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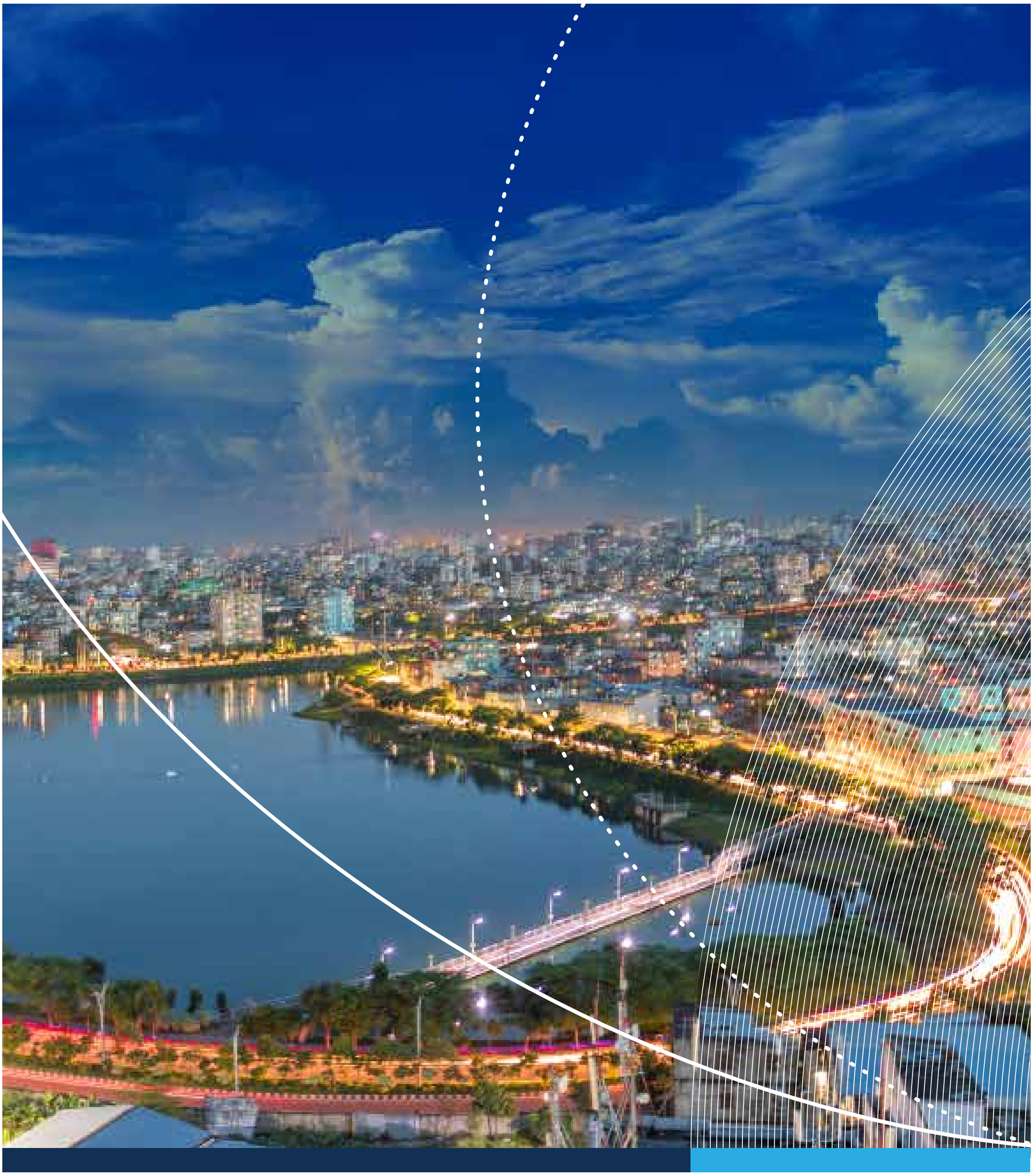

Bangladesh's Journey to Middle-Income Status:

The Role of The Private Sector

Ali Zafar, Masrur Reaz & Faaria Tasin

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Foreword

Bangladesh has been one of the developmental success stories, with a remarkable record in poverty reduction and achieving both macroeconomic stability and progress in key human indicators such as child mortality and education. In an era where growth is elusive, Bangladesh's accomplishments are visible. The fact that the World Bank re-categorized Bangladesh from low-income to lower-middle income in 2015 is testament to this progress. Going forward, Bangladesh will need to sustain its growth and development to keep pace with the rest of the world.

