

**KATALYST**  
**Accounting, Finance and Taxation (AFT)**  
**Business Services**

**Summary of**  
**Market Analysis,**  
**Strategy, and Interventions for**  
**Market Development**

By: Alexandra Miehlsbradt, Peter Bissegger, Manish Pandey and Ram Neupane  
With Input From: Abdul Moyeen, Parvez Asheque, Shaheena Sultana, Saima Rahman,  
Shahroz Jalil  
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Updated by: Shaheena Sultana  
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### **Annexes:**

Annex A: Outputs of the Analysis and Intervention Design Process

Annex B: Profiles of Proposed Interventions

## Acronyms

AAT	Association of Accounting Technicians
AF	Accounting, Financial Advisory and Related (Services)
AFT	Accounting, Finance and Taxation
AT	Accounting Technicians
BDS	Business Development Service
BMO	Business Membership Organisation
CA	Chartered Accountants
CMA	Cost and Management Accounts
CPE	Continuous Professional Education
CS	Company Secretary
FC	Financial Consultant
ICAB	Institute of Chartered Accountants of Bangladesh
ICMAB	Institute of Cost and Management Accountants of Bangladesh
INGO	International Non Government Organisations
IT	Information Technology
ITP	Income Tax Practitioners
MNC	Multi National Companies
MI	Market Information
NBR	National Board Of Revenue
NGO	Non Government Organisations
RMG	Ready Made Garment
SME	Small and Medium Enterprise
SEC	Securities Exchange Commission
TBA	Tax Bar Association
UAI	Usage, Attitude and Image
VAT	Value Added Tax

## 1. Introduction

The goal of KATALYST is to improve the competitiveness of business, especially within sectors where there are the most opportunities for development. KATALYST pursues this goal by developing markets for business services. Division A of KATALYST identified the Accounting, Financial Advisory and Taxation (AFT) services market as showing both potential for helping entrepreneurs improve the performance of their businesses and for growth.

While production and marketing are the business functions that most SMEs in Bangladesh prioritize, without effective financial management SMEs can not position themselves for growth. Effective financial management based on a clear understanding business's financial status is an essential building block for making good investment

***“We have to have a clear idea of all cash flows of (our) business, otherwise we would not know where we stand and where we are going.”***

(SME in Chittagong during a Focus Group Discussion on AFT Services)

of a

decisions and positioning a business to take advantage of market opportunities. Accounting and financial management can even help businesses increase profits in the short term by highlighting ways to lower costs and make better use of existing resources. Good accounting and financial advice can assist an entrepreneur in getting access to loans. Accounting and auditing can help entrepreneurs to protect their businesses from financial mismanagement and corruption. Outsourcing AFT services as a long term solution or to improve the capacity of in house staff can help businesses improve their financial management and thus help them expand and develop their businesses and improve their competitiveness.

The AFT sector has the potential to expand. The growth rate of the sector is currently at approximately 14%. However, there are several constraints to market growth which can be addressed through program interventions. Alleviating these constraints shows promise for accelerating the growth rate of the AFT sector.

## 2. The Process of Information Gathering, Analysis and Decision Making

KATALYST engaged in an extensive information gathering and analysis phase in order to formulate appropriate interventions to develop the AFT sector. This process is described below. While information gathering and analysis will continue, the focus of work is now shifting to piloting interventions.

## **2.1. Market Assessment**

KATALYST undertook a market assessment to understand the AFT sector and to pinpoint constraints to and opportunities for growth in the sector. The market assessment concentrated on the three cities in which KATALYST will implement interventions: Bogra, Chittagong and Dhaka. The market assessment had the following components:

- **Business Service Market Exploration:** A brief study based on secondary source research and key informant interviews aimed at confirming AFT as one of the business service sectors for development.
- **Rapid Market Appraisal:** A brief study based on secondary source research and key informant interviews aimed at gaining an overview of the business service markets within the AFT sector and gathering information to support the focus group discussions and SME survey.
- **Focus Group Discussions:** Facilitated discussions on various AFT services with small groups of SMEs with the aim of gathering a qualitative yet detailed understanding of SMEs' awareness, understanding, attitudes, usage and satisfaction with AFT services and to gather information to support the SME survey.
- **SME Survey:** A survey of 580 SMEs on their awareness, understanding, attitudes, usage and satisfaction with various AFT services with the aim of getting a statistically significant picture of key AFT service markets and pinpointing critical constraints to and opportunities for growth in the sector.
- **Supplier Interviews:** In-depth interviews with 120 AFT service suppliers, deliberately chosen to gain information from a wide variety of supplier types, with the aim of gaining an in depth understanding of the supply side of AFT markets and identifying constraints to and opportunities for the growth of the sector.

Reports are available on each of the components of the market assessment. The final two reports contain extensive analysis of the information gathered as well as recommendations for program interventions to develop AFT service markets.

## **2.2. Analysis and Intervention Design**

In order to consolidate the analysis of the market assessment information and to choose and design interventions to develop the AFT sector, KATALYST invited the consultant backstopping the market assessment and the Division A program backstopper to work with the Services Division team for 8 days. Prior to the mission, the Division A team, the consultant and the backstopper each did their own analysis of the accumulated market assessment information and developed some preliminary ideas for program interventions.

During the 8 days the team reviewed and analyzed the market assessment information, developed a program strategy, chose program interventions and developed preliminary plans for those interventions. The process is summarized below and the outputs described are included in Annex A.

1. The team used the market assessment information to develop a comprehensive list of constraints and opportunities in AFT markets in general, for specific AFT markets and for specific geographical locations.
2. The team elaborated a list of benefits for businesses for each AFT service as follows: current consumer perception, list of key potential benefits with an emphasis on improved business management and growth, those benefits not currently perceived by consumers but most likely to be attractive to them.
3. The team chose priority constraints and opportunities based on if alleviating that constraint or taking advantage of that opportunity would enable KATALYST to
  - a. Achieve high outreach
  - b. Make a significant difference in the growth of the AFT sector (impact)
  - c. Make a long lasting impact on the AFT sector (sustainability)
  - d. And if the constraint or opportunity could feasibly be addressed by KATALYST (do-ability)
4. For each priority constraint, the team brainstormed possible program activities to alleviate the constraint.
5. For each priority constraint, the team grouped activities into coherent interventions.
6. For each priority constraint, the team chose interventions based on potential for
  - a. Outreach
  - b. Impact
  - c. Sustainability
  - d. Do-ability
  - e. Measurability
  - f. Match with KATALYST skills
  - g. How well the intervention addresses the constraintAnd developing an overall portfolio of interventions that includes
  - h. some long term and some short term interventions
  - i. some low risk and some higher risk but higher reward interventions
7. For each chosen intervention, the team developed a skeleton plan of action including: objectives, outcomes, target consumers, target suppliers, geographical locations, services, potential partners, some action steps, time frame and key questions that need answering before implementation starts.
8. The team presented the plan to each other and to the KATALYST managers in order to assess the overall strategy and gather feedback on the strategy and component interventions.
9. Based on the assessment and feedback, the team revised and refined elements of the strategy and the component interventions.

