

Terms of Reference (ToR)

For the Study on

Industrial Subcontracting in Bangladesh

1. Background

Inter-organizational linkage of small and medium enterprises (SMEs) with the provision of subcontracting and value-chain integration is required for the sustainable SME development in any country. Inter-linkage of industrial firms through subcontracting is an effective means of facilitating greater participation in the product technology & production process, sharing of facilities, assurance of quality, price competitiveness, advance marketing and augmentation of market horizon. The approach is not only supportive to small firms but also to larger firms which in turn gain better management functionality rendering less hassle to producing even complex products with multitude of modules.

Subcontracting is currently a key business strategy systematically integrated in many enterprises. It is a growing phenomenon of organizing production process. Firms all around the globe have increasingly been focusing on more and more subcontracting for minimizing costs, harnessing quality and staying competitive. It is more common in the production process that involves in multi-stages activities from processing to end of production and marketing. Therefore, subcontracting has increasingly been referred to as a competitive strategy to organize production in vertically disintegrated supply chains (Holl 2008).

Various definitions of the concept of subcontracting are used around the world. According to UNIDO, subcontracting can be defined as an economic relationship where one entity (the main contractor) requests another independent entity (the subcontractor) to undertake the production of parts, components, sub-assemblies or the provision of additional services that are necessary for the completion of the main contractor's final product, always in accordance with the main contractor's specifications (UNIDO 2003). The OECD defines subcontracting as a situation when one enterprise (the contractor or principal), contracts with another enterprise (the subcontractor), for a given production cycle, one or more aspects of product design, processing or manufacture, construction, maintenance work or services, where this output is generally incorporated into the principal's final products. The 'subcontracted' enterprise must adhere strictly to the 'principal's' technical and/or commercial specifications for the products or services in question (OECD 2005b). Some authors (Webster et al. 1997) define subcontracting as a process by which a subcontractor performs all or part of the manufacture of the principal's product, according to the customized specifications provided by the principal. Meanwhile, Gubik defines subcontracting as a legal and economic relation between two independent actors and characterized by two elements, e.g. substitution (the subcontractor takes over the technological and financial risk of the partner) and subordination (the subcontractor has to follow the partner's instructions) (Gubik 2005). A characteristic of subcontractors that distinguishes them from other enterprises refers to the fact that

the subcontractors' products are part of the end product but not the complete end product itself (Hovi 1995).

In Bangladesh, BSCIC initially took-up subcontracting program in 1982. But actual operation of the program started in 1986. The main activities of this program are:

- Identifying the Small and Cottage Industries those are complementary to medium and large Industries and establishing linkage between them;
- Create environment to signing the memorandum of understanding (MOU) of subcontracting with medium and large industries;
- Provide assistances in signing the Memorandum of Understanding for subcontracts and their implementation;
- Implementation of the Gazette notification of the People's Republic of Bangladesh dated 1st October 1989 regarding sub contract.

Under the program, BSCIC signed 31 MOU (Memorandum of Understanding) with different organization and corporation for promoting subcontracting and establishing linkage among SCI(s) and enterprise/Large establishment. As a result of the subcontracting program, the Light Engineering Industries (LEIs) got comparatively more privilege in the local market than before. Under the program, firstly the suitable LEIs were selected and enlisted under subcontracting scheme. Later, linkages were made between the LEIs and medium and large industries. Since beginning, about 1206 SCI units were benefitted under the subcontracting and linkage establishment program of BSCIC. BSCIC also attempts to encourage subcontracting relationships and to encourage small engineering firms to enter public tenders for large firm contracts through the subcontracting program. But the program could not fulfill the initial expectations.

It is well recognized that subcontracting activities have positive role to create a sound industrial base in Bangladesh. Subcontracting could led to the flourishing of SMEs and small rural entrepreneurs. In all the Industrial Policies i.e., Industrial Policy 2005 (18.2), Industrial Policy 2010 (12) and Industrial Policy 2016 (5.6), Government of Bangladesh has given the importance on the subcontracting strategy for the development of industry in Bangladesh.