This knowledge piece provides a snapshot of the Bangladeshi private sector, provides a historical context and reviews the public policies that have affected the private sector, including macroeconomic management and trade policy, and then conducts a survey of Bangladeshi businesses to understand the constraints to further expansion. It uses empirical evidence and detailed interviews with leading firms to describe the heterogeneity of the Bangladeshi private sector. It ends with a roadmap and an unfinished agenda, especially in terms of the potential reforms necessary for an accelerated private investment.

We believe that this report, with its analysis and recommendations, can add to the development debate in Bangladesh and act as a starting point for reform discussions on improving the environment for private sector investment in the country, which in turn can generate further jobs and further Bangladesh's economic progress.

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Acronyms

AOA	Articles of Association
ATM	Automated Teller Machine
BBS	Bangladesh Bureau of Statistics
BEPZA	Bangladesh Export Processing Zones Authority
BEZA	Bangladesh Economic Zones Authority
BHTPA	Bangladesh Hi-Tech Park Authority
BIDA	Bangladesh Investment Development Authority
BICF	Bangladesh Investment Climate Fund
BSCIC	Bangladesh Small Cottage Industries Corporation
BUILD	Business Initiative Leading Development
CCI&E	Office of the Chief Controller of Imports and Exports
CFA	Communauté Financière Africaine
DB	Doing Business
DoE	Department of Environment
ERC	Export Registration Certificate
FDI	Foreign Direct Investment
G2B	Government to Business
GCI	Global Competitiveness Index
GDI	Gross Domestic Investment
GDP	Gross Domestic Product
GoB	Government of Bangladesh
ICT	Information and Communications Technology
IRC	Import Registration Certificate
KII	Key Informant Interviews
LC	Letter of Credit
LSE	London School of Economics
MENA	Middle East and North Africa
NBR	National Board of Revenue
OECD	Organization for Economic Cooperation and Development
OSS	One Stop Shop
OSSBFC	One Stop Shop Business Facilitation Center
PPP	Public-Private Partnership
PSDPCC	Private Sector Development Policy Coordination Committee
PSDSP	Private Sector Development Support Project
RMG	Ready-Made Garments
RJSC	Registrar of Joint Stock Companies and Firms
SME	Small and Medium Enterprise
SOP	Standard Operating Procedures
VAT	Value-Added Tax
WB	World Bank
WBDBS	World Bank Doing Business Survey
WBG	World Bank Group
WEF	World Economic Forum
EPZ	Export Processing Zone
EZ	Economic Zone

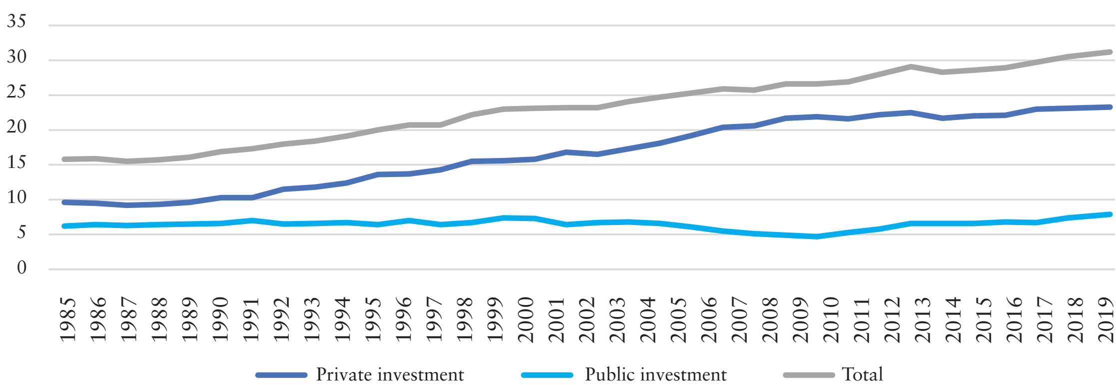
Executive summary

Bangladesh has been one of the developmental success stories in recent years, moving from fragility to middle-income status. Its success has been fueled by a combination of ready-made garments (RMG), rural-farm and nonfarm industries, remittances, and microfinance. Annual real growth in gross domestic product averaged 3.2 percent in the 1980s, 4.3 percent in the 1990s, and more than 5 percent between 2000 and 2019. GDP growth in FY19 reached 8.1 percent, with private consumption on the demand side at 70 percent of GDP. Exports reached more than US$40 billion in 2019, and remittances averaged US$10 billion a year. Forex reserves reached $33 billion in 2019. The poverty rate dropped to 21.8 percent in 2018 from 31.5 percent in 2010.