This report describes the program strategy and interventions at this point in the process. It is expected that further assessment and feedback from both within and outside KATALYST as well as testing interventions will result in further revisions and refinements to the program strategy and interventions. The plan will remain flexible throughout implementation enabling KATALYST to adjust interventions in response to experience and to respond to new opportunities for developing the AFT services sector as they arise.

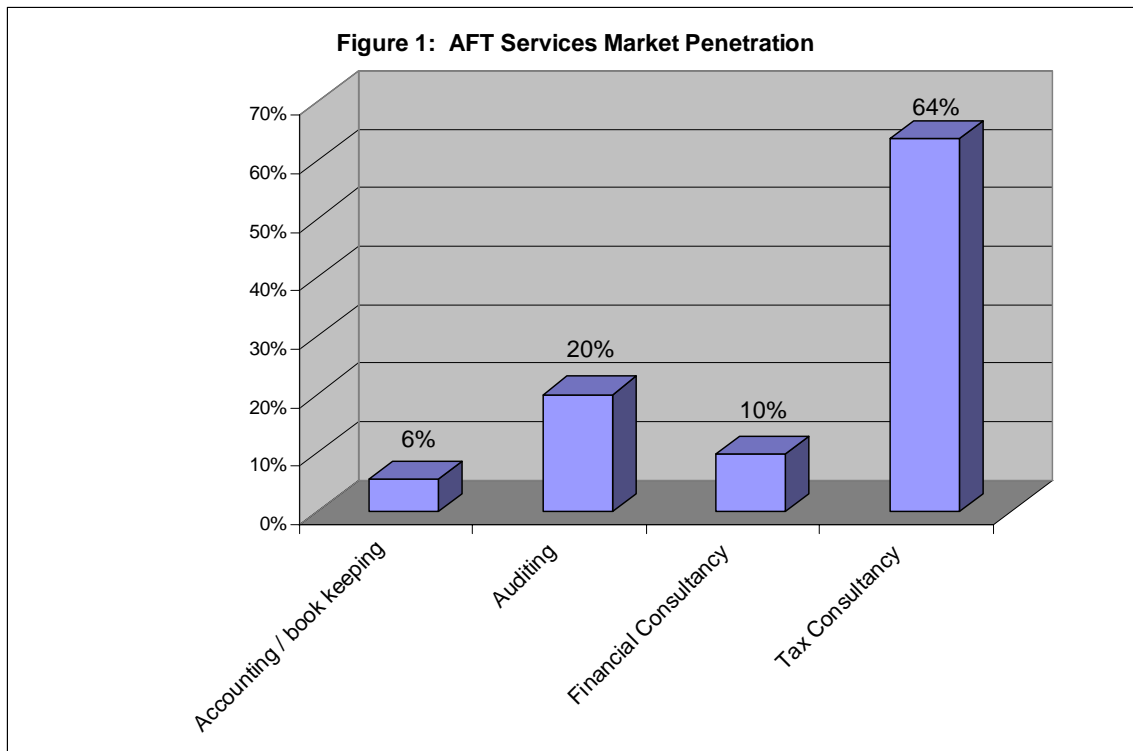
### 3. Summary of the AFT Sector

#### 3.1. AFT Services

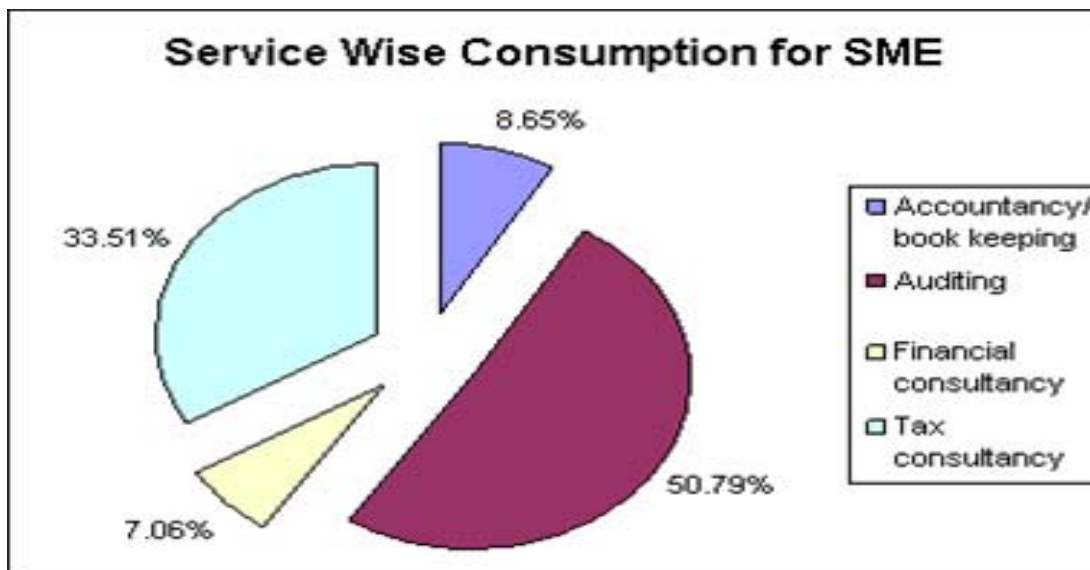
The AFT market is composed of 6 main services with differing market penetration and market characteristics. Table 1 summarizes the services and key market characteristics; Figure 1 shows market penetration for the services among SMEs; Figure 2 shows the overall composition of the AFT sector in monetary terms.

**Table 1: Main services in the AFT Sector**

<b>Service Type</b>	<b>Description</b>	<b>Key Market Characteristics</b>
Accounting	Bookkeeping, preparation of financial statements	Larger SMEs often do it in house; SMEs do not appreciate the benefits
Auditing	Statutory or voluntary examination of accounts to establish accuracy	Almost exclusively for statutory purposes
Taxation	Preparing and filing tax returns; assistance with minimizing taxes	Very high market penetration; high incidence of corruption
Financial Consulting	Assistance with financial decision making and/or loan applications	Usually focused on loan applications
AFT Training	Teaching accounting and/or financial decision making	Very limited; mainly from formal institutions
AFT Software	Purchase of software to help manage a firm's finances and/or technical assistance for that software	Fast growing sector linked with IT



Note: Market penetration for AFT software and AFT training is not yet available.



