

Geneva Trade and Development Forum

**Entrepreneurship and Trade facilitation in Bangladesh:
Unleashing the potentials of SMEs in a Regional Context**

Interim Report from The Evian Group at IMD, based on field trip 2-8 March 2008

1. Introduction

This report reflects a week long fieldtrip in Bangladesh punctuated by a number of interviews with key people and a group meeting at the Centre for Policy Dialogue (CPD) where participants were invited to brainstorm on the terms of reference. This process was assisted by presentations on CellBazaar by Kamal Quadir, Founding Director, as well as literature review on Bangladesh and SMEs prepared by Dr Moazzem Khandaker Golam, Research Fellow at the CPD. The information, analysis, ideas and suggestions presented hereafter were gathered during this week and will serve as a support document to elaborate the final draft action plan that will be submitted to the Geneva Trade & Development Forum in July 2008.

Bangladesh is a country of paradoxes: while the economy in 2007 has undergone one of its worse year with a visible shrinking of investments and very bad business performances due to corruption, the stock market performed one of its best results with 19% increase. There is a major energy crisis currently at work in the country which doesn't seem to influence the great business climate especially in terms of exports in the RMG sector and this despite the well-known situation of social unrest in the same sector. In a year following the year of considerable political disorder and a high level of government corruption – even by Bangladesh standards – growth amounted to 6.5%. A more stable caretaker government estimates growth at not more than 5.5%. These are just few illustrative examples of the complexity of this particular environment.

Despite the fact that most of them operate in the informal sector, SMEs are perceived as being the leading growth vehicle in the Bangladesh economy, encompassing a multiplier effect on employment, GDP growth as well as having a significant and positive impact on poverty reduction. Favouring SME developments in an LDC context is therefore seen as a way to attain inclusive growth conditions while building the local capacity.

The project team believes that SME developments should focus on different key elements which might ensure integration in the regional and global market economy; this would assume a horizontal approach irrespective of sectors and using a selection of concrete case studies to illustrate and develop its action plan.

2. Challenges faced by SMEs of an LDC in the globalisation era

High vulnerability of SMEs in developing/LDCs countries due to low productivity, lack of competitiveness, therefore better business environment and strategies needed. Is scaling up SMEs to larger scale industries the right way forward?

Market access: Tariffs & non-tariffs barriers (subsidies, anti-dumping regulations, government procurement practices, discriminatory foreign investment rules).

Shortcoming in SMEs financing: limited access to appropriate finance, lack of risk lending apparels, non-existent venture capital.

Infrastructure: transportation could be dramatically improved (especially sea-related in Bangladesh)

Sectors identified with a high potential in Bangladesh:

- RMG – main growth engine in the last decades
- High fashion value added RMG
- Agro-based & agro-processing industry
- Pharmaceuticals
- Telecommunication (Mobile telephony)
- Computer, Software & ICT goods
- Poultry industry
- Leather goods
- Ceramics
- Tourism

3. Trends in SMEs development in Bangladesh

Access to finance – especially for women, need to evaluate specific projects rather than through traditional collateral system. While financing mechanisms for micro and bigger size enterprises exist, there is a lack of proper financing facility for SMEs; therefore a new generation of financial institutions is needed. Migration to the Middle East countries due to lack of cash revenue opportunities is one of the related phenomenon.

Insurance tools

Adequate insurance tool is needed to minimalise the risk related to entrepreneurial endeavour and provide incentive.

Know How & Skills development – addressing the lack of expertise Investment in HR development would change the face of the country: Skill level of people going abroad is doubling very quickly together with the revenue from remittances¹. The question of seeing a skilled workforce becoming too expensive as an migrating work force, therefore no longer in demand, was raised.

Expertise needed at governmental level to **assess resources** like gas (US project to export Bangladeshi gas to India), **evaluate proposals** like the large one made by Tata India (big concessions asked), there is a general perception that deals made between the government and foreign bodies are to the detriment of the Bangladeshi interest (example of the telecommunication sector – Telenor as only one example – no license asked since no government money invested – “the Grameen effect”)

New generation of managers via introduction of **technical and management skills** in both private and public universities, including market information, packaging, branding and marketing.

Effective **skills development centres** are also needed to address the school dropout problems, adolescent, young adults and women, strong links with industries and in connection with the job market as imperatives.

Nowadays skilled Bangladeshi people are migrating to Canada and Australia, leaving sometimes abruptly their positions in local companies², therefore **a policy to attract and retain talents** is highly needed.

Adequate policy regime

Should be addressed domestically: Dramatic lack of confidence in the domestic legal and regulatory framework: weak and non-transparent administrative and judiciary system, inconsistencies in enforcing laws, bureaucratic interpretation of rules, lack of firm political commitment, lack of accountability, hooliganism and political brinkmanship, lack of rule of law, lack of control of corruption.

The Muslim inheritance law, totally discriminatory towards women, was seen as one area in high need of reform to structurally unlock the potential of women entrepreneurs.