A key factor that has helped fuel and sustain the growth has been the role of the private sector. Private sector investment increased from close to 10 percent in 1985 to more than 23 percent in 2018 and now accounts for more than three-fourths of investment. Driven by large Bangladeshi corporations and businesses and growing small-scale manufacturing and services, the private sector has been heterogeneous and resilient, involved in industries as diverse as garments, pharmaceuticals, and construction. There are now more than 10 Bangladeshi conglomerates each valued at more than $1 billion spanning multiple sectors and products, spurring domestic consumption and growth, and contributing to a professionalization of private sector management in the economy. Private investment has been the major driver of investment, especially between 1990 and 2010. However, since 2010, the ratio of private investment to GDP has stagnated, with a slight increase in 2019. The number of large industries fell by 16.7 percent from 3,639 in 2012 to 3,031 in 2019, the number of medium enterprises fell by 50.6 percent from 6,103 in 2012 to 3,014 in 2019, but the number of small industries rose by 50 percent from 15,666 in 2012 to 23,557 in 2019 (BBS, 2019). Also growth in gross capital formation declined from 10.5 percent in FY18 to 8.2 percent in FY19.

Relying on a policy review, ten detailed case studies on leading conglomerates, and a large survey of leading private firms, the study finds that the policy regime has been supportive of private investment in some areas and an obstacle to the development in others. In the 1990s, the policy regime was generally supportive of private sector development. After 2000, there has been a mixed bag. There have been big improvements in energy policy, mega-infrastructure projects, and the development of special economic zones, but this has contrasted with slippages in financial sector policy, regulatory reform, and trade policy and logistics services.

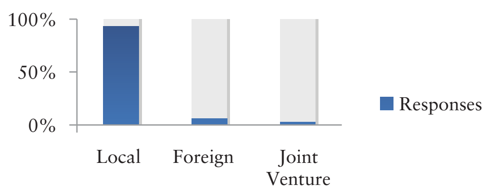
Figure 1: Private and public investment, Bangladesh, 1985-2019 (% of GDP)



Private Sector Survey of 103 Firms: indicate both firm resilience as well as deeper challenges

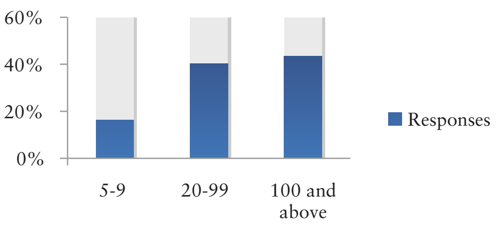
A survey was conducted of 103 firms from February to April 2019 in a mini-enterprise survey. Of these firms, there was a heterogeneity of firms in size, industry, and service orientation. Representative firms were surveyed. More than 90 percent of the firms were local, and there was an equal balance between microenterprises, SMEs, and large firms (Figure 2 and Figure 3). Firms were interviewed from a range of industries and sectors (Figure 4) and asked a range of questions related to their current status and growth challenges.

Figure 2: Ownership structure, firms (percentage)



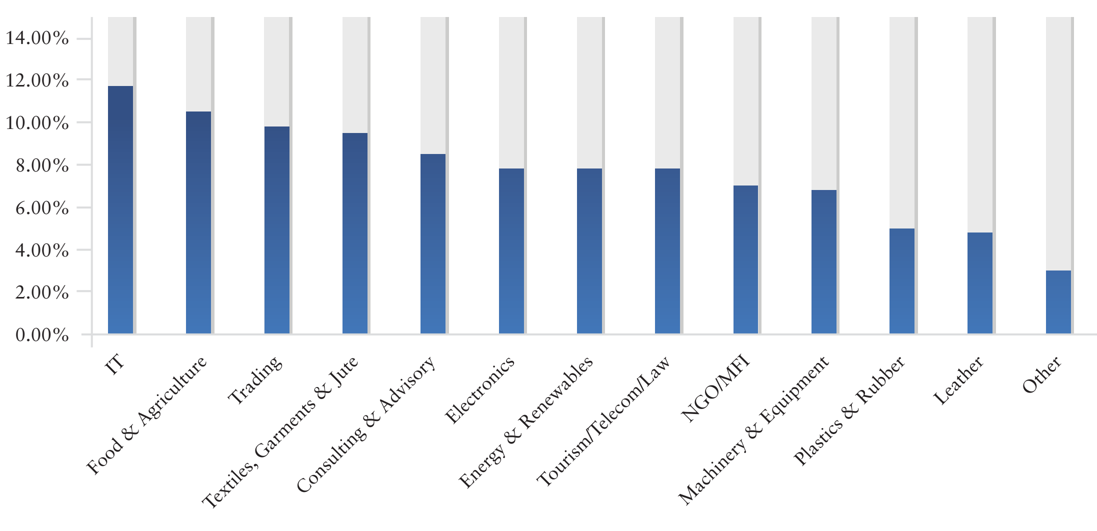
Source: BICF BUILD Survey 2019.