### 3.2. Market Size and Growth

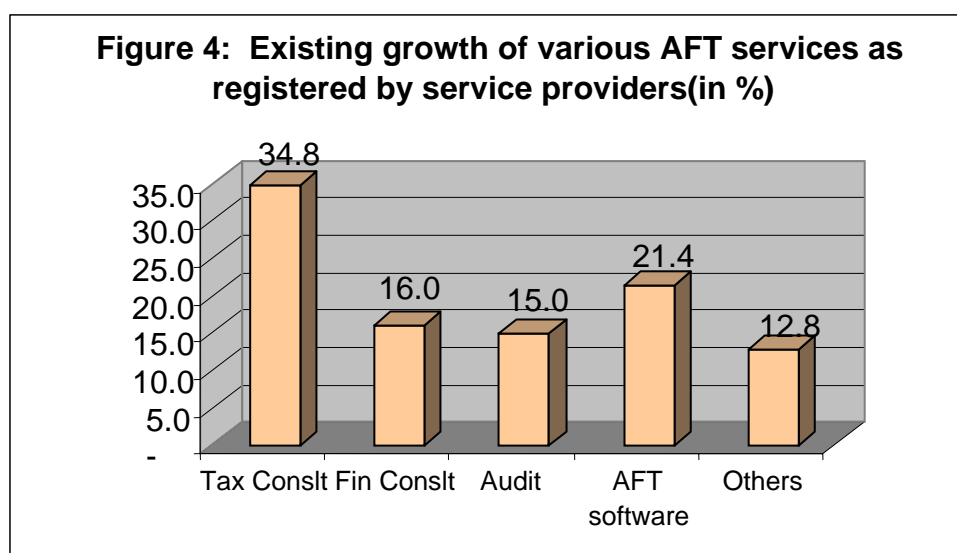
The overall size of the AFT market for SMEs is currently 2.2 million. Among the three cities surveyed, the market in Dhaka is by far the largest comprising 76% of the total market. The market in Chittagong represents another 23%. The market in Bogra is currently very small.

Table 2 shows the total SME market size both from demand and supply side. There is a huge gap of almost \$ 9 million between supply and demand side market size.

**Table 2: Reconciliation of supply and demand side SME market:**

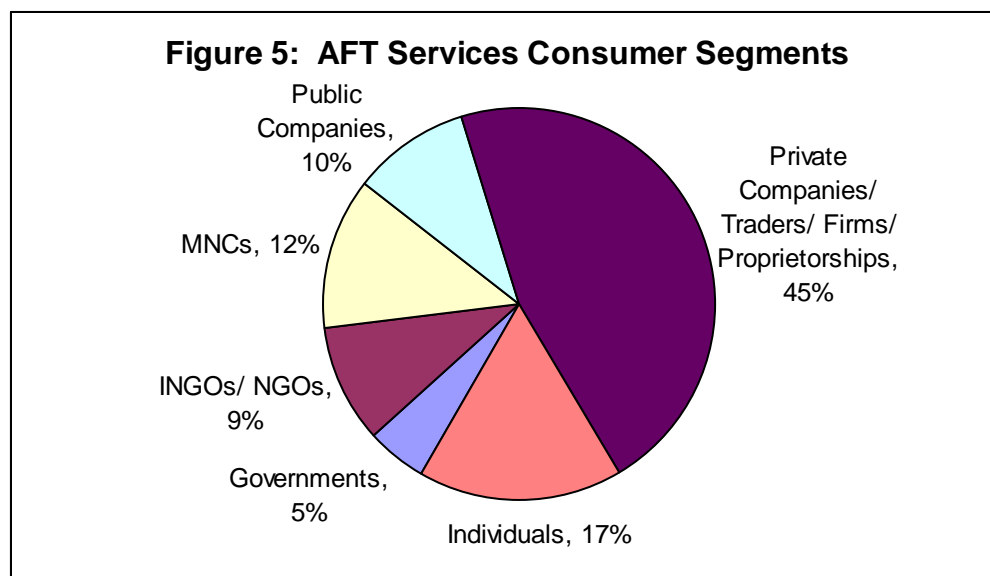
	<b>\$ Million</b>
SMEs Market as per supply side	18.71
Less: items not included in demand side	
AFT software (SMEs only)	4.75
AFT Training	0.24
Secretarial services	0.31
Valuation	0.20
Certification	0.15
	5.65
	13.06
Exclusion of large private companies (say 10%)	1.87
	11.19
SMEs market as per demand side	2.2
Difference	8.99

The market is growing without outside intervention at approximately 14% per year. The service areas with the greatest potential for growth appear to be tax consultancy, AFT software and financial consultancy. (See Figure 4)



### **3.3. Demand and Customer Segmentation**

SMEs are by far the largest consumer group for AFT services. (See Figure 5)



Within SMEs, the market can be roughly divided into two consumer segments: the “low-end” of smaller SMEs and the “high-end” of larger SMEs. These consumer segments are serviced by different types of suppliers and exhibit different purchasing preferences and habits. Table 3 summarizes the characteristics of these two consumer segments.

**Table 3: AFT Market SME Consumer Segments**

Characteristics	Low-End Consumers	High-End Consumers
Size	Less than 20 employees	20-200 employees
Demand for services	Mainly taxation; some financial advisory to get loans; limited demand for other services	Focus on taxation but significantly wider range of services demanded including financial advisory, audit and AFT software
Main AFT service suppliers	ITPs and ATs	CAs, CMAs and FCs
Locations with Market Potential	All three locations	Dhaka and Chittagong
Number of Potential Customers <sup>1</sup>	433,581	25,071

As a whole SMEs’ demand for AFT services can be characterized by a narrow focus on the reduction of tax or getting a loan. Although they generally have a high awareness of AFT services, SMEs’ understanding and valuation of the benefits of AFT services as a tool for business performance are low. SMEs also tend to be somewhat distrustful of AFT service

<sup>1</sup> The number of potential customers includes

- all small and medium manufacturing enterprises,
- service businesses: hotels and restaurants, health and social services, education and real estate renting and business activities
- trade businesses: large FMCG retailers (defined as grocers, general store, chemist, tobacco selling outlets, cosmetics selling outlets – having a monthly sales turnover of . BDT20,000) and retailers of consumer durables

According to secondary source data, 94% of manufacturing SM enterprises have 1-20 employees and 6% have above 20. An assumption has been made that the same percentage applies to service and retail enterprises.

providers. They are concerned about the confidentiality of their business information and frustrated that service providers are not sufficiently transparent and do not always deliver what they promise.

The research indicates that those enterprises that are growing are the most likely new customers for AFT services. These growing industries have been identified in each of the three target cities as shown in Table 4.

**Table 4: Growing Industries and Industries with a High Number of SMEs**

City	Low-end (<20 employees)		High-end (20-200 employees)	
	Growing	Large # of SMEs	Growing	Large # of SMEs
<b>Bogra</b>	<ul style="list-style-type: none"> <li>• Light engineering</li> <li>• Trade: consumer durables</li> <li>• Transport</li> <li>• Printing</li> </ul>	<ul style="list-style-type: none"> <li>• Rice milling</li> <li>• Trade: Cloth and RMG</li> <li>• Transport</li> </ul>	<ul style="list-style-type: none"> <li>• Transport</li> <li>• Private clinics</li> </ul>	<ul style="list-style-type: none"> <li>• Rice milling</li> </ul>
<b>Chittagong</b>	<ul style="list-style-type: none"> <li>• Restaurants</li> <li>• Travel and tourism</li> <li>• IT companies</li> <li>• Transport</li> <li>• Pharmaceuticals</li> <li>• Food processing</li> <li>• Plastics</li> <li>• Agro processing</li> <li>• Footwear</li> </ul>		<ul style="list-style-type: none"> <li>• Private clinics</li> <li>• Private education</li> <li>• Travel and tourism</li> <li>• Private banks</li> <li>• Insurance companies</li> <li>• Transport</li> <li>• Pharmaceuticals</li> <li>• Food processing</li> <li>• Leather</li> <li>• Agro processing</li> <li>• Footwear</li> </ul>	<ul style="list-style-type: none"> <li>• RMG</li> <li>• Textile</li> </ul>
<b>Dhaka</b>	<ul style="list-style-type: none"> <li>• Printing and publications</li> <li>• Furniture</li> <li>• Packaging</li> <li>• Light engineering</li> <li>• Pharmaceuticals</li> <li>• IT companies</li> <li>• Trade: clothes, food grains, cosmetics</li> <li>• Trade: electronic goods, machinery</li> <li>• Footwear</li> </ul>	<ul style="list-style-type: none"> <li>• Handicrafts (women)</li> <li>• Garment accessories</li> </ul>	<ul style="list-style-type: none"> <li>• Printing and publications</li> <li>• Private clinics</li> <li>• Private education</li> <li>• Furniture</li> <li>• Leather</li> <li>• Pharmaceuticals</li> <li>• Private banks</li> <li>• Security firms</li> <li>• Department stores</li> <li>• Ceramics</li> <li>• Footwear</li> </ul>	<ul style="list-style-type: none"> <li>• RMG</li> <li>• Garment accessories</li> <li>• Textile</li> </ul>

