as a leader among donor programs in Bangladesh. This is evident by two telling examples: 1) the GoB asked JOBS to write the country's new IT Act; and 2) the GoB and many bilateral missions also requested most new donor projects to discuss avenues for synergy and the application of "best-practices" with JOBS prior to implementation.

The Project continued through its final year to focus on activities in four major areas where it believed it could maximize economic impacts and increase the wage-paying employment base:

- Affecting more market-oriented policies, regulations, and practices in regard to the GoB, NGOs, institutions (banks, chambers, etc.), and the private sector.
- Developing stronger business support mechanisms and organizations that will serve the needs for developing MSMEs.
- Putting building blocks in place that will enhance the graduation of MEs in an effort to facilitate their mainstreaming into the "formal" economy.
- Improving the performance of lead enterprises in targeted growth industries, including improvements in marketing, production, finance, and sales generation.

To accomplish these goals the Project strove for more innovative ways to conduct business with a view towards the overall future of Bangladesh. To do this, the Project again modified its direction to act more as a venture capital fund, as well as a TA organization, leaving behind successful enterprises, better business support institutions and service organizations, and better policies, laws, and practices, at both the ME and SME level. To accomplish this, JOBS again decentralized its organization into six very distinct but interrelated programs:

1. SME Development Program – to work with export-oriented industries based on a sector, lead firm focus.
2. ME Development Program – to work with NGOs and regional providers to build a sustainable business model.
3. Micro Policy and Marketing Linkage Program – to work on "grassroots" business practices and to improve support mechanisms and resources.

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4. Macro Policy “Access to Credit” – to work on key overriding issues and laws that effect SME accessibility to capital, primarily secured finance.
5. Macro Policy “EC/ICT” – to work with both the GoB and private sector to facilitate an environment conducive to conducting business via IT.
6. Training Program – to work with all programs and staff on the design, implementation, and delivery of TA and training activities.

As in the past, the major objectives were determined by developing Specific, Measurable, Attainable, Realistic, and Time-bound (SMART) goals for each program. Individual program strategies were then integrated throughout the year and were largely in control of in-house management. The only possible exceptions were certain aspects of macro policy activities, which were largely dependent on the GoB and an institutional desire to improve the status quo. The MSME programs demonstrated intensified efforts that not only increased sales and generated employment bases, but also reflected an increased emphasis on backward linkages for key market sectors. The entire Project focused more on developing and facilitating mechanisms and processes in order to spur and support economic growth and linkages.

After this shift to an overall economic development strategy, JOBS was recognized as spearheading groundbreaking and innovative work in several areas. They included: SME export development; EC and ICT policy, secured lending concepts; micro policy and the enabling environment for MEs; marketing linkages between MEs and lead firms; and SE and ME development of “*clusters*” and “*producer/business associations*” among those enterprises that otherwise could not effectively compete individually. For the purposes of clarification:

Clusters are an input link of a formal marketing chain or channel that is often dominated by one or more lead firms engaged in exporting or supplying a larger market. The clusters are often developed with the assistance of the lead firm(s) and are then subcontracted; whereas

Producer/Business Associations are a formal group of like-minded individual producers that are organized and developed without the assistance of a lead firm and are seeking to expand their business beyond an existing market that may or may not be penetrated, thus enabling them to compete more effectively.

In order to learn from these initiatives, research and knowledge sharing need to be expanded for dissemination, both within Bangladesh and to benefit USAID programs globally. Though the design and direction of certain initiatives is always evolving (as it should) they are often counter to the traditional views of some “experts” and certain “status quo” thinking of the moment. The direction taken by JOBS also went through this but is now being proven as a viable “real-world” approach to economic growth through enterprise development. In addition, the activities of each program were designed to complement the overall objective of economic and enterprise development in order to move the country towards a more sustainable and level playing field, both

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domestically and globally. The detailed descriptions of these initiatives and theory behind them are described in Chapters 4 and 5.

Through its evolution the Project underwent substantial changes in terms of strategy, focus, cost efficiency, and experimentation with new promising initiatives. Throughout, the Project retained a consistent and integrated methodology that linked the various programs. Although the agendas were diverse, moral footing centered around: 1) a means to achieve higher economic growth and employment, 2) reduction of factors contributing to poverty, and 3) meeting certain social objectives. The positive results of the strategic shift in Project focus were both qualitative and quantitative, plus they were validated above expectations. These are the steps that must be built upon. As with any organization, total reliance on past accomplishments is a recipe for failure, therefore, concentration should be on areas with the greatest chance for immediate success, combined with both short- and long-term sustainable impacts. Each aspect should be centered on capacity building and the development of self-supporting mechanisms in addition to structuring reliable employment bases and the means to support them. This will necessitate facilitating a continued evolution of JOBS's direction as well as some "out-of-the-box" thinking.

In summation, while all Project activities had a central focus to work on MSME development and economic expansion, they addressed the problems from various aspects and vantage points. Though JOBS was not a business development service (BDS) project by design, the overriding philosophy of BDS played a role. However and more importantly, the establishment of an enabling environment at all levels of the economy that merged both social and business realities to foster economic growth was the central theme of the Project and the reason for its success. The Project's modus-operandi was to only apply its energies where it could represent value-added benefits and be on the cutting edge. The purpose was to best serve the people and overall economic wellbeing of Bangladesh. Both USAID's and JOBS's management and staff flexibility to address changing environments were essential to the Project's success. By the end, JOBS was in a position to either "spin-off" non-subsidized, private activity or facilitate the capacity of organizations to carry forth certain related services upon its termination.

Finally, one of the major contributing factors to the success of JOBS was the ability to hire and identify strong Bangladeshi leadership within the staff of the Project, and then foster an environment where they could grow as both leaders and managers. By having them take an active role in the management of the Project, these professionals were the major contributors and the reason for the success of each program and JOBS as a whole. Within the JOBS organization, there was a central belief that responsibility lies beyond the goals and objectives within a specific business plan or strategy, it also needs to foster leadership growth within our own Project. The process of helping further develop these abilities was an ongoing process at all levels of the organization.

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IV. The Graduation Process – Mainstreaming Micro Enterprises

The so-called “gray” economy is pervasive in virtually all developing countries and thus needs to be a primary concern if economic development is to become a sustainable reality. The amount of unrealized revenue from taxes alone in the “gray” economy is thought to be in the millions, therefore, even a small dent would make a significant impact on the country as a whole. Though this topic is not the focus or purpose of the paper, it is a subject for discussion in its own context and is an important fact to keep in one’s mind. Of the thousands of enterprises that participate in this phenomenon, Micro Enterprises (MEs) are one of the most represented. However, this is often not by choice but more by the fact that they tend to live and conduct business at the lower levels within the overall economic structure or climate of the country. There is no quick or easy answer to this problem, but if these enterprises can be mainstreamed into the “formal” economy the benefits will be far reaching.

This chapter will focus on the work that JOBS was doing in an effort to begin mainstreaming Micro Enterprises (MEs) into the formal economies—both within their region and the country. It will discuss a successful approach used by the JOBS Project that grew during implementation in an effort to assist MEs to become viable and contributing members of the “formal” marketplace. Throughout its various sections, this chapter will retain three primary themes:

- 1) How MEs can grow and change the credit regime;
- 2) The need for expanding and developing employment bases at this level of the economy; and
- 3) The JOBS facilitation of this process.

A: Approach Rationale

The ability of MEs to be competitive and consistently compete within open markets beyond their immediate reach has yet to be proven on any significant scale, though there are isolated cases, this tends to be a hot topic of debate within the development arena. The business development services (BDS) theory is the latest buzzword in the development field; however, for all its promise few organizations have managed to implement it successfully or even give it a working definition that can be applied in the field. Because few BDS case studies exist, the concept is changing constantly. One general definition is: “Business Development Services are services that improve the performance of an enterprise, its access to markets, and its ability to compete.”⁷⁸ However, interpretation of this definition varies from practitioner to practitioner resulting in approaches for the concept that are much more applicable to

⁷⁸ Committee of Donor Agencies for Small Enterprise Development, “Business Development Services for Small Enterprises: Guidelines for Donor Intervention,” (World Bank Group: Washington, DC, 2000) 12.

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medium and larger size enterprises, and in a few cases to small enterprises as opposed to micro and most small enterprises. This statement is based on current “on-the-ground” operational realities within most developing countries.

Though this paper is not intended to be a BDS paper, several of the mechanisms embodied within BDS were used by the JOBS Project in its work. “The BDS market development paradigm is driven by the belief that the objectives of outreach and sustainability can only be achieved in well-developed markets for BDS, and donor intervention apart from direct provision and subsidies at the demand and supply of services. In the market development paradigm, subsidization of transactions would be replaced by private payment for services. Donor and government support would be shifted away from direct support to particular BDS providers toward facilitation functions that develop the market in a sustainable way.”⁷⁹

There is no argument that over the years, the cadre of donor projects has contributed to distorted markets and a subsidized mentality in many countries. But by its own definition, “BDS...sustainability can only be achieved in well-developed markets.” The conceptual philosophy behind BDS is not being argued but its conceptual development takes for granted many “givens” that do not exist at the micro enterprise level. Among these is the assumption that MEs have the capital to pay for third party services even if they understood the concept. Another is the fact that often MEs are referred to as “entrepreneurs”—nothing could be further from the reality. Often, though well intended, “professionals” within the development field have no real business expertise and hence, make this assumption. Many MEs are not truly Micro Enterprises; they are in reality struggling Income Generating Activities (IGAs) (the difference will be defined later in this chapter). Nor are they “entrepreneurs” but struggling self-employed individuals who are trying to exist and provide for their families. They are bombarded everyday by the concerns involving survival, which range from food to paying back micro credit loans to clothing and/or educating their children and so on. They tend to operate at an entirely different level of the economic scale, which is often referred to as the “gray” or “hidden” economy. In short, though sizable in number they are not in the mainstream, formal economic structure and have only moved up the scale or improved their lot, “graduated,” on rare occasion.

The pretext that most IGAs and MEs are not in reality “entrepreneurs” is important because most SMEs are much more apt to be true “entrepreneurs”—that is, to large extent they have the education and resources that help foster this trait. This is not to say that MEs are not innovative and entrepreneurial because many are indeed very creative and resourceful, by necessity if for no other reason. However, as discussed in Chapter 2, most development strategies still concentrate on creating and/or enabling self-employment as a philosophy with out paying enough attention to market wants and needs, channel linkages, competitiveness and market access, and the general capability to be an entrepreneur, which most of us are not, and grow a business.

⁷⁹ Committee of Donor Agencies for Small Enterprise Development, 5.

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JOBS believed it had an obligation to not only stop repeating the same old and unsuccessful approaches of the past, but it needed to attack the problem from a different perspective. To do this, it would incorporate several BDS principles but adapt them to the realities of this level of the economy. Though there are many critical factors involved in “graduating” IGAs and MEs, JOBS was convinced that the answers were there and fairly basic in nature. It would focus on three guiding concepts:

- 1) Developing an employment base at this level of the economy as opposed to promoting self-employment. This would come from the “entrepreneurs” among the MEs and focus assistance to help them develop and expand.
- 2) The recognition that as individual MEs they would never be able to compete in the more lucrative markets and would remain oversaturating their existing village markets and all the negatives that are result of that situation.
- 3) It would be vital to put mechanisms and resources in place over which the actual MEs could have a greater degree of self-control and self-determination. This would include access to competitive credit sources, markets, and support.

Bangladesh proved to be an appropriate venue for this effort because of the many micro credit and micro finance programs being implemented, which then provided good experimental ground for the development of this concept. The progression would be from the credit-driven type of economic development toward a more practical, market-oriented approach. Bangladesh is also one of the most densely populated countries in the world; 134.6 million people occupy 147,570 square kilometers of land, which is 912 persons per square kilometer. The majority lives in the fertile Ganges-Brahmaputra delta, an area frequently swept by cyclones, tidal surges, and floods, and is constantly affected by river erosion. Of those who live here, 77 percent earn less than \$2 dollars a day⁸⁰ and 44.7 percent are estimated to live below poverty line.⁸¹ In addition, many of the country’s institutions are weak, due to powerful vested interests that affect daily business practices. For example, *hartals*, politically induced strikes, are a nuisance because they disturb daily business transactions. So the development of self-supportive systems would be an important factor in help the MEs help themselves.

In the Project’s initial research, MEs with better than average growth potential were asked to describe their major obstacles to growth. Most responded that access to alternative credit was difficult, skilled labor and training was in short supply, and access to better markets was limited. Access to credit is needed to expand into the market and technical skills are needed to perform well in the market place. It became obvious that

⁸⁰ World Bank, *World Development Report 2000/2001*, (Oxford University Press: New York, 2001) 280.

^{iv} Oxfam, “Bangladesh,” www.oxfam.org.uk, (1/1/2002) [1].

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development and technical assistance needed to be constructed in such a manner as to create an opportunity for better performing MEs and those involved in production-oriented sectors to have better choices and linkages to the market. Hence, JOBS began putting the building blocks in place to facilitate self-motivated and controlled development and the forming of self-governing ME business associations for motivated and proactive MEs. This would provide these enterprises an opportunity to move beyond the IGA level to true ME entrepreneurship, and even on to the level of Small Enterprises (SEs) so long as they were capable and had the desire of an entrepreneur. In addition, this would eventually create natural linkages through the marketing chain, via the creation of sustainable employment bases, producer and wholesaler relationships (MEs involved in production-oriented sectors—not traders), and commercial banking interest.

Studies have shown that the more people employed in productive occupations (i.e., jobs that create backward employment), the better the economy will be. In particular, a study done in Tanzania found that the linkage between poverty and business is positive, meaning that the stronger the (formal) business sector, the greater the impact on poverty elimination.⁸² Therefore, it was evident that cultivating business linkages and relationships at this economic and societal level is important in order to reduce poverty and expand the Bangladeshi economy.

This is what the JOBS Project began doing with partnering NGOs and Micro Finance Institutions (MFIs). These groups would work “hand-in-hand” with JOBS to facilitate the process and support services on an as needed basis for MEs after JOBS was gone. Additionally, JOBS began identifying alternative, local support and service networks to build partnering organizations. The capacity to sustain and maintain ME growth through providing access to credit, markets, and the needed technical skills was critical and enabled them to expand their businesses into the regional and national markets. MEs could begin the gradual process of mainstreaming into the formal economy.