Figure 3: Size of firms (percentage)



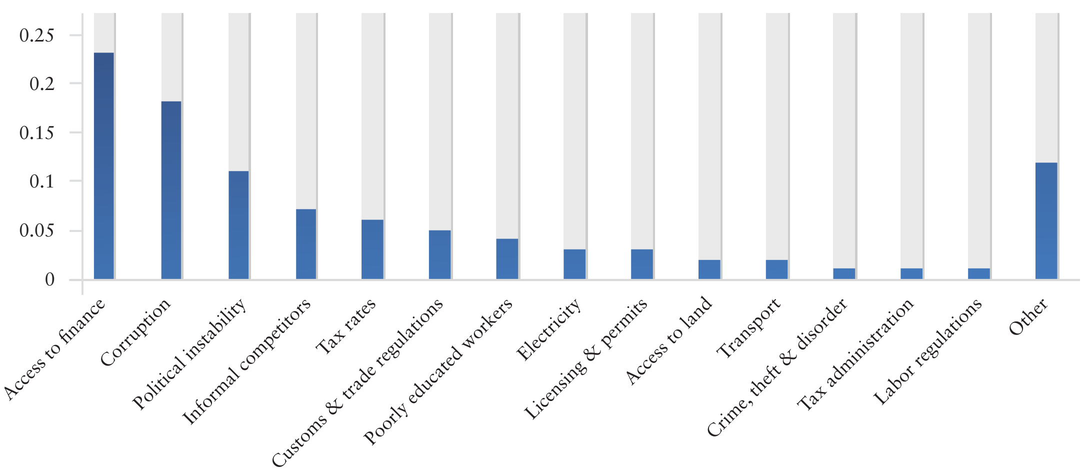
Source: BICF BUILD Survey 2019.

Figure 4: Industry or sector, firms surveyed (percentage)



Source: BICF BUILD Survey 2019.

Figure 5: Most difficult challenge facing firms (percentage)



Source: BICF BUILD Survey 2019.

The key findings of the survey and case studies are:

Top challenges faced by Bangladeshi firms: *24 percent* of firms identified **access to finance;** *18 percent* cited **corruption;** *11 percent* mentioned **political instability;** and *9 percent* mentioned **informal competition** (Figure 5).

Investor sentiment positive although there is heterogeneity across firms by size and nature of industry: The sentiment of firms is positive- about *7 in 10* firms were interested in **rapid expansion**, while *3 in 10* were interested in **slow expansion and consolidation.**

Firm responses also varied by nature and size. Compared to larger firms, smaller firms were more likely to rely on own savings and identify financing as the major constraint and more adversely impacted by taxation than larger firms. Manufacturing firms and larger firms were more affected by land and energy access than service firms. Both were concerned with corruption and logistics issues, and concerns about the future spanned all firms. Smaller firms tend not to engage in product diversification and tend to be more cautious in terms of business expansion.

Technology and automation impact not huge: Only one-third of firms were affected by automation, one-third was not affected, with the rest only partially impacted.

Top obstacles to growth in terms of future challenges: Private sector firms rank the following as the main obstacles to expansion and greater investment: access to finance *(27.6 percent),* **customs administration and trade logistics** *(17.8 percent)*, **corruption** *(16.5 percent)*, **law, order, and security** *(13.2 percent)*, **informal and formal competition** *(10.5 percent)*, **and taxes** *(7.6 percent).*

Concrete supportive role of government policy in many cases: Many private firms have clearly benefited from government policies, including energy policy, fiscal incentives, sector-specific policies, and regulatory support, while many other firms have not. The implication of this finding is that in many concrete cases the Bangladeshi government has been developmental, while in other areas it has been less so (Annex 1).