In addition, particular types of enterprises show potential for being growth segments for particular AFT services as shown in Table 5.

**Table 5: Potential Growth Segments for Specific AFT Services**

Service	Potential Growth Segments
Tax Consultancy	SMEs that have recently come under the Tax net
AFT Software	<ul style="list-style-type: none"> <li>▪ Readymade Garment</li> <li>▪ Bakeries</li> <li>▪ Poultry</li> <li>▪ Schools</li> <li>▪ Pharmaceutical Shops and wholesalers</li> <li>▪ Other SMEs with a large number of transactions</li> </ul>

Service	Potential Growth Segments
	<ul style="list-style-type: none"> <li>▪ AFT service providers</li> <li>▪ SMEs involved in import or export</li> <li>▪ Young, well-educated entrepreneurs</li> </ul>
Financial Consultancy	<ul style="list-style-type: none"> <li>▪ Readymade Garment</li> <li>▪ Agro based Industries</li> <li>▪ Export Oriented business</li> <li>▪ Traders</li> <li>▪ Young, well-educated entrepreneurs</li> <li>▪ Entrepreneurs who want to get a loan from a bank</li> </ul>
AFT Training	SMEs who do their accounting in-house

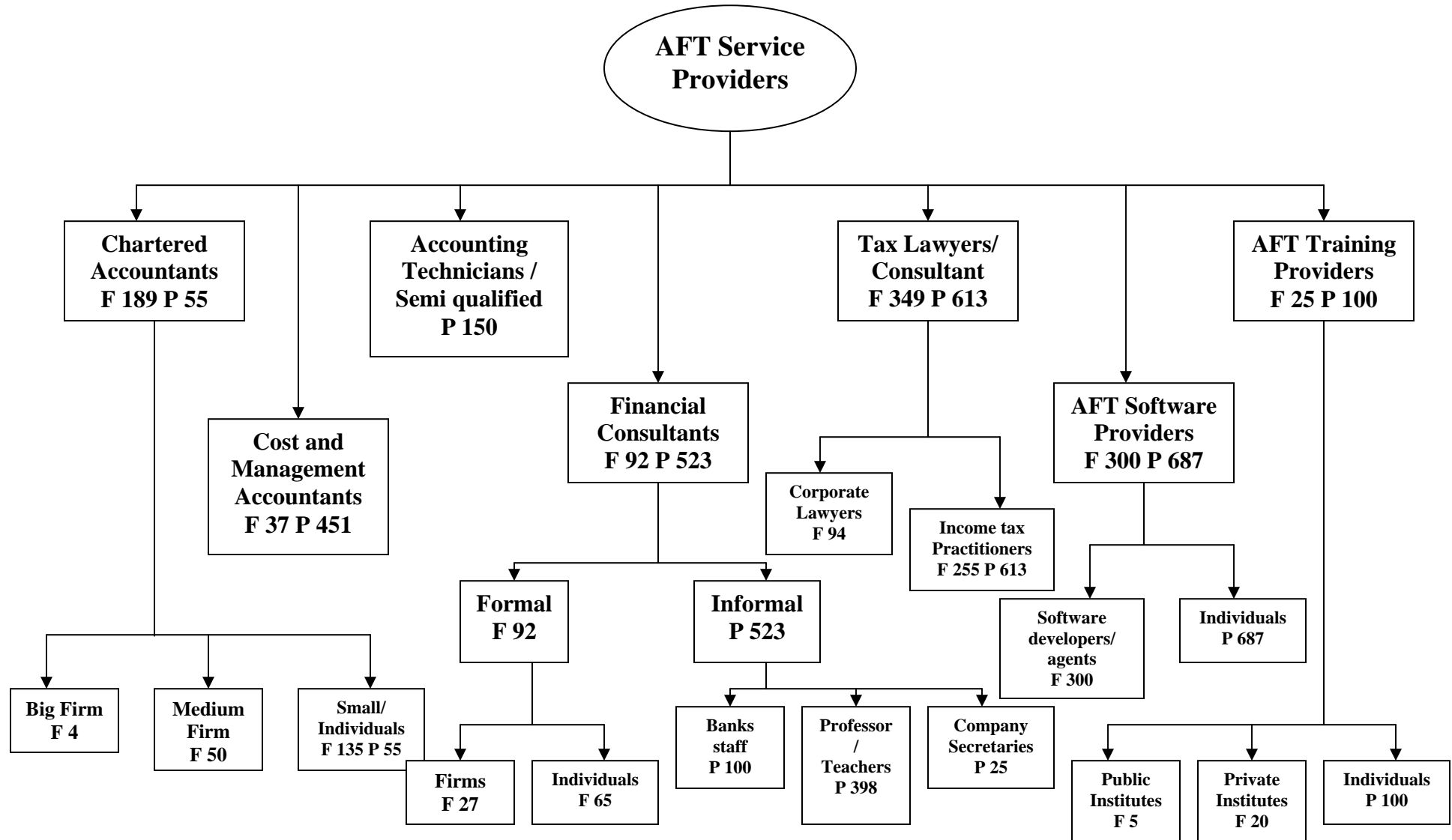
### 3.4. *AFT Service Suppliers*

There is wide variety of AFT service suppliers. Figure 6 shows the different types of suppliers and approximately how many there are of each type.

In terms of both numbers and monetary value, the market is dominated by Income Tax Practitioners (ITPs). There are 868 active full and part time ITPs and they generate 28% of the monetary value in the AFT sector. This shows the dominance of tax issues in the AFT sector. AFT software providers have 25% of the market and this is likely to grow. Chartered accountants currently have 26% of the market although a major share of this is generated by the 4 large firms which service large companies, multinational companies and large INGOs. Formal financial consulting providers currently have only 2.5% of the market, although the informal providers of this service have another 5.7%.

As a group AFT service suppliers can be characterized as pessimistic and not very dynamic. Suppliers are not actively diversifying into new products and markets. There is considerable dissatisfaction with the legal and regulatory environment. The frustration level with customers suggests a disconnect between the expectations of suppliers and consumers. Suppliers' views of the sector's professional associations highlight an inability of suppliers to cooperate effectively (to work together towards common goals) and to compete effectively (to respect competition in the market).

