

Bangladesh Economic Dialogue on Inclusive Growth

Policy brief 1

A sectoral approach to inclusive growth in Bangladesh: What needs to be done?

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Key messages

- Despite a remarkable growth record, over 40 million Bangladeshis are still living below the poverty line, indicating that further 'inclusive' growth is required.
- The agro-processing, leather and leather goods and information and communication technology (ICT) sectors have great potential to stimulate inclusive growth in Bangladesh.
- A new policy agenda needs to address both common and sector-specific constraints and barriers to the performance of these sectors.
- Common constraints include weak infrastructure, lack of finance and lack of skilled labour.
- Examples of specific constraints and policy issues include meeting regulations on standards in agro-processing; development of a modern tannery estate and lower import barriers for raw materials in the leather sector; and foreign direct investment and special economic zones for the ICT sector.

Bangladesh's impressive growth performance over the past two and a half decades has raised hopes about the country's graduation from least developed country status in 2024. Despite this progress, over 40 million Bangladeshis are still living below the poverty line. This has raised questions as to whether the growth process in Bangladesh has been 'inclusive' or has helped generate large-scale productive employment for the growing number of citizens entering the labour force each year.

Against this background, this policy brief looks at three sectors that could potentially stimulate inclusive growth in Bangladesh. The selection of the three sectors was based on their capacity to meet three principle criteria: inclusive growth drivers, diversification and government buy-in. Opportunities, constraints and policy issues for the three sectors were derived using growth

diagnostic analysis and interviews with relevant stakeholders. The agro-processing, leather and leather goods and information and communication technology (ICT) sectors were the three selected. Further details are available in the background study by Raihan et al. (2017).

Developing the agro-processing sector

Box 1: Three major reasons for bright prospects in the agro-processing sector

1. Large domestic value addition
2. Large-scale employment generation
3. High backward and forward linkages

In 2014–2015, the agro-processing sector's contribution to gross domestic product (GDP) was 1.52%. The share of this sector in total employment in the country was 2.5% in 2013. In recent years, exports from this sector have been

at a little over \$1 billion, or around 3.2% of total exports.

There are three major reasons for the good prospects of this sector for Bangladesh (Box 1). First, the sector has high domestic value addition because of its large backward linkages. This helps exports from this sector to fulfil the rules of origin criteria in many of Bangladesh's export destinations. Second, the sector has high potential for large-scale employment generation. Third, it can help industries with which it has backward and forward linkages to grow.

Despite these prospects, the sector suffers from six major constraints (Box 2). First, there are tariff and non-tariff-related problems in many export destinations. Second, inadequate infrastructure – lack of cold storage facilities and a shortage of electricity – hinder progress in the sector. Third, there are issues at the different processing stages, ranging from the farm level to the packaging level. Fourth, small and medium sized enterprises (SMEs) face a lack of access to finance. Fifth, the sector suffers from a lack of skilled labour. Sixth, institutional inefficiency is a major issue. The capacity of Bangladesh Standards and Testing Institution (BSTI) and other standard agencies is far from the desired level, and because of this, many export destination countries do not accept certificates issued by them.

There are eight types of interventions that could

Box 2: Six major constraints to the development of the agro-processing sector

1. Problems related to market access
2. Inadequate infrastructure
3. Problems at the processing stages
4. Lack of access to finance
5. Lack of skilled labour
6. Institutional inefficiency

remove the constraints facing the agro-processing sector (Box 3). First, the Ministry of Industries (MOI) and the Ministry of Commerce (MOC), in collaboration with the private sector and international organisations, should instigate capacity-building programmes to enhance the domestic capacity of Bangladeshi exporters in meeting sanitary and phytosanitary (SPS)

regulations in export destinations. Second, the Ministry of Road Transport and Bridges and the

Box 3: Eight critical policy suggestions for the agro-processing sector

1. Enhance capacity to meet SPS regulations in export destinations
2. Reduce transport delays and their associated costs
3. Enable access to new and quality electricity connections
4. Provide financial incentives for setting up cold storage facilities
5. Ensure better access to financial services and make the EEF effective
6. Put in place training facilities to generate a skilled and semi-skilled workforce
7. Implement supportive tax and tariff policies
8. Improve the capacity of BSTI and other standard agencies