Private sector resilience: In industries ranging from RMG to agro-processing and telecommunications, the private sector has been resilient and dynamic amidst many challenges in identifying niches in the market. Pharmaceutical companies found a market in generics, agro-processing firms discovered niche products, and construction firms tapped into global best practices to evolve their products.

Strong role of family-owned firms based on trust and relationships but with inadequate transparency: As in many other parts of emerging Asia, most Bangladeshi corporates are family-owned, with previous experience as trading companies, where they learned the skills and knowledge required to survive in a competitive global economy. Most firms in the case studies have benefited from a combination of early mover advantages, competitive market positioning, global networks, and diversification across products.

Innovative Bangladeshi firms: The private sector has been innovative in coping with market constraints around supply chain development, finance, and skill development, including use of back to back LCs and overseas training, as well as taking advantage of a dense consumer market. RMG producers let finance be handled by buyers, telecom companies provided dense deployment of personnel and created a high-volume low margin business, while steel producers developed a competitive market position.

Stagnant investment: Interviews found that some of the larger companies were reluctant to expand due to several factors - a significant restructuring in the apparel sector, tariff barriers for non-RMG exporters, logistics challenges, regulatory hurdles, and credit and liquidity crunches. Many of the industries are in consolidation phase, while some medium firms cannot survive due to financing constraints in a very competitive environment. Tariff protection has also sheltered many large corporates from international competition and slowed productivity improvements.

Based on this, a reform roadmap has been articulated including:

Access to finance could be enhanced through better governance of the banking sector, including the resolution of nonperforming loans in the banking sector, merging stronger and weaker banks, the streamlining of corporate bond and commercial borrowing approval processes, and setting up credit information sharing mechanisms to promote bank lending to SMEs

Customs and trade logistics could be improved through implementation of the customs modernization plan and tariff rationalization; improving capacity and facilities in the country's sea ports and airport; enabling professional logistics service and development of warehouses

Doing business reforms should focus reducing corruption and improving ease of doing business by improving regulatory governance, implementing Companies Act, and ensuring one stop services for investors

Export competitiveness can be enhanced by reducing the anti-export bias (especially by bringing down para-tariffs) and providing the same incentives for RMG to new nascent non-RMG sectors

Corporate governance can be increased by strengthening regulatory authorities and increasing disclosure and auditing requirements for existing corporates. Regulatory capture can be avoided through stronger institutional strengthening.

Introduction

The story has not been told often: the role of the private sector in helping Bangladesh move from its status as a poor, famine-afflicted country in the 1970s to a middle-income country in the 2010s. While this transformation has become well known because of the successes of Bangladesh in the garment industry, in benefiting from remittances, and in microfinance, much analysis ignores the contribution of the private sector entrepreneurs, especially in spurring capital formation and growth. Labor-intensive manufacturing has contributed mightily to development in China and other rapidly growing economies, but most emerging countries have had little success in raising the share of manufacturing in production, employment, or exports. In becoming self-sufficient in agriculture and with a strong ready-made garment (RMG) manufacturing sector, Bangladesh has replicated some elements of the East Asian success. A part of this success is due to entrepreneurs and favorable public policies.

The analysis presented in this report addresses several key questions by relying on interviews among firms, a detailed survey, and an examination of economic policy. How did such a low-income country become a manufacturing powerhouse? What has been the role of the private sector in the success story? Who are the leading players in the private sector? How much has the public sector supported the private sector? What are the lessons for other fragile and conflict-affected states? What is the unfinished agenda in Bangladesh? What are they key reforms needed to boost the private sector additionally? What are some paths forward based on international experience?

The report is organized as follows. Section 1 introduces the country context, Section 2 provides a historical context and reviews the public policies that have affected the private sector, including macroeconomic management and trade policy. It explains how Bangladesh got to where it is. Section 3 examines the historical rise of Bangladeshi private entrepreneurs and current role, Section 4 describes their success in overcoming constraints. Section 5 provides the unfinished agenda, especially in terms of the reforms needed to accelerate private investment and the priorities identified through the survey evidence.