The Project’s “holistic” economics philosophy targeted both the micro and the regional level and offered essential operational and strategic support to both. Many international donors and organizations only focus on one or the other. The work of JOBS was unique and innovative; its successes were many, especially in changing the status quo and in terms of developing support mechanisms. It is worth noting that while the JOBS “holistic” approach works directly at the micro and regional levels, it also impacts on and contributes directly to the macro level as well. This is done by modeling backward and forward linkages essential for successful poverty reduction strategies through economic graduation and by encouraging changes in policies and practices at the macro level. For example, more commercial banks are now willing to finance micro borrowers after witnessing JOBS’s success in encouraging the growth and demonstrating the economic potential of these small businesses. NGOs are changing their operational

^v Jill Shankleman and Sarah Selby, “Understanding the poverty business interface: Experiences from Tanzania,” *In Focus* (Resource Center and ERM: UK, 2001) 7.

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strategies to bring them in line with JOBS's holistic approach. Government institutions are responding to the needs of MEs and finally paying attention to the backward linkage producers who are a major part of the foundation of the SME sector. All these actions contribute to strengthening the national economy and exemplify a new development strategy that brings real hope for significant alleviation of poverty in Bangladesh.

B: Poverty Alleviation through Micro Credit and Micro Finance

A brief history of micro credit, micro finance, and the graduation process is needed in order to understand the JOBS development thought process and its strategy and implementation tactics in the context of Bangladesh.

In the mid-1970s the Bangladesh Rural Advancement Committee (BRAC) and Grameen Bank helped pioneer micro credit. Today both organizations are recognized leaders in micro lending. BRAC has also been quite successful in providing technical assistance and has pioneered many successful programs targeted at the bottom of the pyramid. However, thousands of organizations have since been supplying micro credit and providing small loans, primarily to rural women, with the expectation that the extra monetary input would stimulate micro businesses and improve livelihoods. In the past decade, local and international NGOs have also adopted enhanced versions of micro credit and micro finance to reflect the demand for diversified and flexible financial services. Hence, MFIs rapidly increased, not just in Bangladesh, but worldwide. The overall economic impact of MFIs has been both positive and negative, but is not the focus of this paper.

In Bangladesh, the micro credit/micro finance concept resulted in three key positive results for the poor:

- 1) *Increased Opportunity.* Timing of funds during the *Akal* season (January–March), when there is little farm work available. This time is used for other activities, such as producing handicrafts, thus generating additional income through IGAs. Additionally, during the paddy-sowing season, the poor are eager to cultivate paddy and are naturally happy to benefit from a micro credit loan rather than having to take a high-interest loan from the local moneylender.
- 2) *Increased Status for Women.* Most micro credit/micro finance targets women because it is believed that women have greater return rates than men do. This is partly due to women giving priority to their families. Women are committed to providing for and sustaining their families; hence their financial initiatives will be family oriented rather than “extracurricular.” Most women start off as IGAs, earning “pin money” for the family. This activity slightly increases their status in the community. This change in status from housewife to co-breadwinner wins additional respect from family members as well as from the community. Though this is often marketed as “Women

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Empowerment,” the reality is that women quite frequently only serve as an outlet to the men, who have no obligation to repay the loans. In many cases when a woman’s loans exceed her ability to pay, she is relegated back to a lower status in the family unit. This topic, as others in this paper, is grounds for further research and debate.

- 3) *Increased Cash Flow.* The most important result, which has long-term impact, is increased cash flow into the village. Micro credit/micro finance has allowed the villager whose largest bill was \$1.73 to have from \$34.6 to as much as \$173 in his pocket. Profit from IGAs moves money into the village slowly as the income level of the village becomes homogenous at a higher level. In essence, the income of the whole village gradually increases, adding to the gross domestic product (GDP) in a micro way, but affecting a large number of the population.

Over the past two decades, the overall impact of micro credit/micro finance has been thought to be one of the factors contributing to the improvement in education levels and health indicators in the country. For instance, the life expectancy at birth has risen from 44.9 years in 1970 to 58.1 years in 1999, while the infant mortality rate (per 1,000 live births) decreased from 145 to 58 in the same period. There have also been phenomenal changes in the social sector. How much of this change is due to the micro credit or micro finance concept is difficult to tell. At the same time micro credit programs and MFIs were beginning, many NGOs established development programs and helped meet government social responsibilities in education and health, which were in great demand but unavailable.

However, from the panorama of economic development through enterprise growth, one of the major negative results from these financial institutions is that they also created a bottleneck where most IGAs and MEs remained at a subsistence level. JOBS asked itself, “Why are IGAs and MEs not moving the populace towards the better livelihoods envisioned?” Research found that IGAs and MEs were not sustainable, that they were relying too much on loans, and were not able to rise above the poverty level. Although the credit and financial support provided was intended to bring about poverty alleviation through increased income generation, this did not happen. And yet, the MFI concept has become a worldwide, profitable business. There is a mixed reality in the micro credit/micro finance field. More material goods are being purchased, more children are attending school for longer periods, there has been increased cash flow in the village, but yet there is greater debt and continued impoverishment. Additionally, many leading MFIs question the value of education. Though motives are obviously suspect, a random composite sample of MFIs in Bangladesh was quoted as saying, “These are poor people and they don’t need education... We will supply them what they need.” No doubt this attitude exists in many struggling countries and is a contributor to the overall problem of alleviating poverty.

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There are other major reasons for these negative results. For one, the IGAs and MEs do not have enough capital. They also lack the skills and appropriate knowledge to run market-based businesses. And lastly, they cannot effectively compete in more lucrative markets. For these reasons, few IGAs and MEs have graduated to the next level, as indicated in the *Graduation Flow* chart below.

IGA → ME → SE → Formal small business

Definitions vary but the following is a general classification used by the JOBS Project:

IGAs: Income Generating Activities are done within the daily routine, producing locally demanded goods and handicrafts. These initiatives are worth less than \$500 capital value.

MEs: Micro Enterprises spend most of the day producing, selling, or trading something as a main source of income. Micro Enterprises range between \$500 and \$3,400. The average is around \$500-\$900, above this point they may begin paying wages and create jobs.

SEs: Small Enterprises are able to pay wages and create employment. The entrepreneur begins expanding and investing into the business. The enterprise is worth more than \$3,400.

The belief that IGAs will graduate to MEs and MEs to SEs is controversial and continues to be debated in the micro finance and development communities. The fact that such universal graduation has not been realized yet is part of the debate. Simply put, the graduation process is not possible under the current concept of lending micro amounts of money without additional technical support to the borrowers. It can even be argued that repeatedly lending money to any struggling business is irresponsible unless the business has a viable business and marketing plan, can access the resources to help it grow, and demonstrates the ability to continue growing. The only entity profiting or expanding out of this arrangement is the lender, institutional or otherwise.

MFIs are granting micro loans but are unable to provide more credit on demand to expand or to cover unexpected expenses. Most MFIs loan less than \$173 and expect the enterprises to eke out a profit and meet weekly payments simultaneously. The enterprise is doomed to failure sooner or later because loan amounts are too small to cover unexpected expenses. Expenses such as hiring more quality workers, repairing equipment, recovering from natural disasters, or meeting life-cycle expenses that occur naturally in all families do not get accounted for in the loan amounts and the loan process. Life-cycle expenses, such as births, deaths, marriages, and illness, in particular, leave families vulnerable to high-interest moneylenders to pay for expenses that channel funds away from the business.

Additionally, IGAs and MEs do not have the knowledge or skills to operationally expand successful businesses. It is assumed that they will be sustainable if they have money, but in fact sustainability is not based on money alone, but on how well they can

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maintain their businesses. Other than a general primer course, which some may have, most are not educated in the formal business practices that are required to sustain and maintain a healthy business. The majority of IGAs and MEs have no business background whatsoever; their activities are done for subsistence and survival. Only the best MEs, run by more educated and slightly better off (relatively speaking) families, have the potential and motivation to succeed to the point where they can actually improve their living situations.

Many in the development field are aware of these barriers but are content to remain with the status quo, arguing that at least these enterprises are better than where they were. But how much better is relative and what they can attribute such improvement to is also in question. Some IGAs and MEs are fine with this course, but the true “entrepreneurs,” the ones that can and want to make a difference—not only in their own venture but to the society—are not.

From the perspective of the MFIs, they are unable to graduate their recipients because they have limited sources of funding and must husband these carefully to sustain themselves. The implication of this is that the borrowers will perpetually remain in a cycle of poverty due to the limitations of the MFIs and NGOs. The borrowers then fall into the trap of taking one loan to pay another. They also pay a flat interest rate that is higher than the declining balance rate usually offered by commercial banks.

Through its research and experience, JOBS became aware that one of the few ways to positively impact the situation and change this spiral was by attacking the current practices, perceptions, and environment under which both sides function. The goal was to provide alternatives for those willing and able to take advantage of them.

In response to the lack of positive results and sustainable impacts from previous programs, including its own, JOBS initiated a new Micro Enterprise Development (MED) strategy. MED directly addressed the MEs’ problem of lack of skills and business expertise. MED offered specialized technical assistance, as well as facilitating financial assistance and alternatives to top-end MEs that qualified. The two were independent but closely linked. The capacity building, business development training, and market linkages all helped bridge the gap that prevented MEs from becoming more profitable and efficient and expanding into larger, more profitable markets.

The JOBS Project placed the new MED concept into practice during its third year. In its fourth year, the Project moved on to the next step—self-driven business development services. JOBS began working with medium-sized, regional NGOs and MFIs with the capacity to provide loans of no less than \$175 and up to \$2,500 to beneficiaries that demonstrated the capacity and capability to effectively use the greater amount to grow their business. The MEs were encouraged to expand their enterprises and take calculated risks with trained advisors providing guidance. This process not only benefited the enterprises but it also increased the capabilities of NGOs to provide auxiliary services on a fee basis and the financial intermediaries to better track loans.

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This bottom line, inter-relation approach resulted in increased graduation, business expansion, and increased employment opportunities at the ME level. The top-end MEs were quickly identified and began increasing employment opportunities as their business expanded due to the increased resources and the capability of these “entrepreneurs” to reach and compete in more lucrative markets. The IGAs and MEs that were previously self-employed and struggling, although they had good technical skills, became employees of the MEs with the better business acumen. These MEs soon graduated to SEs. Several lending institutions are now providing loans up to \$4,000.

C: A New Paradigm to Micro Enterprise Development

After the initial successes, the Project focused its efforts on developing supportive, integrated business environments that would build MEs’ operational and strategic capacity by facilitating and providing access to alternative credit resources, new markets, and enhanced skill development. To accomplish this goal, JOBS began the shift from a provider and financier of other providers to more of a hybrid facilitator building the support institutions and infrastructure for sustainability while, at the same time, providing targeted intervention. This philosophy developed resources that stimulated enterprise growth and assisted MEs in their everyday business operations to become more productive and efficient contributors to the Bangladeshi economy, thus beginning the mainstreaming process.

The new paradigm began addressing the poor market conditions, similar to those in most developing countries, and assisted businesses to improve their economic status and reduce poverty rates. Previously, these were attacked either through social (by education and health) or political (by civil society and policy changes) perspective, neither of which seemed to work well enough to significantly alleviate poverty. The current BDS philosophy approaches this from a strict market perspective. Field research suggests that to produce economic environments for businesses to grow and carry out transactions, thus contribute to economic wellbeing, is a function of all three (social, political, and markets) and thus any successful model for micro enterprise development must take into account all three factors in some integrated fashion. Any one of these agendas, either on their own or in combination with another, will never improve the current situations to a measurable degree. This is due to the fact that each of these areas has a much more significant effect and overlap on the other at the ME level than with other groups. The key is that MEs must have choices and the capacity to rely on self to make these choices. When this happens, sustainable changes begin.

Two of the essential factors to the graduation process are market development and the existence of social perceptions that enable, enhance, and mainstream day-to-day business practices. Despite the market orientation of the BDS concept, encompassing not just markets but also the access to credit and skills, it does not make real advances in

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poverty alleviation. This can only come from a holistic paradigm that focuses on mainstreaming MEs through addressing major obstacles in their lives—social and political, as well as business. Therefore, at the ME level, the lack of a skilled labor force and the lack of access to credit and markets must be combined with self-reliance and determination to make choices. The choices must go beyond the operational problems of businesses and advocate an enabling environment where these barriers can be tackled with changes in the way business is conducted at the ME level.

From this perspective, JOBS began building the capacity of its NGO partners (those at the grassroots) to become potential service providers. As a hybrid facilitator, the Project maintained constant rapport with and nurtured proactive, responsive NGOs as long as they were striving to increase their outreach and maximize the potential of MEs to be self-sustaining. In facilitating these business relationships, including cost-sharing and joint management, JOBS proved to be a valuable and reliable resource many times over. Experience had shown that organizations and enterprises were willing to contribute to JOBS's technical assistance and guidance as their involvement increased. These relationships were built on mutual respect and an advisor-client "partnership" that would improve their operational development and longevity.

Philosophically, and despite the relatively new jargon, BDS is not a novel idea in the field of economic development. A few years ago, the terminology was Business Service Organizations (BSOs). The services that were needed have been offered before and continue to assist enterprises to develop, but not in an integrated and holistic manner. The old saying, "Give a person a fish, he will always ask for more; teach a person to fish, he will never go hungry" (in short, make him self-reliant) is the key to realizing the capability of these services. This is often best accomplished by re-engineering an existing local faculty than trying to invent something new. In the case of MEs, the overriding goal is to mainstream them into local and regional business communities, as well as help stronger MEs to become sources of wage-paying employment at this level of the economic tier. This is a necessary element if we wish to effect real, positive, and meaningful change.

To accomplish this goal, more sustainable enterprises will result when intervention comes from two fronts, the bottom and the top, or the micro and the regional levels. It is important to improve the regional level and at the same time assist the micro level because their eventual graduation will require forward linkages from the regional level with whom to transact business. And the regional level will require backward linkages to produce and provide goods to customers.

Based on this rationale, JOBS built and strengthened the capacity of local providers, NGOs, associations and forums to become sustainable and viable supporting organizations. Simultaneously, JOBS acted behind the scenes to create a market environment that enabled MEs to move into regional and national markets with greater ease.