**Figure 6: Number of Active Full and Part-time AFT Service Providers by Category**



### 3.5. *Gender in the AFT Sector*

The research indicates that only 2% of AFT purchasers are women, while secondary resource research indicates that approximately 6% of businesses in Bangladesh are women owned. However, consumer behavior between women and men appears only to differ significantly in one aspect: usage of tax consultancy services. Awareness and understanding of services appears similar. Usage of services is similar for accounting, auditing and financial consultancy. However, only approximately 29% of women owned enterprises use tax consultancy services as compared to 67% for male owned enterprises.<sup>2</sup> Retention of services appears to be similar. It is not clear whether the difference is due to gender or to the fact that women-owned enterprises tend to be younger than male owned enterprises. The study found that younger enterprises tended to purchase fewer services than older ones. However, three quarters of the women surveyed do not feel that gender is an impediment to running their businesses.

Women are underrepresented among suppliers. Only 22 formal AFT suppliers are women owned. There are only 11 female CAs but most of them are currently employed in different organization. However, there are 220 women currently enrolled in CA courses. Another donor is working to increase the number of women studying to become CAs. Therefore, the number of women owned AFT suppliers may increase in the future.

Sixty percent of suppliers do not view women as a growing market niche. However 35% do view women as a growing market niche which may present an opportunity to increase marketing to potential women clients.

### 3.6. *Key Marketing Issues*

Table 6 highlights the marketing issues in each service market (AFT software and AFT training are not yet available). Those boxes not highlighted indicate market strengths. Yellow (light shading) indicates a moderate marketing problem and red (dark shading) indicates a serious marketing problem.

**Table 6: Summary of Key Marketing Issues**

Services	Aware	Fully aware	Reach	Retention
Accounting / book keeping	95.5	51.4	6	87.5
Auditing	95.2	52.7	21.4	91.4
Financial consultancy	89	41.3	11.4	68.4
Tax consultancy	99.5	68.1	64.3	95.4

<sup>2</sup> It must be noted that only 53 respondents in the consumer survey were women. Three fourths of these women owned handicraft businesses. Statistics based on this small sample with major representation from one subsector must be treated with caution.

The table shows that basic awareness of AFT services is not a problem in Bangladesh. However, understanding services is a problem in the markets for accounting/book keeping, auditing and particularly financial consultancy. These same markets also have a problem with reach. Consumers are reluctant to try these services. It is likely that the two problems are related. However, it is likely that the supply of services is also a factor in the low reach for these markets. It appears that suppliers are not offering appropriate services tailored to different types of SMEs and that they are not marketing their services effectively.

Overall, retention of customers is reasonable. The majority of customers that try a particular service continue to use it. However, in the financial consultancy market, retention is low, which may be because these services are only being used to get an SMEs' first bank loan.

Despite other problems, the tax advisory market has quite successfully overcome all four marketing challenges.

*Significant variations by city:*

*Chittagong has particularly low understanding of services. Bogra has particularly low reach of auditing services.*

### 3.7. Key Strengths and Constraints in AFT Markets

Table 7 summarizes the key strengths and constraints in AFT markets. The constraints provide the rationale for intervention to develop selected AFT service markets.

**Table 7: Summary of Strengths and Constraints in AFT Markets**

	Demand	Supply	Environment
Strengths	<ul style="list-style-type: none"> <li>▪ Some services are mandatory</li> <li>▪ High awareness of services</li> </ul>	<ul style="list-style-type: none"> <li>▪ Large number of suppliers in the market</li> <li>▪ A variety of different suppliers exist for different market segments</li> </ul>	<ul style="list-style-type: none"> <li>▪ Associations exist</li> <li>▪ Reasonable economic growth</li> </ul>
Weaknesses	<ul style="list-style-type: none"> <li>▪ AFT services are considered a required formality to clear taxes</li> <li>▪ SMEs do not value services to help them run and expand their businesses</li> <li>▪ Tendency towards corruption</li> <li>▪ General distrust of outsiders leading to high production of services in house</li> </ul>	<ul style="list-style-type: none"> <li>▪ Lack of product innovation</li> <li>▪ Lack of marketing channels beyond personal contact</li> <li>▪ Pessimism about market opportunities</li> <li>▪ Tendency towards corruption</li> <li>▪ Inadequate knowledge upgradation</li> <li>▪ Services not meeting customer expectations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Selected adverse regulations</li> <li>▪ Official corruption</li> <li>▪ Lack of enforcement of tax laws</li> <li>▪ Weak associations</li> <li>▪ Restrictions imposed by associations</li> </ul>

## 4. AFT Market Development Strategy

The low penetration of accounting, financial consulting and related services limits SMEs' potential for growth. KATALYST envisions an AFT market in which a significant proportion of SEs purchase a range of accounting, financial advisory and related services that help them to expand and develop their businesses. To achieve this goal, KATALYST plans to implement a series of interventions in AFT markets.

### 4.1. *Service Markets to Develop*

KATALYST will focus on those services with the most potential for helping entrepreneurs to manage and develop their businesses as well as those services with growth potential. The services that meet these criteria are:

- Accounting
- Financial Consultancy

KATALYST sees potential for packaging these two services into “value added accounting” which would include basic accounting as well as advice on financial management and investment.

- AFT Software
- AFT Training

There may be potential for combining these two services, providing training and technical assistance to in house accountants and entrepreneurs both to use new software and to use the resulting information in decision making.

Together these markets may be called accounting, financial consultancy and related services or “AF services.”

### 4.2. *Strategy and Target Groups for Interventions*

To develop AF service markets, KATALYST will implement interventions corresponding to the main SME consumer segments. KATALYST will also implement specific interventions aimed at the weaknesses in the sector associations. Table 8 below summarizes the strategies for each target group

**Table 8: Summary of Strategies and Target Groups**

		<b>Specific Business Groups/Clusters</b>
<b>Demand</b>	<b>Strategy</b>	<ul style="list-style-type: none"> <li>▪ Increase SMEs' understanding of the benefits of AF services as a tool to improve business performance</li> <li>▪ Increase customer understanding, trial and satisfaction with AF services through improved customer-provider interaction</li> <li>▪ Linking SMEs with AF providers</li> </ul>

	<b>Target Group</b>	<ul style="list-style-type: none"> <li>▪ Growing sectors in which enterprises generally have less than 20 – 200 employees</li> </ul>
<b>Supply</b>	<b>Strategy</b>	<ul style="list-style-type: none"> <li>▪ Introduce innovative starter AF services</li> <li>▪ Increase providers’ market intelligence about opportunities for product and market diversification</li> <li>▪ Improve marketing strategies for addressing new consumer segments</li> <li>▪ Promoting AF services in the market</li> </ul>
	<b>Target Group</b>	<ul style="list-style-type: none"> <li>▪ Small CAs and ATs with ITP certification (approx. 150)</li> <li>▪ Small and medium CA firms (full time; approx. 185)</li> <li>▪ Accounting Technicians (approx. 600)</li> </ul>
<b>Associations</b>	<b>Strategy</b>	<ul style="list-style-type: none"> <li>▪ Building image and promoting the profession in the market</li> <li>▪ Improve ability of associations to serve their members (as a byproduct of working with them on specific demand and supply initiatives)</li> </ul>
	<b>Target Group</b>	<ul style="list-style-type: none"> <li>▪ Institute of Chartered Accountants of Bangladesh (ICAB)</li> <li>▪ Association of Accounting Technicians of Bangladesh (AATB)</li> </ul>

These specific strategies were chosen because they address many of the most critical constraints in the AFT sector while also taking advantage of key opportunities. They were also chosen because they show the most potential for scale, sustainability and impact while at the same time offering potential for success. As a whole, the plan offers a mix of longer term and shorter term strategies as well as higher and lower risk strategies. Several specific design decisions are explained below.