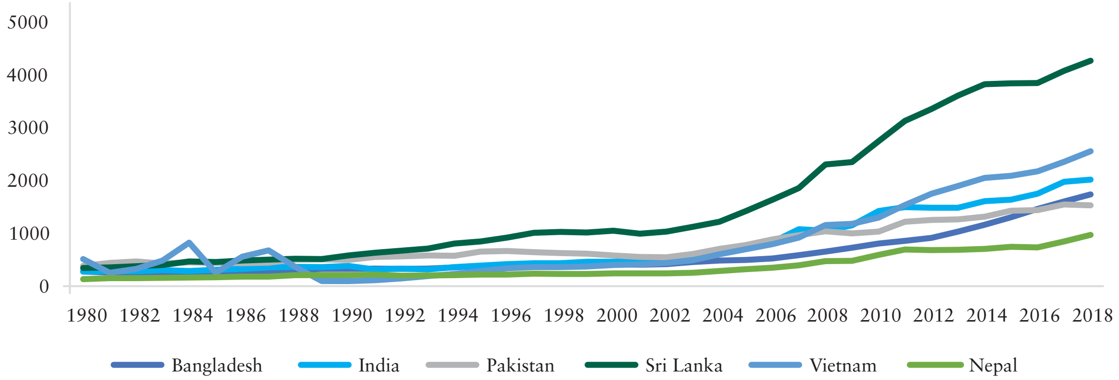
Relying on a review of the policy environment, in-person interviews at leading firms and conglomerates in garments, steel, logistics services, pharmaceuticals, footwear, and services, and a short online survey among more than 100 companies, the study explores the factors of success, including the role of public policy. The ten case studies in the report, drawn from the successful tail of the distribution, show how some firms in Bangladesh overcame seemingly insurmountable odds. Without technical knowledge, complex equipment, easy logistics and supply chains, or bank financing, the firms achieved strong outcomes. The report also looks at factors that have prevented firms from continuing to expand and assesses the unfinished reform agenda in terms of doing business and improving competitiveness. The report ends by listing key lessons of the Bangladeshi success that can be replicated in other low-income countries and fragile and conflict-affected states.

I. Country context

After independence in 1971, beset by famine, poverty, and cyclones, Bangladesh transitioned from an agrarian economy to a more service-oriented and manufacturing-based economy. Once dubbed a basket case, it is now one of the top five emerging growth stories. It has registered average growth rates of gross domestic product (GDP) of more than 6 percent in last ten years and 8 percent last year, higher than most South Asian and Sub-Saharan economies. In a world in which the quest for growth is elusive, this is a remarkable achievement. The success has not been based on a commodity boom, but real structural transformation, export-oriented industrialization, rural renewal, and steady development outcomes. Agricultural is very dynamic, led by a strong private sector, which has helped the country escape from the shadows of famine and food self-sufficiency. The economy is rising toward middle-income status, driven by garment manufacturing, remittances of more than US$10 billion annually, and grassroots microfinance. Bangladesh is now the second largest garment producer after China, at US$34 billion in annual exports. Life expectancy is now 72 years, higher than India (68 years) and Pakistan (66 years), its South Asian comparators. Bangladesh has become a republic of nongovernmental organizations. It has been successful in empowering women and transforming communities. It has met most of the education and health targets of the Millennium Development Goals, one of the few countries to do so.

Bangladesh has increased per capita incomes appreciably. Over the last few decades, Bangladesh has made stellar economic progress. The poverty rate dropped from 31.5 percent in 2010 to 21.8 percent in 2018, a significant step toward reaching the first Sustainable Development Goal target of eradicating extreme poverty by 2030. The extreme poverty rate is now at 11.3 percent. A steady rise in per capita income—from below US$274 in 1980 to US$412 in 2000 and to US$1,736 in 2018 (Figure 1)—has helped the country cross the threshold to lower-middle-income status. It has overtaken Pakistan and is now matching the growth surges of Vietnam. It has managed to accumulate more than US$33 billion in reserves, providing a cushion for macroeconomic stability. Remarkable achievements have made Bangladesh a textbook example of human development. In 2018, Bangladesh met the criteria to graduate from a least developed country to a developing country.