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These enabling services were offered to partnering organizations as a natural response to their needs—access to credit, better markets, enhanced skills, more local resources, and social and political support. Since the Bangladeshi market was not developed, JOBS created the market base, where it supported local providers, NGOs, and MEs directly through associations and forums. Activities concentrated on the regional NGOs since they were more effective in mobilizing the local community, more flexible, knew the needs of their communities, and had fewer overhead costs.

The associations consist of MEs from partnering NGOs who were motivated to improve their businesses and had similar mind-sets. The participants then had to pass set selection criteria that included previous basic business training. Once selected, they were provided with a specialized course, Entrepreneur Development Training (EDT), as well as the need-based technical assistance necessary to operate and maintain the association. It is important to note that the Project was unhappy with the existing training modules, and therefore, designed and developed its own programs to deal with the needs that were not being addressed.

As individual enterprises these MEs were too small and were unable to tap into the resources they needed to grow and expand. They had no clout and merely hurt each other in the market place. However, organized *associations* are better able to access commercial loans and local resources, deliver more products on time, and make market linkages outside of their localities. Most importantly, they have the clout to demand fair prices for their products. Thus, associations help MEs move beyond the local community into regional markets, where they can command a greater volume of raw materials, and in turn, produce more and compete with larger enterprises on a more level playing field.

Associations can become autonomous and self-reliant, acting as both a facilitator and provider to their members. This is explained in the graduation mechanism in the next section. In the same manner, forums consist of providers and facilitators with similar objectives and goals. They assist members in advocacy, knowledge sharing, networking with appropriate stakeholders, and facilitating resource synergies. Forums that JOBS helped develop worked best at the regional level because local and regional resources could be tapped that not only saved members money, but built local capacities. Because forums have proactive relationships with the business community, Chambers of Commerce and banks, NGOs and MFIs, the services of these organizations/providers become more easily accessible and competitive—again, strength in numbers. The forums also provided technical training and need-based skills to trainers, in addition to referring members to specific training institutions.

JOBS's experience is that working in partnership with regional NGOs and organizations in a business relationship to become providers that help promote formal and best business practices with MEs produces the momentum for business interactions between the parties. And this results in less reliance on outside donor assistance.

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During this process, JOBS provided necessary non-financial services such as technical skills, consulting, market access, infrastructure development and planning, input supply, technical and product development, and policy advocacy as it built the capacity of these organizations to provide realistic and valued business services. These services were not completely free as the Project insists that its partners participate in cost-sharing and joint management. These providers then transferred the acquired knowledge directly to their ME recipients, again for a fee in order to be able to sustain themselves. Fees are charged on a graduated scale as the value of the services, the capacity to deliver them, and the ability of the recipients to pay is increased. A key element in the concept is that there is a cost for all services rendered. This helped to develop a business mindset.

Facilitators play a vital role in this effort because most activities depend on building providers' capacity and at the same time developing an enabling environment in which all parties can compete and function in a formal business environment. The facilitator focuses on promoting a critical mass of service providers so that there is increased competition and better services for ME clients. An example of this is linking providers with appropriate stakeholders so they can improve their business practices. JOBS, working with providers, made many market linkages that assisted MEs in getting better prices for their products. For example, the Project introduced local sari producers to a regional buyer, from whom they procured better prices for their garments than they were able to get from local middlemen who in the past took advantage of the MEs' lack of business acumen and clout.

JOBS also facilitated access to credit and markets for MEs by strengthening and building capacity to attract more lucrative markets, appeal to banking institutions and external sources of funds, and better manage micro loans. JOBS's capacity training included accounting, finance and savings management, accessing local resources, and marketing knowledge. The Project also worked closely with its partnering organizations to improve their organizational, managerial and financial capacity so that they could transition into competent service providers. For example, one of JOBS's partnering organizations, after receiving training and building technical skills, took the initiative to form its own training institution, where it charges full fees for BDS services rendered to its MEs and other providers. It now has a waiting list.

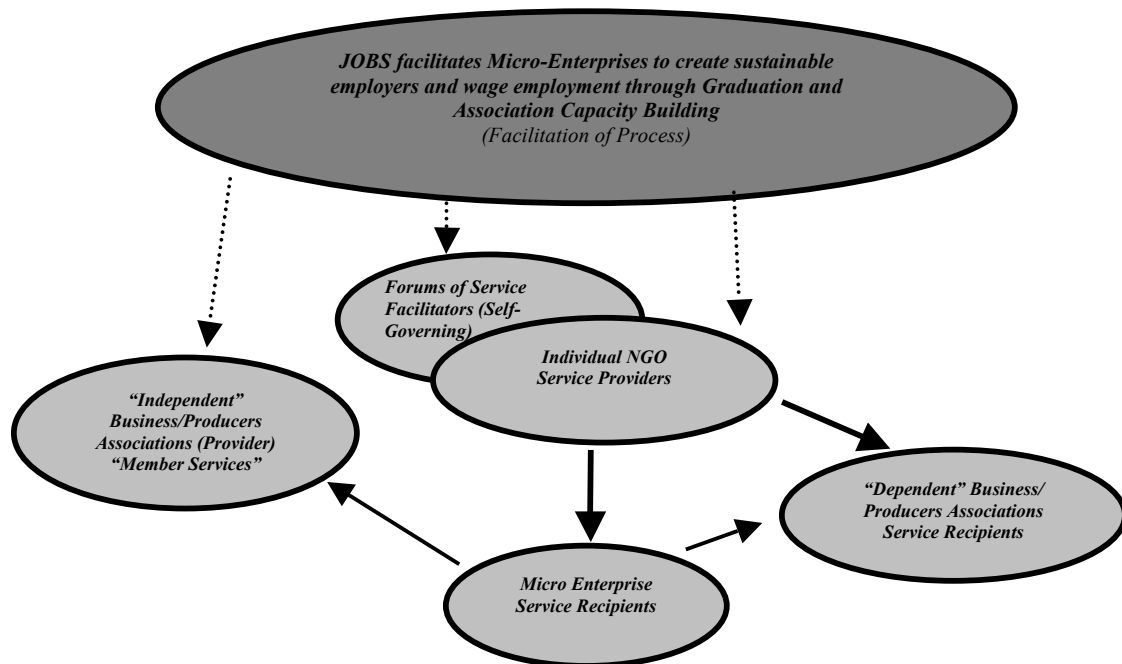
The resources and techniques providers used to strengthen and mobilize their own organizations, employees, and beneficiaries are, in turn, provided to their MEs. They mimic those initially provided to them via JOBS. These providers include NGOs, government departments, Chambers of Commerce, private businesses, banks, etc., all of which charge fees for their services. Though the charging for services fees was a new concept at the ME level, once the value to both parties was realized, the concept started becoming naturally institutionalized. In JOBS's experience, this worked because the Project's technical assistance and consulting relationships required participants to "buy into" JOBS development services and to disseminate the same skills and services to their MEs.

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The next step in the paradigm shift was to get NGOs and other local providers to promote top-end MEs to form associations and assist them in their strategic and operational management. They next created forums, or self-governing groups of providers with established constitutions that manage and facilitate the groups' overall function within the community by providing advocacy, networking, knowledge, information sharing, and linkages building. This includes links with markets, financial avenues, and the sourcing of a variety of services from forum members and from external resources as well.

D: The Graduation Mechanism as a Means of Mainstreaming

The graduation mechanism is an umbrella that helps create providers, forums, and associations from existing organizations. It reshapes the current environment and the manner in which business is conducted at this level, which is vital for paving the road to mainstreaming MEs into the overall economy of the country. Under this umbrella is the enabling environment that JOBS helped create, simultaneously facilitating development services to providers, associations and forums in the initial phase.



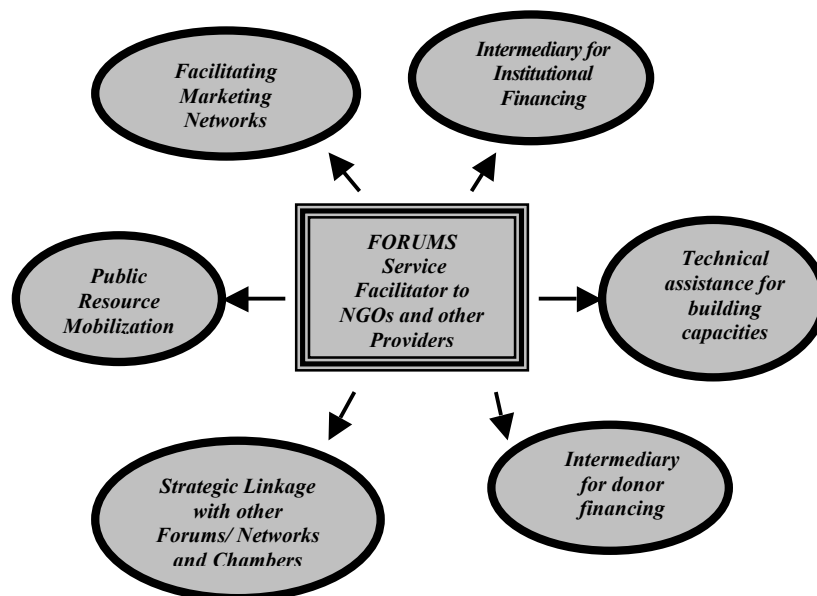
The Project facilitated the development of forums and associations in an effort to leave self-governing and sustainable service and development resources behind. Their functions created a base of support institutions for NGOs and other providers to bring like-minded MEs together to form marketing and business groups that grow their businesses. This, in turn, will help generate employment bases and aid in poverty reduction. Forums are independent and self-governing bodies composed of a variety of

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providers with different strengths. As mechanisms for advocacy, networking, and accessing various resources, both internal and external, forums draw on the strengths and capabilities of their members. Because they have good rapport with the business and financial community, Forums are helpful to regional providers, as well as to their member's clients.

“Dependent” associations are self-governing, autonomous groups with their own constitutions, but they rely on providers for a menu of services ranging from micro loans to market linkages and skill development. Associations provide their ME members with marketing linkages, knowledge, and information. As organized groups of MEs, associations have the clout to compete in more lucrative markets, obtain fairer prices and larger profits, and access a variety of services previously inaccessible as individuals MEs. The development and support of associations also benefits the NGOs by presenting an avenue to diversify their activities and create other revenue streams. Thus, a mutually beneficial relationship is developed. Though not totally “self-reliant,” they are able to compete much more effectively in larger markets.

The “independent” associations/producers groups may be formed directly by an enterprising group of MEs or they may evolve from associations developed by providers. These associations are self-reliant and not dependent on any NGO, MFI, or provider; however, they may actually complement each other and share resources. These associations provide a variety of services and benefits only to their members and not to other micro enterprises. They actually function and compete as independent medium size businesses, supplying products and services throughout the region and country. They have become a vital link in the supply chain and to large degree control their own destiny, which is one of the keys in poverty reduction and mainstream economics. The following diagram outlines how these forums’ functions and the services accessed or provided.

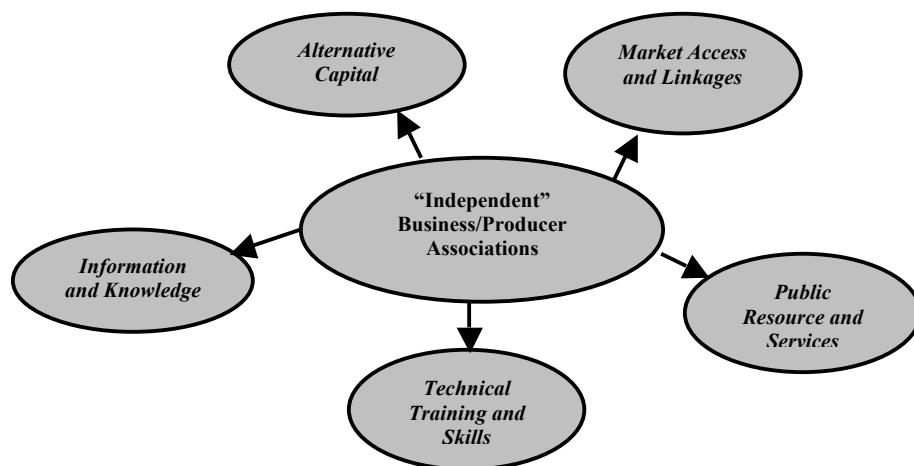


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As indicated in the graduation diagram, the NGO and other providers eventually supply specialized services to associations and MEs without JOBS's support. However, forums, self-managed and registered organizations (associations are not registered) will continue to oversee activities and motivated MEs will continue to form more new associations. Independent associations generally are not part of a forum but act as mechanisms to serve only the self-interest of their membership, be it marketing cooperatives, skill development, or accessing commercial finances.

Using JOBS integrated and holistic approach, providers, associations, and forums offer access to credit, access to the marketplace, and access to special skills for their beneficiaries. Hence, JOBS training and technical guidance gets disseminated to the ME level so that they have the possibility of “graduating” from the poverty cycle via a more enabling environment with legitimate and fair access to markets, credit, knowledge, and needed technical and business resources. This is a gradual process. Forums and associations (independent or dependent) are not the cure-all—but they do offer choices and self-reliance to the degree they can be obtained.

Similar to forums, the following diagram illustrates the services and networks that “independent” business/producer associations, which are similar to forums, supply to their members. For enterprise associations of many certain centered industry sectors (such as agriculture growers) this format may be more advantageous.



E: Result Examples and Practical Applications

JOBS facilitated and assisted the formation of the *Banana Producers Association* with TMSS, an NGO-BDS provider in Bogra. The 50-member association was

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cultivating poor quality bananas and wanted to improve their product with TMSS and JOBS assistance. Because the area is well suited for banana cultivation, it is common practice to grow the fruit on any vacant land. There is a 5-km banana market in Bogra where a number of suppliers and producers buy and sell bananas. There are more than 100,000 households in the area involved in banana cultivation. About 80 percent of them are small producers who have extra space in their gardens to plant a few banana trees.

Bogra has a high concentration of banana producers because neighbors, as with many MEs, tend to copy their peers without considering the obstacles and difficulties involved. Farmers with a small vacant plot will cultivate the same product as their neighbor because they think it is easy and manageable. They fail to see the medium- and long-term implications of their decision. For example, they are unaware that the soil goes bad after a certain number of years. They don't realize how many years it takes to produce quality bananas, how to combat diseases, worms and other pests, or how to use chemicals and fertilizer properly to enhance productivity and quality.