Ministry of Home Affairs should take the necessary measures to improve road traffic conditions and trucking facilities to reduce transport delays and their associated costs. Third, the Bangladesh Investment Development Authority (BIDA) should facilitate high-quality electricity connections to the sector. Fourth, Bangladesh Bank (BB) should provide financial incentives to investors to set up cold storage facilities. Fifth, BB should act to enable better access to financial services for SMEs, including taking the necessary steps to make the Entrepreneurs' Equity Fund (EEF) effective. Sixth, MOI should take steps, in collaboration with the private sector and international organisations, to establish large training facilities to generate a skilled and semi-skilled workforce. Seventh, MOC and the National Board of Revenue (NBR) should ensure more supportive tax and tariff policies. Eighth, there is a need to improve the capacity of BSTI by increasing staffing levels, training and retention; ramping up investment in equipment and facilities; introducing a single-window depository and dissemination of all required documentation; setting up more testing labs; and building the required infrastructure.

Developing the leather sector

In 2014–2015, the leather sector's contribution to GDP was 0.29%. In 2013, the share of this sector in total employment was 0.16%. Exports from this sector were \$1.1 billion in 2015–2016, or around 3.5% of total exports.

Box 4: Five major reasons for bright prospects in the leather sector

1. High domestic value addition
2. Large-scale employment generation
3. High backward and forward linkages
4. High quality of domestic raw hide
5. Bright investment opportunities

There are five major reasons for the bright prospects of the leather sector in Bangladesh (Box 4). First, the sector has high domestic value addition, owing to the country's large supply of raw hides and skins. Second, there are significant prospects for large-scale employment generation in the leather and leather goods sub-sectors.

Box 5: Five major constraints to the development of the leather sector

1. Sluggish progress of the relocation of tanneries
2. Lack of skilled labour
3. Health and environmental hazards
4. Lack of access to duty-free imports
5. High cost of doing business

Third, the sector has the potential to help backward and forward linkage industries to grow. Fourth, the country has a good reputation for having a large supply of fine textured hides and skins. Fifth, there are bright investment opportunities in this sector, especially through foreign sources.

However, the sector suffers from five major challenges (Box 5). First, progress on relocation of the tanneries to the Savar estate has been sluggish, which has constrained much of the potential of the sector. Second, there is a lack of skilled labour available for the leather goods and footwear industries. Third, there are important health and environmental concerns in this sector. Fourth, the sector does not enjoy access to duty-free imports of raw materials and machinery. Fifth, the sector suffers high costs of doing

business, especially high land prices, weak infrastructure and the high cost of capital.

We can identify six policy issues that would help improve the situation in the leather sector (Box 6). First, MOI must take appropriate measures to enable the quick and effective operationalisation of the tannery estate in Savar. Second, existing technical education and training facilities in the leather sector must be expanded to meet the growing demand for a large skilled workforce. There is scope for public–private partnership in this regard. Third, MOC and NBR should enable duty-free imports of eco-friendly machinery and raw materials, and different tax incentives, for factories that comply with health and environmental standards. Fourth, NBR should

Box 6: Six critical policy suggestions for the leather sector

1. Quick operationalisation of the tannery estate in Savar
2. Technical education and training
3. Supportive tax and tariff policies
4. Bonded warehouse facilities
5. Better access to financial services and subsidised loans.

extend its bonded warehouse facilities to leather and all export-oriented firms. Fifth, BB should introduce a more flexible loan processing system and provide subsidised loans to entrepreneurs. Sixth, BIDA should facilitate electricity and gas connections for new investors on a priority basis.

Developing the ICT sector

In 2012, the ICT sector had a share of 0.01% of GDP. An estimated 20,000 or more skilled and semi-skilled professionals are employed in the IT/ITES (IT-enabled services) sector. Another 35,000 IT/BPO (business process outsourcing) professionals are employed in business enterprises, the government sector and non-governmental organisations. Over 10,000 individuals are estimated to be engaged in freelance outsourcing jobs such as editing, proof-reading, data entry and web research. Exports from the ICT sector were at around \$125 million in 2013–2014.

There are five major reasons for the bright prospects of the ICT sector in Bangladesh (Box 7). First, Bangladesh has a significant advantage in

Box 7: Five major reasons for bright prospects in the ICT sector

1. Lower costs and investment opportunities
2. Availability of English-speaking employees
3. Rising ICT workers' productivity
4. Significant employment opportunities
5. Supportive government initiatives

terms of labour costs, as the wage rate for ICT professionals in the country is one of the lowest among ICT-exporting countries. Second, as per KPMG's report on Bangladesh's IT and ITES in 2012, the country has more than 7 million English-speaking residents – more than in its Latin American and East European competitors. Third, productivity of ICT workers is on rise. Fourth, the employment prospects in the sector are immense. Fifth, the government has taken several initiatives to kick-start the development of the sector.