Should be addressed regionally: South Asia is one of the most protectionist regions, lots of informal trading (huge black market, smuggling), therefore further regional integration is central to ensure a dynamic business environment and especially the sustainable development SMEs.

¹ “Currently the domestic employment market comprises a formal sector which absorbs about 20% of total employment and an informal sector which absorbs the other 80%. An emerging market is overseas employment, which absorbs an average of 235,000 Bangladeshi workers per year.” (ADB PPTA 4799)

² Example of IT engineers at Dohatec.

SMEs left out in regional/global trading system: Set of innovative ideas needed to trigger integration of SMEs in the global market economy. This will be developed via the case studies. RMG as one well known exporting sector, other sectors with high potential are:

Aquaculture: fisheries and shrimps are progressing with excellent prospects in technology without any FDI.

Agro-processing: sector³ with high potential for global competitiveness in Bangladesh taking into account the set of global problems currently facing the planet: current rise of food prices, world market for food because of climate change problems, rise of global demand coupled with likely drop of domestic subsidies⁴. Agro-processed food sector has grown spectacularly in Bangladesh without any government help. Bangladesh is almost self-sufficient in this sector except for cereals – the example of the PRAN Group, founded in 1985, and now exporting to 70 countries (India, Gulf, African & EU countries) was mentioned several times.

Pharmaceuticals: generics being produced 90% locally with FDI at first. Exporting to the EU, UK & US thanks to WTO concession on TRIPS. Companies including INCEPTA, SQUARE have gone through all the tests and compliance requirements. They are now officially registered to have their products distributed on the international market.

4. Challenges & Strengths:

Social entrepreneurship has emerged strongly in Bangladesh with the two major examples of Grameen and Brac. This is Yunus country!

Women entrepreneurs as a new force despite numbers (less than 10% of the total entrepreneurs -25% in advanced economies)

FDI: Academic literature states that FDI is seen as very valuable for SMEs growth - more effective than exporting products (Lu&Beamish, 2002). In Bangladesh, enterprises represent 78,440 entities, 3.5 mio workers employed, 60% of which are located in urban areas. 93% belong to the SME category, of which it was estimated that only 10% belongs to the formal sector. However, the SME category represents only 44% of total employment both manufacturing and services related⁵:

³ Pineapples, flowers, ...

⁴ No subsidies allowed in agriculture in Bangladesh

⁵ BBS Census of Enterprise, 2001-2003

- Manufacturing Industries: food, beverage, textile, non-metallic mineral products
- Services: transport and communication, finance and banking, trade, utility services, eateries

Reliable partners: Both in the private and public sectors: SMEs need and benefit from bigger enterprises (example of the Grameenphone, despite the current bashing phenomenon) and genuine government backing.

Adequate Infrastructure: Frequent power failure, load shedding, poor transport facilities, are ones among many in the long list of major weaknesses. Therefore, the improvement of port facilities, efficiency of services as well as custom clearance procedures are seen as highly needed. Proper review of the custom system is advised, since inefficiency is the trademark.

Compliance is the challenge to be taken up even if its cost might be more than the advantage of duty free. Sanitary and phyto-sanitary compliance (example of shrimps) even if highly demanding are the necessary measures for export. However infrastructure to ease the compliance process could be improved.

5. Potential Actions

At the domestic level:

Special SME development Fund: Improved access to finance for SMEs could be attained by backing and complementing the work undertaken by the SME Foundation (Mr Abdul-Muyeed Chowdhury) with initiatives like the newly constituted Enterprise Development Company Ltd (Mr Khondaker Muzammel Huq), particularly with regards to the situation of women entrepreneurs⁶.

Improve banking rules and regulations to facilitate international transactions (who, how, where?)

Develop local testing laboratories: Compliance issue: testing laboratories exist even if more are needed, however all testing material is currently imported at high cost. Carrier services are an issue as well to be addressed. In addition, requirements are more and more specific and demanding, therefore the necessity to keep up (example of the RMG sector). Developing assembly plant for equipment, machinery and chemical factory is an

⁶ National Women's Development Policy has become highly politicized and subject to violent demonstration (<http://www.independent-bangladesh.com/200803133093/country/rasheda-says-womens-development-policy-doesnt-contradict-islam.html>). Getting assets to women may be addressed through awakening about the role women do and can play, rather than allowing it to be an issue for mobilization and demonstration during Emergency where the Right to Assembly is suspended. It has to be acquired on a consensual basis rather than a confrontational path.

idea. Facilitate accreditation for existing laboratories and ease the collaboration between business sector and Bangladesh Standard & Testing Institute (BSTI)

At the regional level: NECESSITY TO ACHIEVE REGIONAL INTEGRATION

Improve the custom services: Interestingly, the example of Ghana was mentioned as a model of a very quick and effective customs reform (less than 2 years using Tradenet system and a complementary one). Contact WCO and suggest an exchange between custom delegates from Ghana and Bangladesh.