TMSS, with JOBS's assistance, identified several problems that these producers faced as individuals, including their lack of knowledge about banana cultivation, inadequate market access, poor profits, and poor quality products. Through JOBS intervention and TMSS services, the Banana Producers Association found medium- and long-term solutions, including training on chemical use and quality assessment of banana shoots (plant grading), linking with the Dhaka market, and bringing TMSS and government agricultural extension resources together. With these new skills, knowledge, and resources, the association now produces quality bananas, attracts buyers, and has reduced transport costs. Association members now avoid middlemen who formerly purchased their produce at less than a fair market price. As a group of producers, they are able to command better prices, produce more bananas, and deliver them in a timely manner. As individuals, it was difficult to understand and deal with all these problems, but the association allowed TMSS to better understand the gravity of the situation and to address it in a cost-effective and efficient manner to help the producers become much more productive in terms of product quality and investment returns.

At present, TMSS agricultural personnel and a government agricultural extension specialist are working together to support the farmers. They are collaborating in a demonstration plot, in which they demonstrate technical skills, and cultivating techniques to association members. After training on how to assess quality banana plants, the members benefit further from expert advice from the government agricultural extension specialist on how to care for plants and prevent diseases. TMSS, as a service and resource provider, linked them with local resources to improve their products and gave them important advice on how to form the association. Through JOBS's capacity building and training of TMSS' personnel, the organization is now charging a service fee for their support services. The other providers that JOBS worked closely with are also beginning to develop and offer an array of services and disseminate their knowledge to beneficiaries. In the same vein, association members are learning to share personal experiences and successful techniques and realizing the need to pay for value-added

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services. These MEs are now successfully competing and becoming a part of the mainstream economy in the region.

Enterprise Development Forum, Chittagong (EDFC) was established to help providers address the issues of access to credit, to diversify markets, and to technical skills for the long term. JOBS used the association concept to facilitate the creation of a sustainable, self-managed support institution in Chittagong that offers a variety of services and training to its members in the region. The forum is registered and functions as a support institution for NGOs and other providers, creating synergy among the members through cross training, knowledge sharing, and accessing a variety of resources that would be much more difficult to obtain individually. The EDFC acts as both a facilitator and provider depending on the particular need of the member organization and is capable of continuing the initiative to graduate and mainstream micro enterprises.

Experiences in working at the grassroots led the Project to facilitate the creation of a self-managed and controlled Forum and Training Institution that offers a variety of services based on a holistic and integrated approach. The forum focuses not only on income generation and financial services, but also on how to utilize local resources to assist MEs in their skill development. The forum is offering training as well as assistance to NGOs and other providers on how to access markets and credit, and transition into market-based ME providers. The forum is also used as a vehicle to address various social issues such as education and health care to its member's beneficiaries—all elements that affect business development and growth and attack poverty from a holistic approach.

To build this resource base the Project worked closely with NGOs, MFIs, bankers, Chambers of Commerce, and the business community to sketch out a workable business plan for the forum and develop its constitution and bylaws. JOBS provided the technical support in the form of training to core members of the forum and helped in developing the implementation process. An example of this support was delivering its special EDBM training course to 90 new trainers from 47 EDFC providers, who in turn trained their respective MEs in basic marketing analysis and organizational and financial management. The Project's EDT training (a separate and higher level module) also instructed the provider's trainers on advanced business development and accessing alternative resources. Enhancing these skill sets is an important step in the overall process of provider capacity building.

The forum's long-term sustainability is based on fees for its services and membership dues. The providers gain from the value-added support, enhanced training, and networks developed that will improve and increase their business products and delivery. MEs benefit from the forum because, as a support institution for providers, it facilitates access to credit, markets, information, skills, and resources. This enables the providers to take advantage of avenues and mechanisms that they would not have if they were poorly informed and trained. The result is increased choices, income levels, and socio-economic wellbeing.

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F: Analysis and Conclusion

The approach taken by JOBS may not work for every developing country. Since the concept relies on proactive and energized regional NGOs and providers to disseminate services, it is important to have them working in areas where ME growth has potential and where outreach would have wider scope and greater impact on a larger number of MEs. A holistic, integrated approach coupled with organizations that understand and recognize that change is needed are required to tackle the various and often shifting barriers, including access to credit, markets and technical skills as well as social needs.

From a donor standpoint, it is important to have a strong, clear direction for its intervention approach to propagate the JOBS's ME graduation and mainstreaming concept of service delivery to stakeholders. The donor must have persistence and long-term commitment to follow through until the assisted facilitators and providers are ready to provide services independently and/or have a strong forum to act as a support mechanism.

In JOBS's case, the associations are becoming sustainable and can function like MEs, competing directly in markets previously thought unattainable. They are quickly developing the clout to demand fair market prices for their products and delivering better quality goods in larger quantities in a timely manner. This would not be possible as individual MEs. They are becoming recognized as business entities by wholesalers, various market players, and commercial banks, which are beginning to offer and promote loans directly to this level of the economy.

The progression is for the more proactive MEs to form associations, which will initially help them gain access to larger markets with greater potential. This makes the association less dependent on the immediate facilitator or provider, but still retains a business relationship. The facilitator/provider then can expand and access more and new MEs and renew the process. In the case of an NGO provider, associations will also continue to work and support individual IGAs and MEs in the somewhat more traditional manner.

It is important to note that as several of the producers' associations grew and became more sophisticated, they actually progressed to fill a provider role totally independent of the NGO. The work JOBS did with the Pineapple Growers Association is a perfect example. This association is now capable of operating totally on its own and has been able to access specialized training, obtain working capital from commercial banks, and develop contractual market linkages on behalf of its membership.

Bringing together all stakeholders involved in the process helps graduate micro enterprises, establishing and developing a holistic delivery and service apparatus that is essential for the mainstreaming process to work. All stakeholders need to work together,

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advocate for better business practices and share findings, costs, expertise and ideas so as to gain the most from the interaction and relationship. However, what is more important is that all parties stay focused on the ultimate goals of facilitating a lasting impact, mainstreaming MEs, and creating a base of real employment and employers at this level. This requires not forcing something on a market or recipient it is not prepared for, a lot of hand-holding (especially at first), joint management and cost sharing, a long-term business approach with constant followup and mentoring. It also requires an exit strategy incorporating the establishment of a base of support that is self-managed, involving beneficiaries in the decision making process, and utilizing as many local resources as possible. However, most important is constant interaction with the ultimate beneficiaries we are trying to assist and always listening to them.

Again, the JOBS's graduation and mainstreaming paradigm is new and its best practices have yet to be fully realized. The approach works because it emphasizes identifying the leaders, both MEs and providers, at this level of the economy to develop a lasting base of support that can make a wider economic impact. But more programs and research are needed to further the concept. The philosophy of how things work at other levels is not new. What is new is the way it is being applied—too often “new” programs (BDS or otherwise) have not successfully dealt with all the factors that affect lives and business from a broadminded view, nor are they committed to the concept for the long haul. This must be considered from an integrated, holistic, and social viewpoint if change is to occur.

In summation, JOBS took an inclusive approach to achieve its objectives. Its facilitation of development services has proven successful and effective in making a positive impact on the management and operations of NGOs and other providers, which have changed the lives of people at this level of the economy. JOBS's technical assistance and facilitation of backward and forward linkages has helped promote sustainability. The approach offers a comprehensive package because it incorporates access to credit, markets, resources, and skills, while still considering social needs. Access to credit expands businesses, access to markets promotes competition, access to resources allows for alternatives and choices, and access to skills enhances human capacity. These aspects are inter-related and complement each other to bring about a holistic intervention package that gives IGAs, Micro and Small Enterprises much more than simple loans and isolated technical assistance.

In the development arena, there is a long trail of organizations and projects not leaving anything substantive behind. The JOBS Project, however, is leaving the association and forum concepts for the Bangladeshi people to develop and best fit their needs, which is practical and appropriate. These concepts and the holistic service and support paradigm can truly improve the situation of the poor if this integrated approach is taken by facilitators and regional NGOs and providers are committed to assist their ME beneficiaries.

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It is important to remember for whom development is intended to help. The ME recipients are the ultimate beneficiaries, and, as such, deserve transparency and choices from the organizations that help them. Full participation is learned through practice; hence, facilitators and providers must practice transparency so that it will encourage stakeholders to continue this practice, as well as other best practices. Giving choices means giving alternatives that can change lives. It may seem difficult and sometimes impossible, but it is something that the JOBS Project has proven can work if the environment is nurtured and developed around the needs of struggling MEs, based on what they want and need and not our perception of what that need is, or should be.

V. Challenges to an Integrated Approach

Based on current world economic trends, many developing countries are poised on a cliff; they are positioned to go either down or up depending on government expenditures and the ability to attract both donor funds and foreign direct investments (FDIs).

The current “world trade growth forecast” has been revised down from 5.5 percent to 4.4 percent,⁸³ plus export prices are falling for non-oil commodities as well as manufactures, and export orders continue to decline in most countries.⁸⁴ These figures pose a particular threat to Bangladesh’s economy because it relies on exports in only a very few industries (ready made garments [RMG] especially) and FDIs to pay its interest and deficit, especially when the “US and Europe account for over 80 percent of Bangladesh’s exports.”⁸⁵ Despite gradual increases in the total volume of exports, imports have increased proportionally with exports and gross reserves have decreased substantially since 1995.⁸⁶ Additionally, remittances have declined during July-August 2001 by about 3 percent relative to the corresponding period the previous year, and the exchange rate was devalued twice, by a cumulative 11.8 percent, in 2001.⁸⁷

The above situation in Bangladesh is similar to many developing economies, which some consider stagnant. In addition, many lack proper infrastructure and institutional capacity to effectively carry out, design, and sustain reforms. Four of the main constraints that also limit growth are present in the pursuit of sound development activities. They are: weak or missing institutions to carry out policies and projects effectively, powerful vested interests that weaken client commitment in the face of complex, politically difficult reforms, and the lack of comprehensive development initiatives that integrate various economic and enterprise development activities.⁸⁸ On a practical level, if the majority of businesses such as Micro, Small and Medium

⁸³ World Bank, “Periodic Economic Update July 2001,” (World Bank: Dhaka, Bangladesh, 2001) 17.

⁸⁴ Ibid.

⁸⁵ World Bank, “Periodic Economic Update July 2001,” 3.

⁸⁶ World Bank, “Country Assistance Strategy,” 4.

⁸⁷ World Bank, “Periodic Economic Update July 2001,” 16.

⁸⁸ World Bank, “Country Assistance Strategy,” i.

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Enterprises do not grow, as opposed to the large oligopolies, the national economy does not change from year to year. For example, despite numerous enterprise development programs and more than a 300 percent increase in foreign direct investments from 1990 to 1998 and a reported annual economic growth of 5 percent, Bangladesh's economy, like many, is not moving significantly at the MSME level.⁸⁹

In order to stimulate the economy, MSMEs need to be able to expand and improve their operation through increases in wage-based employment. Programs need to be able to have as their objective assistance that targets enterprises to develop their businesses, facilitates expansion, and creates employment opportunities through diversification of the present employment bases. This challenge can best be addressed through an integrated approach at the MSME level—the underpinning of a sustainable economy. In order to accomplish this task, a “revised” pattern or blueprint, one with maximum flexibility that changes current business practices at the “base,” must be put into action.

This chapter will look at some of the challenges of an integrated approach to economic growth through enterprise development. The issues will be viewed through the eyes of the JOBS Project, incorporating three principles that became integral in its steps toward creating greater integration and sustainability in aspects of the Bangladeshi economy:

- 1) Linkages throughout the marketing channel, plus the policy reform and advocacy chain;
- 2) The focus on being private-sector driven (self-support systems) vs. donor driven; and
- 3) The need for a “new” paradigm to economic development.

Each of these was woven throughout the Project's programs, and therefore will be themes within each of the major sections focusing on the philosophical rationale and access to credit, markets, and self-sustaining support mechanisms.

A: Philosophical Rationale

Many developing countries offer a poor institutional and policy environment for businesses to grow and prosper because guidelines are nonexistent, current laws are outdated or not enforced, and many people are minimally skilled. In addition, product quality of many businesses is inadequate, businesses suffer from a poor reputation and a bad image internationally, production and management inefficiencies dominate factories, and capital and skilled labor are both in short supply. In Bangladesh's case there are several factors that fit this too common scenario.

⁸⁹ World Bank, *World Development Report 2000/2001*, 314.

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The people are often plagued with political strife and uncertainty, and are wary and distrustful of the government; its services and rules are not heeded without a monetary or patron-client incentive (bribe). Patron-client relationships prevail over business partnerships, especially in the rural sectors, where ME producers have no connection with larger regional markets or with international markets. Middlemen purchase most rural goods and resell them to the regional markets at a high profit. Thus, local producers earn considerably less compared to middlemen and retailers. The producers have no support systems or knowledge of the world outside their villages and have minimal expectation of improvement to their standard of living.

Urban centers also endure similar problems as those faced in the rural areas. Under-employment and unemployment in the rural sector often overflows to the larger cities, making it difficult to find employment in the city. Those who do find employment are employed cheaply in poor working conditions because they have minimal skills and there is an over abundance of this type labor. Small and Medium Enterprises (SMEs)⁹⁰ in urban sectors, though often better skilled, also lack the necessary resources to expand their businesses, especially as it relates to the poor institutional and policy environment and lack of backward and forward linkages. Although to a varying degree, the vast majority of MSMEs face financial and legal barriers, as well as the lack of resources and skilled workers, to significantly improve their situation. This coupled with market, institutional, and regulatory policy barriers makes economic development through enterprise growth a monumental task that is difficult to occur without very targeted interventions that encompass a holistic view.

The development of a supportive integrated business environment would build the operational and strategic capacity of MSMEs by facilitating and providing access to credit, alternative markets, and the needed technical skills. This access to support services and strategic assistance is vital in establishing an environment where free and fair commerce can exist. Hence, the JOBS Project began to facilitate and provide targeted intervention while at the same time building the support institutions and infrastructure for sustainability. This philosophy developed resources that stimulated enterprise growth and assisted MSMEs in their everyday business operations to become more productive and more efficient contributors of the Bangladeshi economy.