In Bangladesh, SMEs possess high potentials to boom through subcontracting and value chain integration. This study will investigate the subcontracting opportunities in light with the subcontracting scheme of BSCIC which they launched in mid-eighties (why the scheme has not been expanded significantly as it was planned.) This study will also formulate some key policies & strategies for proliferation of subcontracting system in Bangladesh.

2. Objective

The broad objective of the study is to prepare a report on the present status of industrial subcontracting and its implication for MSME development in Bangladesh. Moreover, the study will examine the prospects of subcontracting in Bangladesh and thereby recommending the way forward (by analyzing various subcontracting scheme i.e. BSCIC's scheme and other scheme).

2.1 Specific Objectives

- To understand the present status of industrial subcontracting in Bangladesh including its prospects, actors & their interrelationship, economic impact, recent trends with sectoral pattern and challenges;
- To examine the global scenario of subcontracting and suggest the best cases for Bangladesh;
- To suggest and examine the prevailing policy and regulatory framework of industrial subcontracting in Bangladesh;
- To draw lessons from the BSCIC experiences in the context of existing subcontracting system in Bangladesh;
- To recommend way forward for SME development in Bangladesh in the context of subcontracting system.

3. Scope of Work

- Review and analyze various government plan documents (7th FYP, SDG, vision-2021) and policies (BSCIC subcontracting schemes, industrial policy, SME Policy, import policy, export policy, investment policy, ICT policy, and so forth);
- Analyze the scope of sub-contracting for SME development;
- Review the role of SMEs in export earnings and import substitution;
- Review the barriers of subcontracting from access to finance, regulatory, technology upgradation, skill gap, product diversification, export diversification, research & development and so forth;
- Organize consultation meetings to collect information and validate the report in a validation workshop at the national level to get feedback on the findings;
- In addition, the researchers may review subcontracting system of ASEAN (Malaysia, Thailand, Vietnam, Indonesia etc.) and Asian countries (India, Sri Lanka, Pakistan, Japan, South Korea etc.);
- Apart from the scope mentioned here, the researchers can add their subcontracting related ideas/suggestions/recommendations for preparing the report.

4. Methodology & Task Specification

- The consulting firm/consultants shall propose a detailed methodology and work plan of the study complying with the objectives & scope of work;
- The study will be based on both qualitative and quantitative research approach. As per the scope of work the information will be collected from secondary sources like reports/journals, websites and also from primary sources like Survey, KIIs, FGDs, consultation meetings etc.;

- The consulting firm shall be responsible for conducting a primary survey. Representative number of samples should be taken considering geographical proximity and enterprise/industry concentration;
- At least ten (10) focus group discussions (FGDs) and 50 key informant interviews (KIIs) shall be conducted with entrepreneurs of different sectors, local and national trade bodies/associations/chambers in eight administrative division of Bangladesh;
- At least three (03) case studies of successful subcontracting SMEs shall be conducted;
- The consulting firm shall prepare subcontracting synopsis/outline of the major SME sub-sectors (like Leather & Leather Goods industry, Light Engineering Industry, Plastic Industry, Agro & Food processing Sector, Designer goods industry, Electricals & Electronics industry, Jute, Furniture and Software industry etc.);
- The Team Leader/mid-level research fellows shall be present in most of the FGDs, consultation meetings and KIIs;
- The research team should follow the Industrial Policy-2016 for SME definition (if required);
- The research team shall also conduct desk research based on secondary information and identify any inconsistent regulations/policies that are impeding the growth of subcontracting;
- The consulting firm shall propose a comprehensive work plan with every details of field activities including but not limited to planned tasks, person-days, number of supervisors, enumerators for a specific locations, schedule, duration and so forth;
- Representatives from SME Foundation will present in as many of the survey, interviews and focus group discussion as the SMEF desires;
- The consulting firm shall propose a budget with every breakup details (segment wise);
- As per PPR 27(10), the consulting firm may have to submit performance security (3% - 5% of the total contract price).