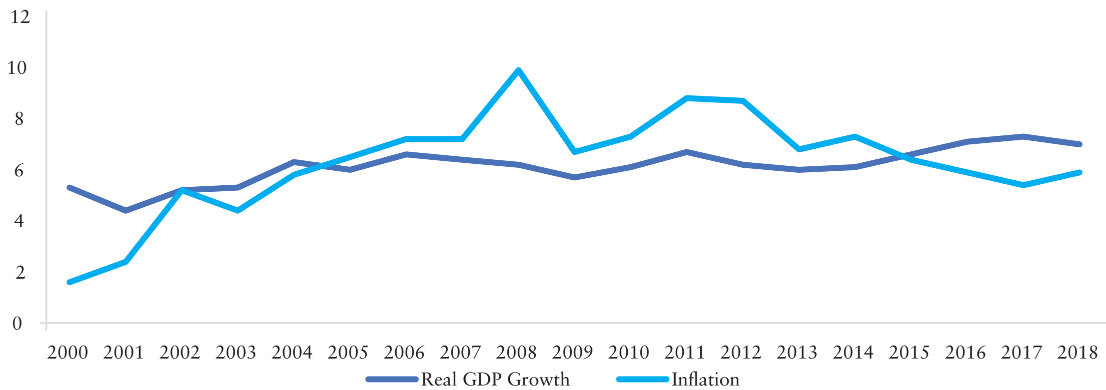
Figure 1: Per capita income, selected countries, 1980–2018 (US$)



Source: International Monetary Fund.

Bangladesh has experienced renewed macroeconomic stability and robust growth over the past three decades. Annual real GDP growth averaged 3.2 percent in the 1980s, 4.3 percent in the 1990s, and more than 5 percent in 2000–19. It has accelerated recently, reaching more than 8 percent in 2019, making Bangladesh one of the best growth performers in the world. Though still volatile, inflation has been in single digits since 1996. This combination of high growth and contained inflation is good evidence of macroeconomic stability (Figure 2). Interest rates peaked at 11.3 percent in 1985 and gradually dropped to 5.0 percent in 2010, tracking inflation. Industry has benefited from government reforms that have improved the business and investment climate. Since the mid-1980s, tariff and non-tariff barriers have fallen substantially, making Bangladesh one of South Asia's most open economies. Exchange rate adjustments during the 1990s and 2000s caused garment exports to become more competitive, while strong monetary reform to reduce inflation has lowered input costs.

Figure 2: Economic performance, Bangladesh, 2000–18 (%)



Source: World Economic Outlook, International Monetary Fund.

Despite the successes, there are several challenges that can delay Bangladesh's journey to a middle-income economy, especially the challenges faced by the RMG sector, the backbone of the economy. A combination of increased automation, growing global competition, rising wage demands, and possibility of reduced GSP preferences in international markets, shows that the industry faces potential headwinds. There is the need to update factories in line with the recommendations of the Accord on Fire and Building Safety and the Alliance for Bangladesh Worker Safety. The World Bank Jobs Diagnostics 2016 showed that job-creating opportunities in RMG had slowed. Employment grew at a rapid annual rate of 3.1 percent in 2003–10, allowing for lower unemployment and higher labor force participation. But these trends were reversed in 2010–16, when job growth fell to only 1.8 percent annually (World Bank 2016). In terms of sectoral growth, this has been a good story, although the potential for jobless growth may also happen in the future. Nevertheless, the Bangladesh RMG sector is maturing and is able to produce at large capacity at low cost, compared to most of its competitors, and benefits from entrepreneurial dynamism, strong investments in the supply chain, supportive policies, wage competitiveness, and quality products.

Secondly, the pace of export diversification has also been limited, and employment in the formal sector has not been growing fast enough. Garments remains more than 80 percent of exports. Bangladesh's Herfindahl-Hirschman Index, which measures the level of sectoral concentration in exports, is .405 according to UNCTAD 2018 data. This is about five times the index of larger export-driven economies such as China, Thailand, and Vietnam. In parallel, there has been declining employment growth for college graduates, especially in the formal sector.[1]

[1]It has been a challenge to measure the size of the informal sector, especially the rural nonfarm informal sector. But evidence suggests that there is an underlying rural dynamism.

Moreover, value added per worker in the industrial sector has grown at only half the level in the economy overall. Productivity in manufacturing is still weak. Average annual productivity growth was only 1.6 percent in 2003–10 and 2.2 percent since 2010. Productivity levels in all sectors remain low by international standards, despite recent progress, and other sectors have not been emerging to act as second or third poles of growth beyond RMG. Overall worker productivity in Bangladesh, measured as value added per worker, is half that of the South Asian average and less than 40 percent of the lower-middle-income-country average.