The development community generally treats or reacts to MEs as being located primarily in non-urban centers and therefore, falling into the NGO sector, with SMEs belonging to the “pure” private sector. This is a dangerous assumption and should be dispelled. In its paradigm shift, the leadership of JOBS believed that all MEs should be treated like the private sector. Because they are essentially private, independent businesses, MEs should be linked in the overall economic channel/chain and be mainstreamed into the regional and national economy.

⁹⁰ OECD/DSTI Report 2001, “There is no official or universal accepted definition of an SME. The main feature of an SME is that it is “not large,” in the sense that an SME is not in the core of the largest 10 or 20 per cent of firms in that market or industry. This leads to a rough convention of categorizing SMEs: Micro: 1-4 employees/Very small: 5-19 employees/Small: 20-99 employees/Medium 100-500 employees

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Based on market research conducted by international and domestic consultants and JOBS' staff, the Project systematically targeted certain levels of the economy and market sectors in which to direct business development support to select MSMEs. One of the major tests was to instill an entrepreneurial and business mindset, plus build provider capacity. Without this realization, it would be almost impossible to expand the business networks, much less integrate them. At the conceptual level, raising the business mentality in Bangladesh's informal and formal sector would relate directly to how business-like they became in operating their enterprises. With this as the backdrop, both the ME and SME level was simultaneously and strategically approached.

At the ME level, the were three main objectives were:

- 1) To organize and develop homogenous business and producers' associations;
- 2) To strengthen and assist regional NGOs and private sector service providers;
and
- 3) To expand into regional and national markets.

At the SME level the three primary objectives focused on:

- 1) Facilitating backward and forward linkages;
- 2) Improving the business management, marketing, and human resource skills of SME managers and their input providers; and
- 3) Expanding into national and international markets.

A challenge in this approach is helping these two groups and their respective stakeholders work together in partnership with facilitators, business partners, and NGOs or associations members. Realizing that by creating a linkage among themselves as "partners in business," based on market principles in which the inner relationships actually made each stronger, is a relatively new concept. This may seem simple on paper, but can be a challenge in practice among individuals who have a limited concept of collective thinking or experience working in groups, especially formal groups such as professional businesses, associations, clusters, or forums.

In respect to the ME level, one of the basic challenges revolves around working in a business or "partnership" relationship with NGOs to build their capacity in order to become competent providers that enhance their beneficiaries through value-added, fee-based services. As need-driven service providers, they can support and assist MEs to be less dependent and more independent, hence sustaining longevity of their own organizations and the MEs at the same time. Thus building NGO capacity through a wide range of technical assistance, marketing, networking, and support services is important.

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In the case of JOBS, the Project maintained constant rapport with the NGOs, nurturing proactive, responsive NGOs as long as they were striving to reach their potential. In facilitating business relationships, the Project became a valuable and reliable resource many times over, especially when the NGO “partners” agreed to participate in cost sharing and a joint management relationship, thus buying into mutual objectives and methodologies, both literally and figuratively. It is important to note that this trust and recognition of value to business and operations is developed over time and is based on results.

Interactions with SMEs follow the same basic premise as with MEs. However, in the case of SMEs a professional business-client relationship is developed with “potential” industry leaders in targeted growth sectors; the technical assistance teams then work to generate growth in both domestic and international markets through increased sales and marketing linkages. The team works closely with the selected SMEs to foster improvements in operational, management, employment, and production capacity prior to entering different markets. This long-term strategy creates trust with the client. By working with potential industry leaders that are proactive and responsive, the enterprises develop their businesses and reach their full potential. Not only do they help spearhead and develop the capability to grow the industry, but they also serve as a local role model. However, in the big picture and just as important, they are also valuable country representatives in the international market. By carefully selecting and working with such firms, they also begin to dispel some of the perceptions regarding quality and consistence of products produced and delivered by developing economies. In return, for these consulting and market-driven approaches, the firms are expected to participate in cost sharing and agree to sector specific management criteria. In the JOBS experience, these SMEs also “bought into” a variety of business development services and were quite willing over time to pay more as they realized the value of JOBS’s interaction as an investment into potential assets that were worth the extra cost.

In summary, the Project took an integrated approach to achieve its objectives. The implementation of this approach has proven successful and effective in making a positive impact on the management and operations of enterprises and support mechanisms, plus it has changed lives. JOBS’s technical assistance and facilitation of backward and forward linkages between MEs and SMEs linking them to markets and policy and practice changes has enhanced sustainability and economic integration. The approach is successful because it offers a comprehensive package that brings together access to credit, markets, and skills flawlessly. Access to credit expands businesses; access to markets promotes competition; and access to skills enhances human capacity. These aspects are inter-related and complement each other to bring about a holistic intervention package that gives MSMEs much more than a simple loan or isolated assistance.

At the organizational level, JOBS operated as four distinct yet integrated programs: Macro Policy, which EC/ICT and Secured Transactions; Micro Policy/Marketing Linkage; Micro Enterprise Development (ME); and Small-Medium

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Enterprise Development (SME). Each of these programs complemented each other at the practical level and worked closely together in most aspects. Macro Policy programs helped overcome regulatory and technical barriers and encouraged important policy and practice changes that enabled SMEs to operate in a freer environment more conducive to economic growth and expansion. The Micro Enterprise Development program assisted NGOs and local providers in building their capacity to better serve MEs as they began the graduation process. The Micro Policy/Marketing Linkage program dealt with current business relationships and practices and assisted in the development, awareness, and use of local resources as MEs mainstreamed into the overall economic structure. The SME program focused on the development of emerging export sectors with high probability of downstream linkages and the cultivation of regional, national, and global markets for these sectors.

As an example of impact during one year, JOBS helped more than 18,000 enterprises create more than 43,000 new employment opportunities (based on Government of Bangladesh calculations). During its course, the Project is credited with impacting more than 250,000 such opportunities. In addition, JOBS' technical assistance contributed to more than \$17,392,000 in domestic sales growth and generated more than \$50 million in export sales in the same year. This was made possible by the various programs working together to assist and facilitate MSME enabling environments, access to alternative and new credit resources, new and more lucrative markets, and enhancement of technical skills. From JOBS' experience, the challenge was to bring together the array of factors that affect enterprises on a practical/everyday level in a holistic manner. This meant integrating work with policies and practices, while concentrating on technical assistance and support mechanisms focused on production-oriented sectors that had both export potential and domestic needs. In this manner, employment bases were expanded, jobs created, and linkages and business relationships developed throughout the chain. The remainder of this chapter will discuss the Project's integrated approach through policy and practices on access to credit, access to markets, and access to skills and support mechanisms. This ultimately increases self-sustainability and contributes to the national economy.

B: Access to Skills and Skill Building – Self-Sustaining Support Mechanisms

In order to stimulate most developing economies, MSMEs must be able to expand and improve their operations and competitiveness. They generate employment and help diversify economic activity. However, in order to promote enterprise development and entrepreneurial skills, an integrated approach must be implemented. Research indicates that MSMEs suffer from many similar weaknesses as do their counterparts in developed countries, but to a greater degree. The entrepreneurs who own and operate these enterprises typically lack management skill and knowledge of, or access to, available resources. This is often multiplied by the inability to access the more lucrative markets.

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In many cases, hands-on training and capacity building go a long way to address these needs.

Building human capital is indispensable to growing a sustainable economy, much less accessing credit and markets. Its development increases skills and support resources that are as essential as access to markets or credit. Without it MSMEs seldom expand or grow. Having a limited pool of skilled workers is a common problem in most developing economies and Bangladesh is no exception. Because of a shortage of self-sustaining support institutions and/or mechanisms that can assist these enterprises with their different skill needs, this problem seems to be a never ending cycle of frustration. These struggling enterprises require insightful and diversified assistance capable of offering complete business development resources and the support mechanisms in order to ensure sustainability.

Unfortunately, in many developing countries the role of MSMEs as a potential engine for growth is still not fully realized beyond discussion. In Bangladesh, the Project had been providing wide-ranging technical, marketing, and networking assistance to develop and grow MSMEs while working to improve the overall enabling environment under which they operate. The Project recognized, however, the tremendous economic power was stagnating due to untapped human capital. JOBS's main objectives were to assist enterprises to develop their businesses, create employment opportunities, and facilitate expansion of Bangladesh's economy through MSMEs. This could not happen unless there was an increase in interventions focused on capacity building and developing support mechanisms. With this aspect integrated directly into the overall development scheme, the goals of 1) mainstreaming MEs into the domestic economy, 2) creating wage-paying employers at both the SME and ME level, and 3) facilitating market and business linkages—domestic and international—could be realized. The skill and capacity building and the development of self-sustaining support mechanisms soon became woven into every piece of the Project as demonstrated throughout this paper.

Though the Project provided a wide variety of technical assistance, of which targeted training was an important aspect, it discovered there were almost no resources available to address the goal of improving the development of Micro and Small Enterprises. A lot of material was available but it resulted in keeping them at a subsistence level. There was nothing that was targeted at integrating these enterprises into the formal economy or incorporating them as a link in the supply channel. Therefore, JOBS developed and disseminated its own training modules and concepts; a basic management module, Enterprise Development and Business Management (EDBM), and an advanced business training module, Entrepreneurial Development Training (EDT). Both models are based on the experiences gained from work done during years of grassroots field operations. During development, the enterprises, field-based providers, larger private firms, and others were interviewed to determine the training needs of the enterprises themselves. In addition, before finalizing the modules, a 13-day "training for trainers" course was organized with 25 enterprise development workers (EDWs) associated with five different NGO Training Institutes. The feedback received

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from this training and the opinions expressed by the participants were incorporated into the manuals.

Implementation involved providing access to skills enhancement through partnering organizations and providers via a training-of-trainers program for the EDWs, staff that assisted and prepared MEs and SEs to expand their businesses and monitor progress at the field level. This concept exponentially impacted many such enterprises with JOBS training EDWs who, in turn, trained and remained as “consultants” to multiples of micro and small enterprises. The in EDBM module consists of basic business, accounting, and management practices. Additionally, part of the training program requires EDWs to disseminate pertinent regional market and local alternative resource information to the MEs and SEs so they can act independently and access them if in their best interest.

The EDT module was designed as a support resource to those enterprises and entrepreneurs who, in spite of their ample potential, need additional technical knowledge and skills to succeed fully and achieve sustainability. It plays an important role in the development of entrepreneurial knowledge, concepts, skills, and attitude changes of both MEs and SMEs. It served JOBS as an important tool in the creation of market linkages and development of wage-based employment at all economic levels. It helped serve as a means to tap the potential of this unrealized economic force and proved to be an extremely valuable tool in the attainment of the Project’s goals and objectives.

In addition to the training modules, JOBS worked with in-country and international experts to design and develop specialized, need-based capacity building programs. At the same time, the Project worked with a variety of lead firms and providers to imparted technical training to unskilled individuals in clusters, creating a skilled manpower support and production resource base in which most SMEs are now paying these workers at a higher salary because their increased skill level. One such program trained and developed more than 6,000 unskilled men and women on how to make quality handmade shoes and home textile products in support of those growing industries.

As part of the capacity-building chain, the SME-lead firms also needed to improve their skills and capacity to not only serve as a valuable link in an integrated channel but to also expand and grow their industries. In the case of JOBS, this included basic management training that imparts buyer communication, export documentation, production management, and export marketing skills. It also encompassed expert need-based training and consultancy on such things as packaging, production processes and techniques, technical improvements, and market trends. The support was not only direct but also involved the development and identification of self-reliant resources, which greatly changed the way Bangladeshi SMEs conduct business.

To further solidify the development of self-sustaining support mechanisms throughout the chain, JOBS increased its intensity of working with lead firms and

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regional providers to expand the cluster and association concept and to develop regional networking forums. These networking forums began working with a variety of stakeholders and independent resources (domestic and international) aiming to mainstream MEs and SEs into the larger economy and help grow industry sectors. By working together to obtain knowledge and information on how to access working capital and credit, new and more lucrative markets, technical and management skills, support services, and human and material resources an integrated linkage was formed. More importantly, the forums helped providers gain the important skills and knowledge they needed to remain sustainable, and the organizational capacity that enabled them to transfer and share those skills.

The Project demonstrated that developing a supportive and inclusive business environment builds MSME operational and strategic capacity. Through developing integrated supply networks and facilitating access to credit, markets and skills, JOBS has helped establish an environment where connectivity and inter-dependence between the various economic levels of the economy are fostering self-sufficiency and increased independence. The end result of developing these self-sustaining support mechanisms, which open new avenues to skills and resources, is a renewal of “real” entrepreneurship development; it also plays a significant role in poverty alleviation.

C: Access to Credit – Policies and Practices

In most developing economies lending laws, instilled practices, and ineffective judicial systems are among the major contributors that hinder overall economic growth. Developing enterprises, especially *SMEs*, *can generally only go so far on their own resources* before they hit a wall where extra working capital is badly needed to take that next step to legitimacy. This long-time problem is common to growing business in virtually all countries, developed or undeveloped, but tends to be more acute and critical in emerging economies. Though often used as an excuse by enterprises for their current state of non-performance, it is an important element for growth when combined with other business and operational qualifiers. Timely influxes of capital most definitely help businesses improve performance and capacity to compete and expand, and to take advantage of market opportunities. To meet the demands of modern commerce, financial and other laws are either not existent or the existing laws, policies, and practices need to change, be amended and/or clarified. There is a case to be made that similar changes to such laws in the United States was a major contributor to the country’s fast economic growth and sustainability during the 20th century. Not only did quality SMEs emerge and grow at quick rates on a more even scale, but consumer credit became common place and helped spur this economic evolution.

However, in developing countries, SMEs usually have limited access to credit because once their personal assets are invested in the business, no matter how successful or solid the firm may be, the major source of business credit tends to be moveable assets;

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most lenders in developing countries are quite reluctant to lend on moveable assets. Additionally, after possibly waiting many years for the court to engage, liquidate, and pay the lenders, the assets are often worthless. Thus, lenders prefer to lend with the security of immovable assets (land and buildings, etc.) because there is a perception of less risk regarding the collection and realization of the value of the collateral. Immovable assets are considered as leverages that ensure timely repayment, giving lenders greater incentive and security to approve the loan, but in reality this is a false assumption.