Box 8: Six major constraints to the development of the ICT sector

1. Labour and skills mismatch
2. Inadequate infrastructure
3. Lack of access to finance
4. Inadequate financial system
5. Weak governance and institutional issues
6. Lack of supportive government policies

However, the sector suffers from six major constraints (Box 8). First, although Bangladesh has a cost advantage in the ICT sector, labour skills are not at the level required for greater expansion and high value-added exports. Second, physical infrastructural constraints, such as lack of a quality power supply and broadband connections, hinder the growth of the sector. Third, the sector also faces problems related to access to finance: banks do not want to provide loan facilities because of the high risks associated with the sector. Fourth, there is no unique reported figure on ICT exports/ICT production in Bangladesh, and freelancing and BPO service providers still face a great deal of regulation with regard to the payment gateway infrastructure. Fifth, political uncertainty has a negative impact

on investment in the ICT sector. Sixth, absence of proper policies and lack of updated policies is hindering the growth momentum of the sector.

We suggest nine critical policy issues to address

Box 9: Nine critical policy suggestions for the ICT sector

1. Expand ICT training programmes
2. Upgrade the course curricula in universities
3. Enable quality electricity and low-cost broadband connections
4. Set up SEZs to attract FDI
5. Enable better access to financial services and make the EEF effective
6. Set up ICT export desks at Bangladesh's embassies overseas
7. Ensure provisions for export subsidies for ICT firms
8. Ensure political capital for the ICT sector
9. Implement supportive tax and tariff policies

to develop the ICT sector (Box 9). First, the Ministry of Information and Communication Technology (MICT), in collaboration with the private sector and international organisations, should expand the scale and scope of ICT training programmes. Second, MICT, in collaboration with the private sector, should work closely with universities to upgrade course curricula in line with the reality in the working world and to introduce e-commerce in teaching. Third, BIDA should facilitate an uninterrupted and quality electricity and low-cost broadband connection. Fourth, the Bangladesh Economic Zones Authority (BEZA) should implement special economic zones (SEZ), which would be instrumental in attracting foreign direct investment into the ICT sector. Fifth, BB should put in place provisions for better access to financial services and subsidised loans and make the EEF effective. Sixth, MICT, in collaboration with the Export Promotion Bureau and the Ministry of Foreign Affairs, should establish ICT export desks at Bangladesh's embassies overseas. Seventh, the Ministry of Finance should establish provisions for export subsidies for ICT firms. Eighth, there is a need to generate political capital for the ICT sector through agreements among the country's political elites. Ninth, NBR should facilitate supportive tax and tariff policies; for

example, VAT and tax on ICT services, which is now at about 25%, should be lowered to 0%.

Conclusion

Each sector reviewed here has many specific constraints and specific policy issues (e.g. meeting SPS regulations for agro-processing, development of a modern tannery estate and lower barriers on the import of raw materials in the leather sector and FDI and SEZs for the ICT sector), analysis of the constraints across the selected sectors suggests there are three leading common constraints that affect all of them. These common constraints are as follows:

Weak infrastructure: Weak, overall and sector-specific, infrastructure is a major problem for all three sectors under consideration. Large-scale investments are needed in both broad general and sector-specific infrastructure. At present, the country has an infrastructure–investment ratio of around 1.6% of GDP; this needs to be enhanced gradually to at least 5% of GDP. Also, BIDA and BEZA should provide a clear roadmap for the establishment of 100 SEZs by 2030, as envisaged by the government.

Lack of access to finance: Lack of access to finance is a major problem for all three sectors under consideration. Mere lowering of the interest rate is not enough for private sector credit expansion. There are numerous other challenges with respect to the business environment, and this needs to be addressed. SMEs are the major victims in this area.

Lack of skilled labour: Improvement of the skills of workers, through effective training in line with the needs of the industries, is a must for the development of all three sectors. In this context, relevant ministries and departments, in collaboration with industry associations and development partners, must take the necessary steps.

The general and specific issues in this note can be used to contribute to a rich policy agenda for inclusive growth in Bangladesh.

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To read the full report, see:

Raihan, S., Lemma, A., Khondker, B.H. and Ferdous, F.B. (2017) '[Bangladesh sectoral growth diagnostic](#)'. EDIG Research Paper 1. London: ODI, The Asia Foundation and UKaid.



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