Back up the Bangladesh Enterprise Development Institute: currently working on the regional integration agenda under a mandate from the World Bank. Focus on trade facilitation, studying the bilateral dimension. Duty free access- an LDC specific disposal is currently going through US Congress.

Explore how to improve Bangladesh-India relationship: very creative in erecting non-tariffs barriers, however the way forward is clearly regional integration. India is currently in a situation of integration with ASEAN and partial integration with China, Bangladesh is perceived as an oasis in the middle. Leadership is obviously an issue; however the key issue remains how effective a partner is Bangladesh as a partner of India, since Indian FDI seriously shrunk in the last 2 years. The energy sector epitomises the debacle (coal and gas not exploited). Example of RMG granted duty free access to India after 15 years of lobbying: 80mios of pieces (=40mio US\$ benefit) annually.

Identify reliable partners: Prompt the creation of a network of both Indian & Bangladeshi trade specialists focusing on SMEs.

At the international level:

Get SMEs voice heard: National trade policy debates should make sure to have entrepreneurs representatives heard as inclusively as possible: "At times, large corporations and multinational enterprises will represent the entrepreneurs' interest, but the danger is that interests of large firms may override the broader interests of trade liberalisation. A broad based effort by domestic entrepreneurs to rally support for trade-liberalising measures could play a decisive role in their countries' negotiating positions and legislative votes on trade agreements." (Global Entrepreneurship Monitor, 2007 Executive Report, p.49), therefore mechanisms ensuring SMEs participation in the national and international policy-making process should be identified and awareness raised in this respect.

Improve the image of the country: In order to help increase the flow of inward investments⁷ efforts could be directed at highlighting its potentials, good results in human development, GINI index, stable growth, RMG sector, banks now investing in the local stock market, among others.

Run a promotional campaign (like “Incredible India” & “Malaysia truly Asia”), underlying the dynamism, reliability, resilience of the Bangladeshi people, and including testimonies of managers (both locals and expats) praising their Bangladeshi employees, interviews of enlightened Bangladeshi individuals.

Harness foreign aid towards SME promotion: In order to promote development and associated business opportunities. “[...] larger aid project should focus on supporting the economic reforms, laws and policies that will stimulate development from the bottom up. It is therefore in the interest of entrepreneurs that aid organisations themselves take a more entrepreneurial approach to development, [...]”⁸

Invite someone from the EBRD SMEs programmes, as well as from ADB responsible for Bangladesh to the GTDF (any contact to be forwarded?)

Encourage policy coherence: One effective tool towards fostering an enabling environment: coupling of WTO negotiations over trade facilitation reforms in developing countries with World Bank funding for critical infrastructure to support these reforms. Find a similar example with WCO? Unified donor approach needed.

Avoid absurd and double standards situation where subsidies on fertilizers for example are allowed under WTO but restriction imposed on the government by the World Bank...

Development of a framework for migratory issues: Migration is seen as the number one issue at the global level: officially 6bioUS\$ in remittances unofficially probably 12! Could be 30 within 5 years but should happen via a framework. From 4-5 mio people arriving each year on the labour market, only 2 mio jobs are available.

6. Tentative list of case studies

Agro-processing:

- **PRAN Group**, reference as successfully exporting at the international level, their mission is as follows: “Poverty & hunger are curses: our aim is to generate employment and earn dignity & self respect for our compatriots through profitable enterprises” with contacts with Nestlé Bangladesh and Enterprise Development Company Ltd.
- **Nestlé BOP projects?** Local production is key in this strategy, ready to substitute local products to the ones currently being imported if/once available. BOP target: “the aspiring classes”.

⁷ Anecdote of a billionaire from HK approached by a Bangladeshi Diplomat to invest in the country who publicly declared that a lot should be done to improve the national image of Bangladesh only linked to poverty, corruption and natural disasters.

⁸ Global Entrepreneurship Monitor, 2007 Executive Report, p.49

Milk & Yogurts:

- **BRAC** (following and replicating the Nestlé model in Pakistan) contact needed here.
- **Grameen Danone Foods Ltd** – joint venture defined as a social business (for profit, non dividend business model) supported by GAIN (Global Alliance for Improved Nutrition, a Bill Gates initiative with offices in Geneva!). Contact needed here as well.

ICT:

- **Dohatec** – example of a woman entrepreneur in IT, dealing with foreign partners, foreign aid (public procurement project of the WB, Denmark, partnership with Microsoft)
- **CellBazaar**⁹
Poor situation regarding communication tools: CellBazaar as a model of capitalisation
 - Over 2,000 persons now using CB services
 - 2Taka 40ct per advertisement via sms
 - Using CB: opportunity to learn navigation & typing, use of English

Kamal: “creative idea bringing genuine benefit to people becomes a disruptive idea for the corrupt system which doesn’t know how to deal with it, therefore given the benefit it brings doesn’t see how to stop it.”

⁹ See the Daily Star cover story: <http://www.thedailystar.net/magazine/2008/01/01/cover.htm>