This is also the situation in Bangladesh where current laws did not prohibit such loans, but the process of repossessing assets if the loans defaulted was drawn out and difficult. Better/clearer guidelines on moveable asset financing, plus a secured lending law would facilitate greater access to credit and credit capacity in the economy, especially for SMEs. “By easing access to credit [a] new law would lead to more economic activity, more jobs, a stronger economy, and improved living standards [for Bangladeshis].”⁹¹ By facilitating this level of businesses to grow, it would help diversify and generate new employment bases in what could be the backbone of the economy; it could also help improve the poverty situation.

To help change the status quo and begin spurring business development, JOBS, along with local counterparts, developed a draft Secured Transactions Act that will secure immovable asset transactions in light of the ineffective financial and legal environment. “The Act [also] provides for a Secured Transactions Registry that would allow lenders to establish perfection and priority in moveable goods when those goods are used as collateral.”⁹² The Act provides security for moveable property such as equipment and intellectual property. Enactment of the new law will open up avenues for entrepreneurs to expand and grow with fewer regulatory barriers and increase consumer credit.

The Act and registry represent important enabling-environment tools that can eliminate some of the financial regulatory barriers that impede SMEs from expanding their businesses. Other major-level policy changes where the various programs joined forces to facilitated growth included: a raise in the turnover tax ceiling; the abolition of the ceiling interest rate for loans to SMEs; and expansion of Credit Information Bureau records to loan amounts of \$1,754 and higher.

As previously discussed, the graduation of MEs to the point where they can compete and be a valuable link in the market chain is an important aspect in mainstreaming them into the economy. However, as difficult as it is for SMEs to get credit, the opposite is true with *MEs*—credit is generally readily available thanks to a well-established and controlling micro credit/finance industry (see Chapter 4 for additional detail on this). There is little to no competition at this level, plus the enterprises tend to be much less sophisticated. As individuals needing relatively small

⁹¹ JOBS, “Draft Moveable Asset Financing law Offers Opportunities for Business Growth,” *JOBS Newsletter*, 1:7 (JOBS: Dhaka, Bangladesh, 2001) 1.

⁹² Phyllis Raymond, “Report on Implementation of a Secured Transaction Registry in Bangladesh,” JOBS Project: Dhaka, Bangladesh, 2001) 1

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loan amounts, the cost of lending to MEs can be quite high. Therefore, if improvements to the current situation are to be made and the goal of mainstreaming achieved, it needs to be attacked via current practices and perceptions, utilizing available resources in a new and diverse manner. In short, this is not necessarily an issue of law or regulation, but more one of a paradigm shift and alternative choices.

By facilitating the establishment of business and producer associations to address certain technical, training, and market issues, it also put a strain on the existing MFIs to provide enough credit. However, under the JOBS approach it also opened up new avenues where alternative sources began to express interest demonstrating a willingness to lend to MEs in associations because they were less risky, were homogenous, had greater capacity to repay in a timely manner, and captured a wider market. Based on this shift in lending attitudes, JOBS intensified its efforts with NGOs and various providers to form business and producer associations that can become sustainable, as the groups are reinforced with technical training, hands-on-experience, and alternative credit and resources. With the beginning of this paradigm shift new markets developed, linking them with better wholesalers resulting in better margins.

In addition, the Project began promoting networks and linkages to local commercial banks to help producers and enterprises obtain credit that otherwise would not be readily available. For example, JOBS's efforts with the concept of inter-banking helped producer associations attain loans from an urban bank, which agreed with a bank near the rural town to disperse the funds for a reasonable management fee (approximately 2-3 percent). As ME accessibility to commercial lenders grew, their businesses quickly began to penetrate the regional and national markets.

Another way to facilitate access to credit for MEs is to strengthen and build the capacity of regional NGOs and MFIs to attract external funds (non-donor) and manage larger loans—some up to \$5,000. This is an ongoing process that includes accounts, finance, savings, and management courses to improve their organizational, management, and financial capacity so that they are competent and sustaining full-service providers, a similar principle that banks are shifting to in the USA.

As these ME associations grow and compete on a level playing field their credit needs will become much the same as their SME counterparts. The most vivid example of this is the Modhupur Association of Pineapple Growers, which JOBS helped farmers form and is now expanding and functioning as a medium size enterprise.

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Access to Credit: The Modhupur Pineapple Association

JOBS's help in gaining access to credit is demonstrated in the Modhupur Association of Pineapple Growers, which has blossomed into a network of producer associations in little more than a year. In January 2001, JOBS discussed the idea of an association of pineapple producers with Abdul Malek, a successful farmer in Modhupur. JOBS found that individual farmers, who sold their fruit through street stands and other low-volume outlets, were getting an insufficient profit. They introduced the association concept to the pineapple growers and assisted them with working capital from Social Investment Bank Ltd. (SIBL). By May, the Modhupur Pineapple Association had become formalized. As an association, they now sell pineapples to district markets and fruit processing companies, including PRAN, a large Bangladeshi manufacturer and international marketer of agricultural products. They are able to obtain credit on the future prospects of their pineapple production with nominal collateral and without registering or valuing the assets. The bank trusts the association to follow through with their business plans based on JOBS's past technical assistance. JOBS only facilitated the relationship and did not guarantee any loans.

The first \$10,000 loan was taken out in May and paid off in October, two weeks ahead of schedule, which prompted SIBL to ask the association to propose another business plan. They applied for and were awarded another loan of \$30,088, which was a dual-purpose loan for expansion into banana production. The association plans to cultivate bananas on 20 acres and continue growing pineapples on 50 acres. The total cost of the Project was \$42,983 (\$21,053 and \$21,930, respectively) with 30 percent (\$12,895) of the total financed by the association through increased profits; the remaining 70 percent (\$30,088) was financed by SIBL. The association should continue to realize a 60 percent profit in bananas and 50 percent in pineapples.

In July, the Modhupur Association sold \$42,105 worth of pineapples at a fair market price for the first time resulting in an increase of \$14,035 over the previous year for a similar quantity. The 21-member association has employed 32 people to work in its office and fields. Depending on the season, they have two or three trucks packing every two or three days to Sylhet and Dhaka regional markets.

In summary, with access to credit and markets, and some training, the Modhupur Pineapple Association was able to succeed and sustain beyond its expectations, to the point where neighboring villages have been encouraged to form their own producer associations. While the success of the original association was facilitated by JOBS, it was ultimately made possible by their own hard work and motivation to succeed. With further input and assistance, and their own motivation and hard work, the new associations will also learn how to maximize their potential and local resources to better their lives.

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D: Access to Markets – Strategies, Practices and Policy

Of all the elements discussed through this paper, probably none is more critical than the ability and capacity of MSMEs to access new and more profitable markets, be it domestic or international. The ability to effectively compete in a variety of environments and locations is the culmination of all technical assistance and advocacy activities in a market-driven and integrated development approach. Thus, access to markets takes business strategies, business practices, and regulatory policy working together. Without it, neither the enterprise nor the economy will grow, expand, and become more self-reliant.

Success in accessing markets depends on many factors for which countless books have been written. However, several key factors that are particularly problematic for MSMEs in developing countries include the quality of goods, pricing levels, production methods, lack of market knowledge, exploitation (especially for MEs), and linkages with effective distributed channels; the list can go on and on. The realities of their small size, weak financial conditions, poor bargaining power, and general lack of management skills and support services have a tendency to marginalize these enterprises.

To begin addressing these issues, strategies must be used to define what the business will be and in which direction its limited resources will be applied to sustain growth. Strategy development should begin with a situation analysis of the business, quickly followed by a definition of why the enterprise is in business or has chosen the business it is in. The enterprise must have a market purpose for which there is a need. From this, a purpose for the enterprise can be clarified. Following these two steps, an analysis will come of the possible resource development steps to be taken. Competitive access to the market can be anticipated at this point, and the necessary marketing and technical assistance resources determined and deployed.

In the case of domestically-produced and consumed products, most are sold in the surrounding localities to consumers, retailers, wholesalers, or middlemen. For the majority of the small producers the quality remains poor, marketing channels are limited, and the local markets are oversaturated to the point where many generate minimal profits. There is an array of causes and reasons for this but one of the most serious problems is that most producers lack the proper marketing information and tend to repeat what is observed. This lack of awareness of potential outside demand and perception of acceptance of current quality standards contributes greatly to the market remaining local. Micro Enterprises tend to have an especial difficulty due to their weak financial conditions and knowledge base. Even the enterprises with better quality products are compelled to sell their goods to wholesalers and middlemen once a particular batch or item is produced. Since these intermediaries are aware of the MEs poor holding power, they are forced to sell at a price dictated by the purchaser without the opportunity to negotiate a fair price in exchange for labor. The enterprises must sell on the same day the

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product is produced in order to obtain money to purchase raw materials for the next day's work and/or for family needs. The design and implementation of an integrated approach can go a long-way in reducing some of these problems. Approaching development and technical assistance in a holistic manner would enable producers to concentrate more on improving the quality and design (a root problem), as well as reducing cost, obtaining working capital. And, in turn, it would help in accessing and expanding their market potential.

In the case of JOBS, *accessing more lucrative domestic* markets for MEs was paramount if any sustainable impacts were to be realized. As discussed in Chapter 4, MEs are forming associations that have the clout and capacity to demand higher prices, negotiate beneficial contract terms, and command healthy business relationships. With the appropriate training on the quality control issues and other barriers, and access to business support services, these associations achieved the scope to effectively act as SMEs. This has allowed them to compete in regional and national markets, breaking their previous cycle of dependence. Associations, like SME clusters, are groups of producers that can also act as backward linkages for larger producers or buyers, who are beginning to find such associations cost-effective and efficient.

For MEs in associations, access to markets results from introducing producers to big retailers and buyers, and vice versa. Moreover, access to market is not just about expanding into larger markets or getting the best prices for products, it is about sustainability through strong relationships with business partners to ensure the continuation of business transactions. An example of how JOBS facilitated market access is its assistance in forming dairy farmer associations to join the Milk Vita Co-op, linking producers to better prices and training them to increase milk production through improved health management of their herds and better knowledge of milk handling.

Access to Market: JOBS' assistance in facilitating access to markets is illustrated in the Milk Producers' Cooperative Union Limited (Milk Vita).

Research showed that Bangladesh's milk production falls short of demand by .15 million metric tons per year. The government imports powdered milk to compensate for this deficiency, but studies of milk production and supply indicated that it would be possible to supply the shortfall through more efficient storing and delivery systems and by providing farmers with basic knowledge of cow rearing, herd management, milk preservation, and marketing.

The Project's interaction with Milk Vita made possible better prices and other benefits to surrounding rural farmers. JOBS facilitated producer associations to join as new co-op members and ensured a guaranteed market for their milk. Before forming associations and joining Milk Vita, farmers were receiving 21 to 24 cents per liter (depending on fat content); now they receive 31 to 38 cents. With JOBS's intervention, Milk Vita can obtain its needed milk from the newly trained producer associations, and in return, the farmers will receive better prices for their milk and support services from Milk Vita.

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The intervention links producers with buyers to increase earning capacity, hence improving livelihoods. Consumers receive a regular supply of safe, nutritious, hygienic milk and milk products at a fair price through effective local marketing strategies. Farmers receive incentive bonuses at the end of the year according to the amount of milk they have sold to the cooperative. Local producers control their own products. Before the association, farmers had no input in the price of the milk. Giving them choices keeps them better informed about the market demand and the operation of their businesses.

While the linkage to good business support structures and partners is essential, many problems in accessing markets are due to poor management knowledge and capabilities, both of the business itself and the production process. The irony is that the majority of enterprises in developing countries put accessing markets far down on their list of wants or needs. In surveys taken by JOBS, the majority opted for assistance with equipment or machinery acquisition, spare parts, credit of working capital, and raw material supply. Furthermore, none wanted protection from imports or large-scale industries. This disconnect is common in many developing countries, and though the list of their needs is important and very relative, it only serves to reinforce the myopic view of so many MSMEs. When compare to the wants and needs in most developed countries, market access is close to the top, if not the top, support need. These developing enterprises, due to their limited management ability and quite possibly the environment in which they operate, have failed to realize the importance of sustainable market linkages. The procurement of machinery, equipment, etc., is no doubt important for production. But unless they can efficiently identify new markets and linkages for their products and expand their existing markets, the future of these enterprises will remain unsustainable. In this respect, government, donors, institutions, facilitators, and even private industry must work in a synergistic fashion to change the paradigm. Without this the current situation is doomed to remain basically the same.

It is important to recognize that even though there are measurable improvements in design, production, quality control, and packaging that these may result in minimal business expansion unless products address a market need and are accompanied by changes in the purchasing power of the customer—especially in domestic markets. Increases in production and quality improvements always create new opportunities that should be strategically considered in any integrated development approach. This must encompass development of participatory support and knowledge-sharing mechanisms accompanied by a well planned but aggressive market access strategy. If this is integrated with both upstream and downstream linkages, then proportional shares of the domestic market would emerge while at the same time penetrating niche global markets. This would help assure the sustainability and growth of a particular industry sector as a whole, thereby creating both wealth and employment bases.

The philosophy was used by JOBS when it decided to target three industry sectors with *international market potential* (footwear, home textiles, and small electronics) to develop. The Project considered the abundance of local resources and labor as well as

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the product-intensive nature of Bangladesh's industries in identifying the three export sectors. It was determined that the country could provide an adequate supply of high-quality products at low cost (e.g., with the minimal import of raw materials) and maintain a strategic marketing advantage in sectors of each of these industries.

A substantial amount of time and effort was spent to identify and help build a number of proactive and viable SME producers in order to achieve critical mass within each industry. The Project customized training and technical assistance for different level SMEs based on several criteria focusing on their sophistication and ability to address both domestic and international needs. The assistance also worked with the enterprises on appropriate management techniques and guided them in training their labor force. However, it was important to be able to create downstream links to position the industry to maximize its future potential and contribute to overall economic growth. After extensive market research, JOBS developed a "*Cluster Concept*" that resulted in the target industries being able to address certain supply and manpower needs. Before the cluster model, these firms were not accepting export orders because they lacked the capacity to produce and deliver within their factories.

The cluster is developed by a lead firm and JOBS working together and consists of 60-80 unskilled individuals who agree to comply with specific training criteria. Qualifications are simple: participants must be over 18 years old, have a basic education, and be willing to learn and work. After training, workers may choose to operate independently or as sub-contractors for the SMEs. For example, SMEs may give clusters 30 percent of their orders and produce the remaining 70 percent in their factories. For the clusters, sustainability is assured through guaranteed work and valuable technical skills learned through interaction with the SMEs. For the SMEs, sustainability is maintained through quality products and timely delivery, which enhances their image and strengthens their position in the industry. By providing backward linkages to large SMEs, the clusters have strengthened the industry image within Bangladesh. This relationship has continued to grow and expand with lead firms forming and sub-contracting production to clusters.