### Overall Strategies:

- For the strategies mentioned above, the target groups on the demand, supply and association side have been aligned. The business group /cluster focused strategies target SMEs, who are members of that particular business group/association. The providers who serve those SMEs and the associations that represent those providers in an integrated fashion.
- While the market assessment showed that there is potential for changing perceptions and behavior among consumers and providers, it appears that changing the environment will be more difficult and require a longer term investment. It is expected that it will be challenging to work with the associations and even more challenging to encourage change in government. Therefore, the “do-ability” factor featured prominently in the decisions on strategies and interventions for the environment side. The resulting strategies are relatively modest.
- The strategies do not explicitly address the most pressing constraint in the sector: corruption. However, the strategies are expected to contribute towards lessening

corruption at all levels in the AFT sector in the long term provided that there are other successful efforts from government and the associations to address corruption as well. KATALYST will work with other programs to address corruption in taxation as the opportunity arises and where KATALYST can add significant value to these efforts.

### **Supply Strategies and Target Groups:**

- KATALYST aims to persuade CAs and ATs to offer basic value added accounting products – accounting and financial advisory services as a way to increase customer satisfaction and referrals. Once SMEs have experienced value added accounting services, it is expected that some of them will be willing to pay for these services outright. The medium term aim for these providers is to slowly build up their AF services. Provided they are successful, it is expected that other CAs and ATs will be able and motivated to enter the market for value added accounting services on the basis of positive feedback from existing SME customers.
- Interventions are aimed to increase supplier-customer interaction, increase suppliers' knowledge about market opportunities and assist suppliers to improve their marketing. It is assumed that these interventions will stimulate SMEs to demand new services, different service bundles or services with new features and suppliers to develop and offer these. It is expected that the process of product development will occur as a result of these interventions.
- KATALYST has interventions directed towards promoting the accounting profession in the market along with the services through different activities.
- There are 600 ATs in the market with full potential to serve the SMEs if facilitated with market information such as target clients and required products. ATs do not yet have a client base since most of them are already full time employed somewhere else. But at the same time ATs are affordable for low-end customers. Since it is an extra income for them they are likely also to be more open to suggestions of how to gain new customers, satisfy customers and increase referrals. KATALYST has designed interventions to strengthen AATB to serve their member better and at the same time promoting this group in the market.

### **Association Strategies:**

- The CA market is not very competitive and so CAs tend not to work hard on getting new customers and satisfying existing customers with innovative bundles of products. SMEs who might go to an inexpensive CA, go instead to ITPs and do not get exposed to AF services. Over the medium term, Bangladesh needs more CAs to increase competition among them and lower prices. Currently the requirements for CA licensing discourage graduates from this profession. Graduates must take the Foundation Course before sitting for the CA exam. The courses are six months long are not offered at convenient times in the year for graduates. Graduates must often wait a year after graduation before being able to sit for the CA exam. Reorganizing the foundation courses, and/or taking out the

requirement that graduates must take the course before sitting for the CA exam would encourage more graduates to take the CA exam. There is a dearth of enough and standard study materials for the CA students prevents them from qualifying. As the institute suggested KATALYSY will support ICAB to develop these study materials more CAs qualify and increase the number of suppliers. Another donor initiative is focused on increasing the number of women studying to become CAs. Improving the licensing requirements would also enable more of these women to become practicing CAs.

- KATALYST have a specific interventions aimed solely at the AATB. This is a fairly new association and is not very well organized and lack in strategic planning for developing the association. Strengthening the association in terms of developing a strategic plan, setting goals for future and serving the members better are one of the major intervention of KATALYST. At the same time this association is a partner in some of the demand and supply side interventions. Through the involvement of AATB in these interventions, it is expected that their capacity to serve their members will improve at the same time.

### **4.3. Summary of Proposed Interventions**

Table 9 summarizes the proposed interventions within the AFT sector. Individual interventions are summarized in Section 5 and more detailed profiles of each proposed intervention are included in Annex B.

**Table 9: Summary of AFT Market Interventions**

Market Constraint	Intervention	Target Group	Partners	Program Services	Expected Outputs
<p><b>SE’s low understanding and valuation of AF Services</b></p>	<p>1.1 Linkage facilitation between SMEs and Service providers (Awareness raising seminar, service need analysis, buyers-supplier meets, direct mail, brochure and finally people to people education by direct sales visit). As a call for action device there will be a call center</p>	<ul style="list-style-type: none"> <li>Business group under trade association/cluster from growing industry sectors</li> </ul>	<ul style="list-style-type: none"> <li>Small CA firms , members of AATB, (sector specific)</li> <li></li> </ul>	<ul style="list-style-type: none"> <li>Information</li> <li>Linkage</li> </ul>	<ul style="list-style-type: none"> <li>Understanding of accounting services increases from 51% to 70% and financial advisory services from 41% to 60%</li> <li>Belief that accounting services are important for business growth will increase from X% to Y%</li> <li>Z number of new customers for AF services</li> </ul>
	<p>1.2 Demand stimulation campaign to promote benefits of AF services. As a call for action device there will be a call center</p>	<ul style="list-style-type: none"> <li>Business group under trade association/cluster from growing industry sectors</li> </ul>	<ul style="list-style-type: none"> <li>Media (print to start with)</li> <li>Providers—small CA firms ATs</li> </ul>	<ul style="list-style-type: none"> <li>Information</li> <li>Linkage</li> </ul>	

