

# Economic Dialogue on Inclusive Growth in Bangladesh

Summary of first meeting 9<sup>th</sup> May 2017

Bangladesh Research Network for Inclusive Growth (BRNIG)



The Asia Foundation



The first meeting of the Economic Dialogue for Inclusive Growth (EDIG) Bangladesh Research Network for Inclusive Growth (BRNIG) was held on 9 May 2017 at the Lakeshore Hotel in Dhaka. It featured three brief introductions, a presentation and discussion of the first EDIG research paper, and a discussion on which topics EDIG should examine in more detail in the future<sup>1</sup>. This is a summary of the first meeting.

### 1. Introductions

The meeting was introduced by Sara L. Taylor (The Asia Foundation), Dirk Willem te Velde (ODI) and Dr. Shamsul Alam, Member (Senior Secretary) GED, Ministry of Planning. The following points were raised:

- The [EDIG](#) consists of a policy forum (IGPF) and a research network (BRNIG)<sup>2</sup>;
- The BRNIG will discuss technical aspects of EDIG research papers and provide new suggestions for quality research with a potential to support inclusive growth actions by GoB;
- A brief review of achievements of the IGPF meeting held on the previous day, hosted by GED at the Planning Commission offices;
- A general discussion was held on the policy context faced by the GED and possible links to EDIG;
- Preliminary topics discussed were: An assessment of development projects, design and implementation of five-year development plan, development of the 'Vision 2040' programme, focus on SDGs, including Leave no one behind (LNOB) so that growth is inclusive;
- Finally, it was agreed that there is a need to understand what sectors can lead to growth and what development projects contribute to inclusive growth

### 2. Presentation & Discussion on Research Paper 1

Dr. Selim Raihan (SANEM) presented the first research paper<sup>3</sup>, a growth diagnostic highlighting three of the most promising sectors in terms of inclusive growth, diversification and political will. Three sectors were selected (agro-processing, leather and ICT). Each sector discussion included why the sector looks promising (including an account of detailed employment multipliers by sector<sup>4</sup>), the constraints and suggested policies to overcome constraints. It framed the discussion into horizontal and sector-specific policies, some of which are detailed and innovative. The questions and answers focused on the following points:

- What are the most important binding constraints and policy interventions, what is the low hanging fruit and what are the least costly policy reform options? Examples:
  - **Agro-processing:** market information for potato exports, subsidised loans for cold-storage facilities, import tariffs on vehicles, bonded warehouse facilities;
  - **Leather:** relocation of tanneries, reduction in transport costs;
  - **ICT:** better training and education systems.
- Is there a problem with competition and market structure? The discussion acknowledged that this was not in the three sectors considered, but could be an important empirical question elsewhere.
- What do we know about the effectiveness of tax holidays and incentives generally?
- The need for more details in identified priority sectors was discussed e.g. in agro-processing on how to link supply and demand. Why are the difficulties in conforming by international standards? Why Kenya's access to India developed but not Bangladesh?

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<sup>1</sup> Including : SANEM, The Asia Foundation, ODI, GED, IGC, ERG, BIDS, University of Dhaka

<sup>2</sup> <http://asiafoundation.org/tag/edig-bangladesh/>

<sup>3</sup> The paper, policy brief and PPTs are available from: <http://asiafoundation.org/publication/bangladesh-sectoral-growth-diagnostic-research-paper-no-1/>

<sup>4</sup> It costs US\$2,200 per job in agro-processing and US\$3,800 per job in garments

- An assessment of the importance of identified sectors needs a more comprehensive analysis: e.g. ICT should also be assessed on its importance for other sectors
- More in depth analysis of horizontal constraints (finance, skills and infrastructure) in specific contexts
  - How can universities promote skills formation that is required by firms (redesign curricula in universities)?
  - What financial instruments do different types of firms need: debt vs equity?

### 3. Ideas for future policy relevant research by BRNIG

Several potential policy-relevant research ideas were discussed i.e. how to examine the effectiveness of fiscal incentives; which industries, for which objectives (employment), and how should they be implemented? Is the tax system progressive? What are the opportunity costs of promoting agricultural production, which crops have best prospects, some products can be imported cheaply?

In addition, the need for more (centralised) information systems with data on markets was emphasised, useful to better understand which groups are excluded and included from the sectors, for example, what are the challenges faced by SMEs? The meeting discussed the fact that productivity differentials exist between sectors, within sectors and within establishments (in garments). Skills and firm capabilities in the RMG sector, including the gender angle of RMG, Consider the effects of supervisor training, and the role of public vs private sector (and PPPs) in training.

Other discussed topics included: Why do different firm types export i.e. the constraints for small vs large firms (finance, imports etc.)? The need to examine the informal sector (and its link with the formal sector) as it is estimated to contribute 80% of GDP. What is the growth-poverty elasticity and what is the trade-off in promoting employment vs productivity? The need for research and policy recommendations to include trade-offs to better inform policy development and implementation.

Which programmes are most effective in making growth more inclusive (not just by stimulating job intensive sectors, but also by investing tax revenues)? Need for micro level in depth studies. What is the role of SEZs in promoting inclusive growth? Financial inclusion is an important constraint. Which model is most effective: bank model or non-bank model (mobile phone companies such as MPESA)? And is the constraint lack of liquidity or lack of good projects. Need to think about uptake as an integral part of research. Finally, the meeting Summarises of useful studies for inclusive growth, considering the IGPF meeting and GED's comments during both meetings:

- In which sectors and activities will jobs be generated (numbers, quality and inclusiveness including gender). Which PC development projects (there are close to 1300) have the greatest impact on jobs?
- What is the role of the informal sector and SMEs in inclusive growth, especially in regard the inclusion of women?
- What is the role of SEZs (and co-ordinated policy making to address problems of firms in specific sectors) in inclusive growth?
- What is the role of trade in inclusive growth (e.g. tariffs and market access considerations)?
- What is the role of fiscal incentives in driving inclusive growth (need to generate tax revenues vs need to stimulate economic activities)?
- Finance and skills are constraints common to many sectors, but we need more in-depth studies of what is the binding constraint in specific contexts<sup>5</sup>.

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<sup>5</sup> For example, it is not always the availability of finance that matters, but the costs of finance, or simply the procedural constraints to accessing finance



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