5. Reporting Requirements

- The written report is expected to respond all the tasks identified in the ToR and follow the standard reporting format;
- The consulting firm shall submit the inception report including data collection plan so that SME Foundation can accommodate and be present in the surveys, FGDs and KIIs;
- The reports must be submitted to SME Foundation (hard copy and soft copy) at the stipulated timeframe and the reports shall be finalized by incorporating the opinion of SME Foundation;
- All sorts of coordination shall take place between the consulting firm's authorized representative and authorized official of SME Foundation (progress sharing, meeting with SMEF and workshop preparation);
- The consulting firm has to make consolidated presentation on Inception report & Questionnaire at SME Foundation;
- The consulting firm shall present the key findings to the stakeholders in a national level validation workshop for validating the draft final report;
- The validation workshop shall be organized by SME Foundation with relevant stakeholders for validating the final report. All expenses related to validation workshop shall be borne by SME Foundation;

- Necessary amendments, updates, changes shall be done for the finalization of reports by the research team in consultation with SME Foundation.

6. Payment: The payment will be made in four installments to the name of consulting firm/consultants. The installments are as follows:

- First instalment (10% of the contract price) to be paid upon acceptance of the inception report;
- Second instalment (25% of the contract price) to be paid upon acceptance of the interim report;
- Third instalment (35% of the contract price) to be paid upon acceptance of the draft report and
- Final instalment (30% of the contract price) to be paid after acceptance of the final report;
- The consulting firm must propose price inclusive of Tax and VAT. All relevant taxes and VAT shall be deducted at source at the applicable rates by the Government of Bangladesh.

7. Declarations and Representations

- By signing the contract, the consulting firm certifies that they are not in a situation of conflict of interest in relation to this contract;
- The deliverables that are produced as part of this contract will be the property of SME Foundation and it reserves the rights to use the deliverables;
- Confidentiality of every information that belongs to SME Foundation should be maintained strictly by the consulting firm/consultant at all times;
- SME Foundation shall reserve all rights for adding any dimension to the study;
- SME Foundation reserves the right to accept or reject any or all bids in part or in full without assigning any reason.

8. Team Composition:

- The research team shall be led by a Professor/Senior Researcher (PhD holders are preferred) to guide, monitor, evaluate and analyze the entire process;
- The team shall include a member having experience in working on the related field;
- The team must include at least two mid-level research fellows (including one statistician for data processing);
- At least four full time officials shall be dedicated for the work related to the study including data collection and related preparation;
- Required number of enumerators should be engaged for field survey (if required);
- CVs of all team members must be submitted with proposal.

9. Time Frame (Tentative)

| SL | Activity | Month | | | | | | | |
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| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1. | Awarding the Task | | | | | | | | |
| 2. | Submission of Inception Report (including data collection plan) | | | | | | | | |
| 3. | Data Collection (Secondary materials, Survey, FGDs, KIIs, Meetings) | | | | | | | | |
| 4. | Submission of Mid-term Report | | | | | | | | |
| 5. | Data Entry, Sorting, Compilation etc. | | | | | | | | |

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| 6. | Submission of Draft Report | | | | | | | | |
| 7. | Validation Workshop | | | | | | | | |
| 8. | Submission of Final report (by incorporating recommendations from validation workshop). | | | | | | | | |

10. Expected Deliverables:

1. Inception report (Inclusive of detailed work plan, methodology, sample size and questionnaire);
2. Mid-term report;
3. Draft Final Report;
4. Final report (Hard and soft copy);
5. All documents (List, raw questionnaires, proceedings/minutes and attendance sheet of consultation meetings, KIIs/FGDs, data analysis sheet/Access Sheet, survey database etc.).

11. Termination of the contract

- SME Foundation reserves the right to terminate the contract without prior notice in case of failure to fulfill/complete the assignment satisfactorily.

12. Copyright

- Copyright of the study report prepared by the consulting firm under this contract will be reserved by SME Foundation.
- Any part of the report cannot be shared, sold or reproduced in any manner without the prior written approval of SME Foundation.