<b>Market Constraint</b>	<b>Intervention</b>	<b>Target Group</b>	<b>Partners</b>	<b>Program Services</b>	<b>Expected Outputs</b>
<ul style="list-style-type: none"> <li>▪ <b>Suppliers lack market intelligence and are pessimistic about the growth potential in the sector</b></li> <li>▪ <b>Suppliers lack marketing skills</b></li> </ul>	2.1 Disseminate MI	<ul style="list-style-type: none"> <li>• CAs &amp; ATs</li> </ul>	<ul style="list-style-type: none"> <li>• ICAB &amp; AATB</li> </ul>	<ul style="list-style-type: none"> <li>• Information</li> </ul>	<ul style="list-style-type: none"> <li>• X number of providers will target SMEs to increase their client base</li> </ul>
	2.2 Developing Marketing Strategy Workshop	<ul style="list-style-type: none"> <li>• CAs, ATs &amp; marketing firms</li> </ul>	<ul style="list-style-type: none"> <li>• ICAB, AATB &amp; Ad Club</li> </ul>	<ul style="list-style-type: none"> <li>• Capacity building (training )</li> </ul>	<ul style="list-style-type: none"> <li>• X number of providers will employ new marketing strategies</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Weak associations in terms of elevating image of professional in the market and as a result failing to attract people in terms of quality and number to take it as a promising profession</b></li> </ul>	<p>3.1 Building image of accounting professionals and promoting the associations in the market to attract more people to be involved in this profession.</p> <p>3.2 Associations will be supported to be strengthened further</p>	<ul style="list-style-type: none"> <li>• CAs</li> <li>• ATs</li> </ul>	<ul style="list-style-type: none"> <li>• ICAB</li> <li>• AATB</li> </ul>	<ul style="list-style-type: none"> <li>• Linkage</li> <li>• Information</li> <li>• Capacity building (training)</li> </ul>	<ul style="list-style-type: none"> <li>• X number of new students will enroll with the institute (ICAB)</li> <li>• Overall image of accounting profession will be improved in the market</li> <li>• X number of new CAs will be qualified each year</li> <li>• AATB will serve its members better and X number of ATs will provide outsourced services to SMEs</li> </ul>

#### **4.4. Cross-Cutting Themes within the Interventions**

The further research showed that there is a strong need for AF (accounting and finance) services among women-owned enterprises that are not being fulfilled. These needs are now being addressed mainly by male family members (husband, fathers, brothers) who are providing these services but it is not being done on a professional level. Then again most of these female entrepreneurs are based at their homes, where they do not feel comfortable to receive services from a mail provider. In this regard female Accounting technicians and to an extent course completers<sup>3</sup> (CC) female students have an enormous potential to not only increase their presence in the market but also help businesses get greater benefits from the services received. These technicians & CCs, in most cases, are in need of a viable market to offer their services; the purpose of linking women entrepreneurs with CC female students is to create a profitable working relationship among women entrepreneurs and female service providers.

KATALYST does not envision actively promoting socially responsible business or environmentally responsible business through its work in the AFT sector. However, if opportunities to do so arise, they will be explored.

#### **4.5. Expected Impact**

The program aims to develop the AFT market with the ultimate aim of improving the performance of SMEs. Therefore, the impact of interventions will be measured both at the level of the AFT market and, through proxies, at the level of SMEs.

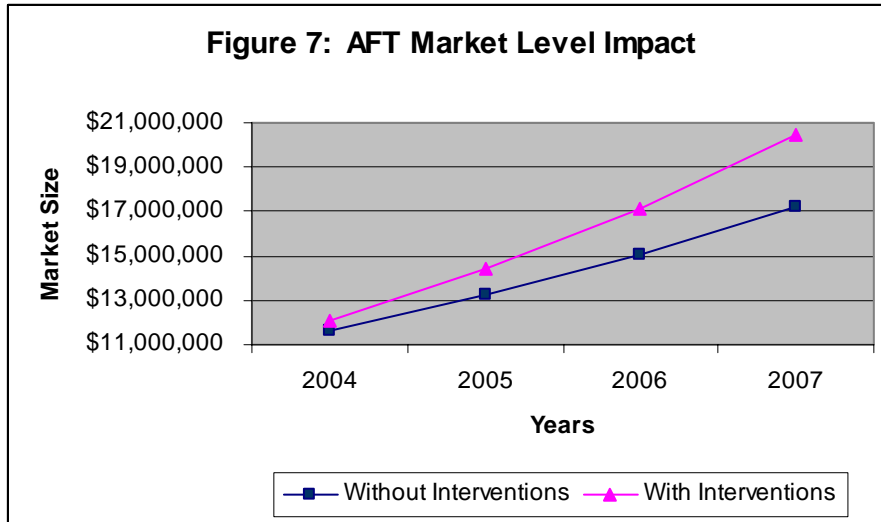
It is assumed that the KATALYST interventions will bring these AF markets to a “take off” point where use will accelerate rapidly without further intervention. More information (from secondary research in developed and developing countries) on if this assumption is valid would be useful.

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<sup>3</sup> Course Completers are basically registered students of ICAB who have completed their three year or three and a half year article-ship with the CA firm that they were attached with

**Table 10: Expected Impact on AF Markets**

Market Segment	Increase in Market Penetration (4 years) <sup>4</sup>	Incremental market growth (4 years)
Accounting services	6% to 12% 27,519 additional customers	5 % above the current growth rate \$ ?
Financial consulting services	10% to 15% 22,932 additional customers	
AFT software	If we want a baseline figure on these,	
AFT Training	we can put them into the next UAI	



At the SME level, it is assumed that the additional profits SMEs will generate as a result of using the services will be greater than what they pay for them. Therefore, the additional sales generated in the sector can be used as a proxy for impact on profits of SMEs. Under this assumption, at least **US\$3.2 million** in increased profits for SMEs will be generated as a result of the AFT sector interventions.

A plan will be developed to monitor the impact of each intervention periodically throughout the program. Table 11 illustrates examples of how various interventions might be monitored.

<sup>4</sup> The total universe of target SMEs in Dhaka, Chittagong and Bogra has been estimated at 458,652 based on secondary source research.

**Table 11: Illustrative Monitoring Strategies and Indicators**

<b>Intervention</b>	<b>Strategy for Monitoring</b>	<b>Examples of Indicators</b>
Linkage facilitation between SMEs and SPs	<ul style="list-style-type: none"> <li>• Level of awareness</li> <li>• Depth of understanding the benefits of using AF service</li> <li>• Existing AFT usage pattern of businesses</li> </ul>	<ul style="list-style-type: none"> <li>• % of new users whose information came from linkage activities sources</li> <li>• % of new users who stated benefits explained in the linkage facilitation programs as reasons for use</li> </ul>
Demand stimulation campaign on AF service benefits	<ul style="list-style-type: none"> <li>• Use UAI data on new users to pinpoint their sources of information and reasons for service use</li> <li>• Have a hot line listed on all media pieces to take requests for information – monitor the number and nature of calls</li> </ul>	<ul style="list-style-type: none"> <li>• # of calls on the hot line</li> <li>• % of callers to the hotline that requested contact information for providers</li> <li>• % of new users who stated benefits explained in the media campaign as reasons for use</li> </ul>
Developing marketing strategies	Survey participating suppliers on number of new customers and increase in sales. Include questions on attribution. Include questions on copy cat firms.	<ul style="list-style-type: none"> <li>• # of additional customers of participating providers (disaggregated by size, sector and gender)</li> <li>• increase in sales of participating providers</li> <li>• # of firms known to be copying marketing strategies of participating providers</li> </ul>

#### **4.6. Overall Assessment of Strategy Potential and Risks**

There is potential for KATALYST to make a significant difference in the AF sector for the benefit of SMEs. AF as a tool to improve business performance is an unexploited opportunity for AF providers and customers. Reasonable economic growth rates and increasing trade will encourage SMEs to see benefits in quality AF services.