In a broader perspective, clusters, which take advantage of the economies of scale and strategically targeted markets, are in a position to operate like SMEs. Their combined efforts give them an advantage over individual small businesses for several reasons:

- Clusters are completely driven by the need to meet the demands of the customers. A customer-oriented perspective forces clusters to tackle key problems of competitiveness, organizational behavior, and knowledge about the needs of their markets. With guidance, these clusters can insert themselves into a marketing channel and develop a capacity to respond to market changes.
- As collective enterprises, the clusters have two advantages: 1) their transaction costs are lower than those of individual enterprises; and 2) their

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cooperation and mutual learning improves their efficiency. The collective approach helps members realize their combined potential.

- The cumulative capacity of clusters has helped them to improve product output. Cumulatively, clusters can produce and deliver on-time quality products. They have the capacity and potential to expand into the international market.
- Constant and close monitoring and supervision in the initial stage of the development of clusters has helped them overcome the typical hurdles related to the market.

Because the concept was new in Bangladesh, it needed close participation from the Project to ensure its success. Moreover at the initial stage, JOBS needed to be closely involved with these clusters to ensure quality and other aspects that were vital to raise the confidence of the lead firms in the clusters and to establish the factors that would determine successful market linkages. It was also important to raise the confidence level among the entrepreneurs within the clusters and ensure proper coordination among them so that the typical problems of individual small enterprises could be overcome.

The end results were self-sufficient enterprises leading the development of new growth industries within the country. Quality export products are now being produced for both domestic and international consumption with the businesses inter-linked and expanding at all levels of the marketing channel. The successes in the footwear industry best illustrate this progress. In 1996-1997, the footwear industry had a volume of \$17.78 million; in 1999-2000, it grew to \$36.28 million, an increase of 71.9 percent. In 2002, seven of JOBS's SMEs clients participated in an international footwear trade fair in Japan, where they received an additional \$4 million of unexpected export orders, an 11.5 increase from the same event the previous year. This is a clear demonstration that the supply and quality control issues had been conquered. This participation and performance at trade fairs can be credited to the hard work and desire of the lead enterprises; combined with the short-term technical assistance consultants who worked with them on styles, designs, and production techniques as well as how to best market their products and negotiate with buyers.

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Access to Market: SME Shoe Clusters Model

JOBS established its first footwear cluster in Mirpur. It arranged with Apex, one of Bangladesh's largest footwear factories, to provide training and a venue for the cluster. After the training, Apex sub-contracted the Mirpur Cluster to produce for the regional and international markets. Cluster participants were trained to operate shoe factory machines and equipment. In return, the cluster supplied Apex with quality leather hand-made shoes so Apex would meet delivery deadlines.

With JOBS' technical assistance and guidance, the shoe clusters are gaining critical mass in the Bangladesh footwear industry. Two years after they first started, clusters are playing a vital role in the development of the footwear sector because SMEs rely on their skilled workers to supply the shoes that they are unable to efficiently and effectively produce individually. Thus, products from remote villages of Bangladesh are now being exported to highly competitive international markets like Japan and France. The reason behind the success of JOBS's intervention into the footwear and leather goods industry can be summed up in the clusters' Four Cs: customer-oriented, collective, cumulative and close observation.

Because of the Project's guidance and technical assistance, these enterprises are developing integrated marketing channels within their industries and are now legitimate players in the global marketplace.

Note:

A more detailed guide to assist entrepreneurs, entitled "*The JOBS Approach: Systematic Planning for Export Marketing – A Must for Bangladesh's SMEs,*" written by *Asif U. Ahmed*, the JOBS SME Team Leader, is included as an annex to this paper.

However, in today's global marketplace access to markets is quickly expanding through the emergence of E-Commerce and the use of information communication technologies (ICT). This internet reality has helped level the playing field, enabling many MSMEs to compete in markets never before dreamed. Unfortunately, many developing countries are falling farther behind due to their lack of enabling environments and out-of-date policies and regulations. This is resulting in unrealized growth for businesses and industries that find it difficult to operate and compete open and freely.

In Bangladesh, examples of these out-dated laws are evident in the lack of a modern banking law to allow credit card use for international transactions and in the need for foreign exchange deregulation. To address this situation and help facilitate access to international markets for MSMEs, JOBS has researched and advocated amending the Bangladesh Banker's Book Evidence Act of 1891 and the Bangladesh Reserve Bank Act of 1934, laws designed long before today's global trade.

E-Commerce is becoming more crucial as businesses find they need to take advantage of the internet to compete in the global market, as well as at home. In practice,

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many private local businesses take advantage of E-Commerce domestically, but cannot yet operate in the international context. As a result, they soon face problems in working with international businesses that have adopted the new technology and accepted certain procedures that regulate, enact, and enforce online transactions and communications, guidelines with which businesses are currently not capable of dealing.

Development programs that are concerned with enterprise development and economic growth cannot separate a market-driven approach from the realities of trying to conduct business in today's world. Their programs need to integrate these issues and help improve the policies, regulations, and issues fostering the enhancement of EC. By successfully addressing these business barriers, they will also be contributing to the access, growth, and expansion of domestic and international markets.

In the case of JOBS, this involved working closely with the Government of Bangladesh (GoB), the private sector, and other stakeholders concerning the future of EC/ICT. The Project conducted research on E-Commerce in Bangladesh, facilitated an E-Commerce readiness assessment, and held numerous discussions and high-level strategy sessions. In the process, current legal framework and regulatory environment that serve as major obstacles to E-Commerce were identified. "Although businesses are keen to embrace [E-Commerce], the GoB has not been able to keep pace with the changes in [the] legal and regulatory framework required to foster [E-Commerce] and lead growth."⁹³ There are legal barriers as well as those due to inadequate infrastructure that impede businesses from making use of EC/ICT. For example, current laws still require physical signatures under the Evidence Act, digital (electronic) signatures are not accepted by the courts but necessary under the current law structure, there are no institutions that have the capacity to oversee the development of an IT Act, electronic contracts hold no legal value, and the concept of electronic transactions is still new.⁹⁴ In response to this need, the Project began working with the GoB to develop a model IT Act that will enable Bangladeshi MSMEs to access new markets and compete much more effectively, both at home and abroad.

E: Conclusion – A “New” Paradigm to Economic Development

The challenges to an integrated development approach are many; they require leadership and management skills to initiate and to be successful. The approach will face many obstacles and the need for paradigm shifts in thinking, actions, and attitudes, which are not easily obtainable without vision and fortitude. However, it is a necessity because in case after case development activities to date have not substantially changed the weak institutional and policy environments, the lack of a skilled labor force, and the insufficient support mechanisms that are resulting in poor business growth and stagnation at various economic levels. In most developing countries, these problems are impeding

⁹³ EC/ICT Program JOBS, "EC/ICT Business Plan for FY 2002," (JOBS: Dhaka, Bangladesh, 2001) 1.

⁹⁴ Ibid.

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MSMEs from making a more significant contribution to the national economy. By facilitating access to credit, markets, and training and developing support structures, interventions need to focus in a holistic manner. The approach must also consider the social implications and factors but emphasize improving the overall SME performance and mainstreaming MEs, thus providing incremental and key changes in the economic future of country.

In the case of Bangladesh, the Project's integrated approach to the overall economy and business environment made possible MSMEs' access to credit, markets, and capacity building. It also facilitated support mechanisms, which contributed to the ability of MSMEs to overcome these barriers. Because of this integrated approach, MSMEs are now able to obtain credit and working capital more easily, enter alternative and more lucrative markets, find skilled workers, and enjoy better living standards. This was nearly impossible to imagine before JOBS initiated its new paradigm approach to help MSMEs overcome such barriers as poor market environment, counterproductive policies and practices, and the lack of integration and linkages in the system.

The bottom line is that individual projects must design a totally integrated and proactive strategy that encompasses access to credit, markets, and skills for MSMEs while factoring in social dynamics and advocating important stakeholders to adopt pro-MSMEs policies and practices. The approach must be market-driven yet include the government, NGOs, and the private sector working together. They must integrate the establishment of a regulatory policy environment conducive to fair and open commerce and facilitate mechanisms and processes that will catalyze and support economic growth. Such growth will stimulate the economy, create new employment bases, and generate more self-reliance and sustainability.

VI. The Larger Picture: Will the JOBS approach work in other sectors of the economy, or in other countries?

We have seen how the political spaces abdicated by governments can be exploited for good or evil—despite the ineptitude of governments—by non-state actors. The outcome of the activities and efforts of these non-state actors can result in either stabilizing societal development by mainstreaming the poor into that society's economy and development process, or in alienating the inhabitants of those spaces further from their society by transforming them into a negative force for destabilizing that society and beyond. Where the non-state actors have acted benignly, they have also served to buttress the government's own limited activities by complementing them as well as setting a challenging bench-mark for them to match and helping nudge them towards taking on the responsibilities of governance. Where they acted malevolently, they have acted as destabilizing, constraining, or co-opting (or corrupting) factors on the state. In either event, the inhabitants of these empty spaces with which governments and non-state

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actors interact (or not) are vastly the poor. Remenyi has aptly described “the diversity of the poor” as forming a “poverty pyramid.”⁹⁵

- At the base of the pyramid are the poorest of the poor. These are the vulnerable poor, including pregnant women, old people, children, and the infirm. They are unable to contribute in sufficient measure to their household income, and their survival is dependent on the economic activity of others, thus rendering themselves vulnerable. Access to MF services can enable them to boost their productive capacity as well as the total value of the economic activity of their household or the village in which they reside.
- Above the vulnerable poor are the laboring poor, whose main source of income is derived from the sale of their labor, either in the market place or to themselves in eking out subsistence production. This section of the poor was the main clientele of rural credit programs of the past. MFIs also primarily serve this group, but there is now a deliberate attempt to direct the finance to activities that take the laboring poor to sourcing beyond merely subsistence crops for their income. The economic activities of this group now seek to add value to existing activities through improved quality, greater productivity, simple processing, or the addition of new products to the range of their household outputs. Micro finance assistance to this group helps it to move upward in the pyramid, into more productive opportunities of self-employment and simple entrepreneurship.
- The third tier of the pyramid is occupied by the self-employed poor. The people in this group are producing for the market, often on a part-time basis. While integrated in the cash economy, even though they may not have given up selling their labor or involvement in subsistence activity, they still need working capital to enable them to remain at this higher level of poverty. They are distinguished from the lower strata of poor by being dependent on the market for their remuneration.
- At the apex of the pyramid are the ME owners/operators, the “entrepreneurial poor,” who are in a position to employ others (including members of their immediate or extended households/families). Their activities are usually adding value to goods or services, or “wage goods,” such as food, clothing, household items, transport, health service products (traditional medication), etc., produced for and purchased by poor households in rural and urban informal sectors. Lack of working capital becomes a critical constraint for this section and prevents their expansion and graduation to a higher (or more sustainable) level of entrepreneurship.

The MFIs played an important role by filling in the large, often vast, spaces left vacant by governments in order to reach the various levels of the pyramid occupied by

⁹⁵ “Is there a “State of the Art” in Microfinance?” Joe Remenyi; in *Microfinance and Poverty Alleviation*, ed Remenyi and Quinones.

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the poor. The MF industry worldwide has been successful in reaching millions of poor people, has developed strong and replicable models for adaptation throughout the developing world, and its programs are implemented by institutions or organizations that are increasingly professional and commercial in orientation. Yet, despite the good work done by most MFIs, albeit with varying measures of success in their outreach capabilities as we witnessed earlier in this paper, many MFIs failed to reach significant numbers of those at the very bottom of the pyramid, the dregs of the poverty cocktail. Although most MFI programs do include some of those at the base of the poverty pyramid, the majority of their clientele comprises those who are in the “moderately poor and vulnerable non-poor categories that [are] just below or just above the poverty line.”⁹⁶ Perhaps, pressurized by the imperatives of developing sustainability and viability, these organizations compromised in varying manners and degrees to their initial social objectives. Simanowitz and Walter argue forcefully that “although the MF industry has demonstrated what can be achieved, it has not demonstrated what cannot be achieved. ... The fact that most MFIs do not reach large numbers of poor peoples does not mean that they cannot reach them, or that the very poor people cannot benefit.”⁹⁷ Unfortunately, MF has tended to exclude those that cannot use the one-size-fits-all services provided. The challenge for MFIs now is how to maintain high standards of financial performance and yet push the frontiers of their outreach to include the poorest of the poor, the very hard core poor. Surely, if the MF revolution debunked the mindset that the poor were not bankable, an extension of the logic would also dictate that the very poorest of the poor could be equally bankable. Until this hypothesis is convincingly disproved, it remains a challenge waiting to be proved. MFI activities now transcend a vast expanse of activities, which were not considered possible not too long ago. It is time now to create space for innovation in order to try and include those formerly excluded within the embrace of programs and to further propel those who pushed up higher in the pyramid. If this occurs, the confining parameters of this “pyramidal” prison will be removed.

Because the specter of poverty is so multi-faceted, it is not possible for an MFI to address all aspects of activities required in eradicating poverty; at the same time, its activities cannot be confined to simply doling out palliative and analgesic doses of micro credit loans (that the MFI itself receives as a low-interest loan or grant) merely to lessen or deaden the pain of being in poverty. JOBS’s activities and the program’s model of cluster approach has served to instill self-confidence and intrinsic resilience, as well as promote capacity augmenting in the MEs spawned by MFIs. The Project has also helped the latter to more fully realize their own potential. We now believe that the JOBS Project in Bangladesh, too, needs to spread its wings further—into promoting and fostering the enabling environment for ICT and its application to better and open governance (as it has already embarked upon), into expanding and developing business services, and into

⁹⁶ “Ensuring Impact: Reaching the Poorest while Building Financially Self-Sustaining Institutions, and Showing Improvements in the Lives of the Poorest Women and their Families.” by Anton Simanowitz with Alice Walter; in *Pathways out of Poverty: Innovations in Microfinance for the Poorest families*, ed. Sam Daley-Harris; Kumarian Press, 2002.

⁹⁷ *ibid*

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continued augmenting of the drivers of market mechanisms in helping the MEs move up the entrepreneurial ladder and graduate to SMEs.

Can JOBS now, for example, apply its experience and paradigm on a higher rung up on the entrepreneurial ladder, or radiate horizontally by more boldly peering into the base of the poverty pyramid, to see and test whether the poorest of the poor are not only bankable, but also in possession of entrepreneurial capabilities that lie unexplored and untapped? We believe that it can, and indeed should. Lest we forget, the poor became bankable only after someone with a bold vision challenged that they were not, which had been the conventional wisdom, deeply imbedded in the mindset of most societies of the developing world. The poor became entrepreneurial when programs such as JOBS challenged the conventional, patronizing middle- or upperclass mindset that it was beyond the ken of the poor to be enterprising and profitable. The few pilot projects that the JOBS program undertook, and where were described earlier, we believe demonstrate convincingly that this model can be applied to other sectors of development, in Bangladesh and elsewhere.

The vast empty spaces in the shell of the state have been filled by MFI programs, transforming them into a sort of “Swiss cheese,” with many holes in them. These holes now need to be filled in as well, to lend greater substance to the sphere of the state. From a socio-psychological point of view, the greatest risk takers in society are more often than not the poorest of the poor. They take unimaginable risks, precisely because they have nothing to lose. In Bangladesh, for example, the greatest risks are taken by these very poorest, landless people who eke out their living occupying and cultivating the perilous (yet most fertile) Chars (or shoals of shifting alluvial soil) which form and un-form in Bangladesh’s mighty rivers as they flow into the Bay of Bengal, or those who similarly occupy and till on similar alluvial deposits along the coastal shelf areas. Floods, storms, and gigantic tidal surges repeatedly drive them out, and wipe out in minutes what these people have painstaking toiled over for months to bring to fruition; yet they keep returning to the very same areas, attracted to them like moths to the flame. These people have nothing more to lose than their lives, so they actually work wonders. This is raw entrepreneurial skill, lying latent and yet untapped, awaiting the right stimuli to prove that they are not only bankable, but also not lacking in entrepreneurial gumption.

The current events in our contemporary world make it imperative that the developing world and the donor community work hand in hand in thinking out-of-the box, so to say, in addressing the challenges that confront our globalized world. The high costs of governments leaving vast spaces in their states empty from their purview can have disastrous effects not only upon the society of that state, but also upon spaces adjacent to it, and spreading out in concentric circles, to adversely affect the larger global stage as well. Conventional approaches of development assistance, tried for the last fifty years, did not prevent such phenomena from evolving, nor could they restrain them within limited confines. Donor fatigue syndrome, exacerbated by a progressively diminishing pie that donors can apportion to an ever-growing clientele have demonstrated that generic replications of the prescription of “Marshall Plan,” however well-intentioned

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they are in conception or rhetoric, are doomed even before they commence, because of acute liquidity crunch besetting the donors themselves, and also because of the multiplicity and “simultaneousness” of the genesis of such empty spaces manifesting across the world. In such a scenario, working with MF programs upwards, and outwards, would appear to make greater sense and be eminently logical. With initial doses of small loans, the resource mobilization and capital accumulation process begins in the domestic constituency of that program. An important element in the graduation process of the MF programs, moving MEs up into the platform of SMEs, also denotes that the ownership of the program devolves on the participants. We believe that this is the correct approach, and the lessons from hindsight are that goods, services or products are valuable only if they are priced; if doled out free and charitably, such action merely serves to foster dependency and inhibits the development of self-reliance.

Will this model work elsewhere? We do believe that it will. Again, the analogy has to be drawn from the application and adaptation of the MF paradigm abroad, in spaces far-flung from the land of its conception and first testing. MF programs did prove transplantable and viable in transplantation, although each new environment had to “tinker” with the model to adapt it optimally for its own socio-cultural milieu and economic state of being. Some were more successful than others, but that is inevitable in the inherent nature of things. The real litmus test was whether they worked beyond their initial parameters, and the lesson of the last couple of decades is that they did, and continue to do. We believe that the JOBS model, which helps the MF model graduate from struggling MEs to viable and self-sustaining SMEs, can be applied and tested elsewhere, where MFIs have already proved viability of their initial programs, or even where they are in the initial stages of instituting such programs. It could well prove to be a low-cost, high-yield path to telescoping the development process in spaces of chronic poverty and lag ... because it relies mostly on optimizing the innate and latent entrepreneurial skills of the human resources that are any nation’s most precious, and often most abundant, resources.

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The JOBS Approach:
Systematic Planning for Export Marketing:
A Must for Bangladesh's SMEs

By Asif U. Ahmed
Team Leader: JOBS-IRIS

World markets are diverse, dynamic, and competitive. Exporters in developing countries do not stand a chance to enter them without careful preparation and planning. Lack of just such preparation and planning is a major reason for the stagnation in export growth in many otherwise promising sectors in Bangladesh. Firms seeking to export to international markets must have a thorough and well-planned entry strategy and implementation plan before targeting any new market.

Market Assessment and Selection

First of all, exporters must bear in mind that markets differ in size, spending power, product preferences, customer values (the importance of quality or image over price, for example) and consumer behavior. Trade and distribution structures may also differ, as well as customs of doing business. Therefore, strategic selection of target markets is important. No exporting firm can succeed by attempting to enter every market that looks lucrative. The best use of limited resources is to target specific, carefully selected markets.

This means narrowing down the options. Simple desk research allows for a fast and economic initial assessment of possible markets. The exporter should collect basic data on the countries and markets being considered, including GNP, population, demographic breakdown, per capita income, degree of inflation, economic trends, and economic structure. This information can easily be found on the Internet, or through foreign chambers of commerce, high commissions, or export promotion organizations. The data should enable the exporter to decide if there are customers for his product and if the customers can actually be reached. In developing countries where such market information is a serious problem, the exporter should rely on trade promotion organizations; export development projects, business development services or local or foreign consultants. In many cases, the information will be free, but sometimes a small fee may be charged.

Field research will further validate the initial findings and provide first hand, specific information. The best way to accomplish this is to visit trade fairs in the target market. This is beneficial for many reasons. It provides information about the market, its consumers' preferences and tastes, the competitors' offerings, and local trends. It is also an opportunity for some pre-entry market campaigning when meeting other buyers at the fair. Such field research will answer some important questions: Will customers in the target market buy the firms' products at a price that provides a sufficient profit? What are

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the legal requirements for exporting products to the target market? Are there any packaging laws, import restrictions, or other laws governing the export of specific products?

Exporters should note that conducting such research costs money. Market research is of the utmost importance in a competitive market, and exporters must be prepared to invest in it in order to stay tuned to market developments and demands. Exporters who are reluctant to spend money to stay informed will definitely lose out to competitors.

The biggest and wealthiest markets are by no means always the most interesting or promising for an exporter. Consider the market for garden decorations. Germany is one of the biggest markets for these products; the Spanish market is far less significant. Nevertheless, it may be much more strategic for a Bangladeshi exporter with limited capacity and zero export experience to do business with a small importer from Madrid than with a big chain of garden centers in Hamburg. The chain will demand large volume, production exactly according to specifications, just-in-time delivery, and a price that will likely result in a very low profit margin. The Spanish importer may not only require smaller volumes, but also be more flexible regarding delivery and quality control, and negotiate a more favorable price. In addition, big importing chains easily drop small suppliers, preferring long-term relationships with bigger suppliers and subcontractors. The small importer in Madrid is more likely to develop a long-term relationship with a small supplier. A similar comparison for the footwear sector is that between the big German and US markets and the small but highly rewarding Japanese market.

While selecting the market the exporter must answer a few basic questions:

- What is the competitive advantage of a specific market? Is there any tax advantage? Is there any quota free advantage?
- Is the market too saturated? What is the export/import ratio?
- Do I have the capacity to supply for the market? Do I have the resources to meet the quality demands of the market?

Once all the research has been done and a promising market has been identified, the company needs to assess whether it is strong enough to obtain and maintain a position in the target market. The opportunities and threats of the market must be compared to the strengths and weaknesses of the company. Elements to be assessed include product characteristics and quality, production facilities, production process, production capacity, production flexibility, packaging, personnel qualifications, management systems and financial capabilities, and export experience.

In many cases a certain amount of investment can turn a company's weaknesses into strengths and a market's threats into opportunities. For example, the environmental requirements in the European market will be a threat to companies unaware of them or

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reluctant to adjust packaging and/or manufacturing processes to meet them. Companies that are willing to adapt to the requirements or are already ISO 14001 certified, however, may see this as an opportunity. Exporters who are reluctant to invest in strengthening their company to meet the high demands of the international market should not be considering these highly international markets. However, a systematic approach that includes the three steps of market assessment, company assessment, and strategic action provides a framework for well thought out decisions and a successful entry into the export market for even the newest companies.

Strategic Action

The next step is to establish contact, in most cases by direct mail campaigns to agents, importing wholesalers, or industrial buyers, and by attending trade fairs. Databases of potential trade partners can be found on the Internet, in business directories, or from trade promotion organizations like CBI or embassies.

Exporters should not underestimate the importance of direct mail. The presentation of your company should be correct, accurate, thorough, and concise. Detailed documentation of the company and its products, including technical specifications and information on quality certificates, if applicable, should be sent in English or in the buyer's preferred language. Bear in mind that the immediate effect of direct mailings is limited. Businesses are inundated by direct mail. Therefore any mail campaign should be followed-up by telephone calls or personal visits.

Attending trade fairs in the specific market is perhaps the most important market entry tool. Major trade fairs are gateways to new markets. Lists of trade fairs are widely available in the Internet, from trade promotion organizations, and from foreign chambers of commerce. Trade fairs, like markets, should be carefully selected and prepared for. There are some basic guidelines to be kept in mind regarding trade fairs:

- Thorough research should be done on the targeted fair, including information on participants, visitors, and product ranges. If possible, visit the fair at least once as an observer before attending as a participant.
- The decision to participate in a particular fair should be made six months to a year in advance. Advance preparation should include development of samples, keeping in mind the season and market trends; development of promotional materials appropriate to the market and culture; and designing the stall. Fair organizers in many countries now provide appropriate stall designs free or at low cost.
- Send invitations to all potential visitors and clients at least one month before the fair; include a product catalog.

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- It is better for businesses from developing countries to participate in trade fairs in new markets as a group. This solves the problem of the lack of critical mass of an industry represented by individual producers. A country pavilion helps to attract attention and increases buyers' confidence in the industry.
- Have an interpreter in the stall that can freely communicate in the native language.
- Use digital promotional material such as a virtual tour of your factory. Potential buyers will want to know about your production facility and a virtual presentation can increase their confidence in your product. Virtual presentations can also help solve communication difficulties.
- Professional sales representatives in the stall will improve your company's image in the new market.
- Never ignore the press. A positive review from the media can make all the difference. If you are participating as part of a group of producers, arrange a press conference to inform the target market about the industry in your country and what competitive advantage it provides for the importing country.
- Plan to attend a fair in a new market for at least three to four years in a row. You are unlikely to get a large order at the initial fair, and firms should be consistent in participating in any particular fair. Results will take time and may be dependent as much on perseverance as preparation.
- Do not guarantee product prices over an extended period of time. Rather, quote prices linked to the date and exchange rate. This avoids problems with fluctuating exchange rates. Offers should always be subject to written confirmation.

If there is a promising response from a new trade partner, a business trip to meet the buyer can be useful. This allows the exporter to establish direct, personal business contacts with the prospective partner. At the same time, it is possible to obtain samples of similar products available in the target market to compare price, quality, design, and packaging. This is important, as products often need to be adapted before they can be successfully launched in a new market. An orientation visit to a trade fair linked to some company visits can be an effective and efficient combination.

Trust and reliability is key to successful relationships. Timely communication and an open and honest attitude will always pay off. Late replies to queries, late deliveries, shipments of poor quality, or exaggeration of capacity will quickly end the most promising new business relationship.

E-mail is a good way to establish and maintain contact with trade partners. It is rapidly becoming the primary mode of communication in the global business world. However, using only e-mail is not sufficient. Because e-mailing is fast and cheap, the sheer number of them has become a major source of frustration. Most messages are

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deleted with little more than the subject line or the first line of the text having been read. Therefore, don't expect too much from an electronic mail campaign. One should always follow-up by fax, ordinary mail, telephone calls, and/or personal visits.

In short, the international export market is "a whole new ball game." Don't assume success in the domestic market equates to success in an international market. It is not without reason that salespeople are admonished to "Know their customers." The time, money, and care expended on preparing your entry into the export market will make all the difference to your ultimate success.

Practical Hints in Targeting International Markets:

- Be willing to invest in market research and in establishing business contacts. A sustainable export business does not come for free, especially in buyers' markets like the European Union and Japan.
- Correspondence is important. It should provide a positive first impression of your company. It should be in English or in buyer's language and correct, accurate, and well designed.
- Communication must be swift. Answer any question as soon as possible. If you do not respond rapidly, a competitor will take your place.
- Trade fairs are one of the most important market entry tools.
- Do not rely on e-mail alone to establish business contacts. Always follow up by telephone, fax, ordinary mail, or a personal visit.
- Affluent markets do not necessarily mean high price margins. Strong competition often means small price margins. You will have to quote sharp prices.
- Quote prices according to the Incoterms 2000 and in internationally recognized currencies.
- Do not guarantee a product price over an extended period of time. Quote prices linked to the date and exchange rate.
- Offers should always be subject to written confirmation.
- In the case of a new business relationship, insist on a Letter of Credit.
- Regardless of how successful you are in the domestic market, the international market is a different matter. It is a buyer's market and will likely require some adaptation of your product.
- An orientation visit to a trade fair linked to some company visits can be an effective and efficient combination.
- International businessmen and business habits differ. Learn the culture, values, and modus operandi of your target market.
- Consistency, punctuality, reliability, and honesty are most important. Be clear and direct about delivery time, quality, and production capacity. Don't promise anything you aren't sure you can deliver.

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- Be aware of health, safety and the environmental regulations of your target market. Ignorance of these will inhibit your entry into the market.
- If you are not ready to meet the demands of a particular market, do not accept an order. You will spoil your future chances. Postpone your entry efforts and prepare yourself to meet the requirements.