However, there are several severe constraints in the sector which KATALYST can not address. There is a high level of corruption throughout the sector – among SMEs, providers and government officials. This corruption taints perceptions of the sector and limits the potential for the growth of legitimate services. It is unlikely that KATALYST can have a significant impact on reducing this corruption. In addition, there are a number

of tax related regulations which adversely affect the sector and which are likely to remain at least in the medium term.

KATALYST thinks that the potential for impact in the AFT sector merits moving forward with interventions. Given the constraints in the AFT sector, however, the potential for impact in the AFT sector must be weighed along side the potential in other cross-sector service markets. It is expected that resources allocated for the AFT sector may be more modest than other service markets that show greater potential for impact.

## **5. Proposed Interventions**

Summaries of the proposed interventions are provided below. More detailed profiles of the interventions are included in Annex B.

### **5.1. Demand-Side Interventions**

#### **5.1.1. Linking CAs and ATs with clusters/business groups**

The objectives of this intervention are:

- Members of trade associations have increased awareness about Value Added accounting services
- Increased level of understanding which will persuade them to outsource AFT services
- This will cause businesses to realize such benefits as cost reduction resulting in higher profits

There is a significant disconnect between the users and providers of AFT services in Bangladesh. On the demand side this leads to a lack of awareness and understanding both about the availability and the benefits of such services; on the supply side this causes scepticism in the minds of the providers about small and medium enterprises being a viable market for AFT services. Consequently providers ignore SMEs and neglect to develop and offer products that cater to this business segment.

KATALYST intends to reduce the gap by facilitating a linkage between the two groups. It proposes to do so through the help of trade associations such as BCS, Computer City which would enable providers to offer services on a collective basis to a number of clients at the same time instead of availing their services to just one business. This will not only allow providers to broaden their client base but will also permit users to receive quality AFT services at an affordable rate.

#### **5.1.2. Stimulating Demand through Awareness Raising Campaign**

Objective of intervention:

- Target group have increased awareness and understanding

- Increased awareness and understanding will persuade them to outsource AFT services; this in turn causes businesses to realize such benefits as cost reduction resulting in higher profits

A gap in perception exists between the users and providers of AFT services in Bangladesh. On the demand side this leads to a lack of awareness and understanding both about the availability and the benefits of such services; on the supply side this causes scepticism in the minds of the providers about small and medium enterprises being a viable market for AFT services. Most small and medium enterprises do not even know that AFT can be availed as an outsourced service and when outsourced, these services can be obtained at a cheaper rate than having a full-time accountant.

In instances when businesses are aware that AFT services can be outsourced, they do not know the exact benefits of availing such services and where to go and find more information.

## **5.2. Supply-Side Interventions**

### **5.2.1. Market Information Dissemination Seminar**

The objectives of this intervention are:

- To raise the awareness level among technicians & CAs, of the facts and figures of AFT market in the SME segment
- This information will help them realize the value in providing service to this segment.

There is a strong need for AF (accounting and finance) services among SMEs that is not being fulfilled. These needs are now being addressed by friends and relatives who are providing these services but it is not being done on a professional level. In this regard Accounting technicians and of course Chartered Accountants (CAs) have an enormous potential to not only increase their presence in the market but also help businesses get greater benefits from the services received. Helping these technicians & CAs broaden their knowledge about this market would influence them to focus their efforts into this untapped market.

### **5.2.2. Marketing Capacity Building**

Objectives of intervention are:

- CAs can develop their marketing strategy and promote their services through referrals without violating the codes of ethics of ICAB
- ATs can start building clients through their networks and target SMEs with SME friendly products

Presently AF Provider's have been unable to devise the right AF product alongwith the right price, delivery mechanism and the right communication tools that are specifically geared toward the SME market. This state of affairs stems from their lack of realization of the market potential as well as their inability to devise proper strategies that would target this SME market (low end). Assisting those who have a basic interest to operate in this market, through an intensive training program, in developing market based strategy focusing on this segment would help these providers to get a greater penetration in this market and also in turn help the SME to get proper benefits out of this service.

### **5.2.3. Franchising “Accountants on Call”**

Objective of Intervention are:

- Increase availability of accounting professionals in the market on short term basis as temporary help
- Increased usage of AF services all over Bangladesh

“Accountants on Call” is a business model, which will be launched by an accounting professional to provide temporary help to enterprises whenever it may required by them. There will be a few telephone numbers where people will call and ask for accounting professionals to come help them with their accounts on a temporary basis. Once the brand is established this will be open for availing franchise all over Bangladesh. To launch this idea as a business and to generate fair number of clients there has to be enough demand in the market. For this reason this intervention is on hold for the time being but will be reactivated once the demand stimulation campaign is completed.

## **5.3. Association Interventions**

### **5.3.1. Strengthening AATB**

The objective of intervention are:

- A strategic plan developed to be more organized in terms of future goals and activities future
- Members will be served better and thus will contribute in developing the AFT service market

A workshop will take place to develop a strategic plan for the association since it is a fairly new organization. Specific sector focused training as part of CPE for the members are also in line.

### **5.3.2. Strengthening ICAB**

The objective of intervention are:

- Improved image of CAs in the market that will attract caliber students to enroll with the institute which will lead to have quality CAs in the future
- There will be more qualified CAs in the market

Bangladesh needs more CAs to increase competition among them and lower prices that SMEs also can afford them. Promotion of CA profession and the institute will help them to lift the professional image, which will attract caliber students to enroll with the institute. There is a dearth of enough and standard study materials for the CA students prevents them from qualifying. As the institute suggested KATALYSY will support ICAB to develop these study materials more CAs qualify and increase the number of suppliers. There will be more activities under the same intervention, which are yet to be decided.

## 5.4. Gender Intervention

### 5.4.1. Women to Women Service Provision

Objectives of this intervention are:

- Women entrepreneurs of the targeted associations have increased awareness and understanding
- increased awareness and understanding will persuade them to outsource AFT services; this in turn causes businesses to realize such benefits as cost reduction resulting in higher profits

There is a strong need for AF (accounting and finance) services among women-owned enterprises that are not being fulfilled. These needs are now being addressed mainly by male family members (husband, fathers, brothers) who are providing these services but it is not being done on a professional level. In this regard female Accounting technicians and to an extent course completers<sup>5</sup>(CC) female students have an enormous potential to not only increase their presence in the market but also help businesses get greater benefits from the services received. These technicians & CCs, in most cases, are in need of a viable market to offer their services; the purpose of this intervention is to create a profitable working relationship among women entrepreneurs and female service providers.

## 5.5. Implementation

Table 12 shows the implementation schedule for the AFT sector interventions for 2004.

	Q1	Q2	Q3	Q4	Location
<b>Demand</b>					
Linkage Facilitation					Dhaka, CTG
Demand Stimulation Campaign					Dhaka
<b>Gender</b>					
W 2 W Service Provision					
<b>Supply</b>					Dhaka
MI dissemination					Dhaka
Marketing strategies					Dhaka
Franchising "Acc.on Call"					
<b>Association</b>					
Srengthening ICAB					Dhaka
Srengthening AATB					Dhaka

<sup>5</sup> Course Completers are basically registered students of ICAB who have completed their three year or three and a half year article-ship with the CA firm that they were attached with