Third, there are growing concerns about corporate governance and public policy. First, tax revenue remains low at less than 10 percent of GDP, making it one of the lower performers in South Asia. This is in contrast to performance of some of the comparator countries such as Malaysia (13.1 percent), Thailand (14.8 percent), and Sri Lanka (12.4 percent). The tax and non-tax revenue have not been strong despite recent reforms to improve tax efficiency through better tax policy and stronger tax administration. Second, there is a growing accumulation of non-performing loans in the banking sector, which impede the successful functioning of the financial sector in providing timely and adequate access to finance to the private firms. Third, there is evidence of regulatory capture with strong delays in administrative reforms to improve business transparency and efficiency.

Stylized facts about private sector

Stylized facts about the private sector in Bangladesh reveal the following:

- **Dynamic evolution of large firms.** The private sector that has emerged over the last two decades now consists of over 100 large conglomerates (mostly family-run businesses). Based on the Dhaka Stock Exchange, the 10 largest listed companies by market capitalization are Grameenphone, Square Pharmaceuticals, British American Tobacco Bangladesh, Investment Corporation of Bangladesh, United Power, Renata, BRAC Bank, Lafarge, Olympic, and Summit Power.
- **Retreat of the state.** After the liberalization of the 1990s, the Bangladeshi state has retreated from much of the manufacturing space and allowed private sector space to emerge. There are only six remaining public enterprises in industry, including Bangladesh Textile Mills Corporation (BTMC) and Bangladesh Steel & Engineering Corporation (BSEC). There is still a SOE presence in finance and logistics and some other service sectors. While about 40 percent of power generation is done by the private sector, the state controls power transmission.
- **Important role of SME's.** SMEs now occupy a pivotal position in the national economy and are growing and resilient at close to a million enterprises. More than 98 percent of firms in Bangladesh are micro units with less than ten workers. Only 13 percent of SME's are in manufacturing, but the rest are in services. SME's account for close to 25 percent of GDP value added.
- **Significant export capacity.** Bangladesh is the second global RMG exporter after China, representing close to US$34 billion in exports. The sector has created 4 million jobs overall and accounts for 82 percent of exports.
- **Increasingly diversified domestic economy – tobacco, pharma, construction, motorcycles.** In 2018, Japan Tobacco Inc., one of the five largest tobacco companies in the world, acquired US$1.5 billion Akij Group's tobacco business, representing the biggest ever single FDI in Bangladesh. A vibrant pharmaceutical company that meets 97 percent of domestic demand produces more than 500 drugs in Bangladesh. It has demonstrated both commercial viability and development impact. Exports of agro-processed goods, mostly originating in the private sector, is projected to reach US$1 billion within the next three years. The construction industry is now dominated by the private sector, particularly domestic cement manufacturers, who control more

[2]Even though the statutory Bangladesh corporate income tax rates are broadly in line with the neighboring countries, except for somewhat higher rates for financial institutions and telecom companies, numerous exemptions and tax holidays and depreciation allowances erode the tax base.

than 80 percent of the market. There is an emerging motorcycle cluster in Bangladesh that produces 600,000 units. It is supported by fiscal incentives and special tariffs under the motorcycle industry development policy 2018.

- **Employment.** About 57 million people were employed in the private sector (95 percent of total) in 2017 (BBS), with more than 8 million private sector jobs in manufacturing and many jobs in agriculture (including more than 100,000 privately owned small mills responsible for processing most of nation's rice output). The private sector employs workers in sectors ranging from manufacturing to healthcare, ICT, and aviation.

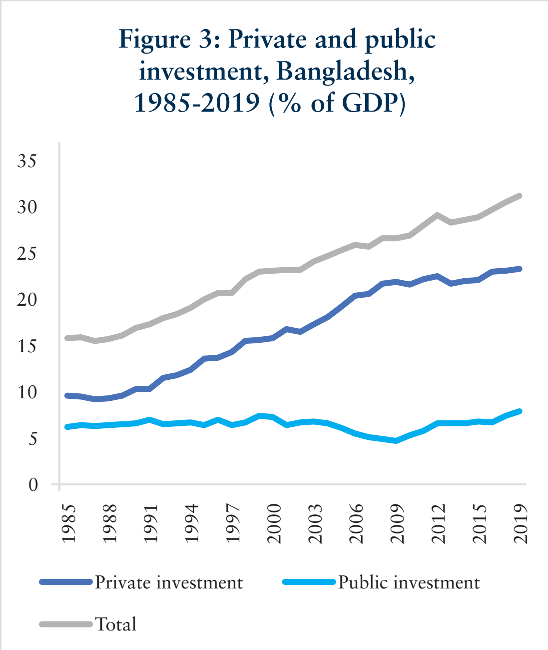
Private investment: History and trends

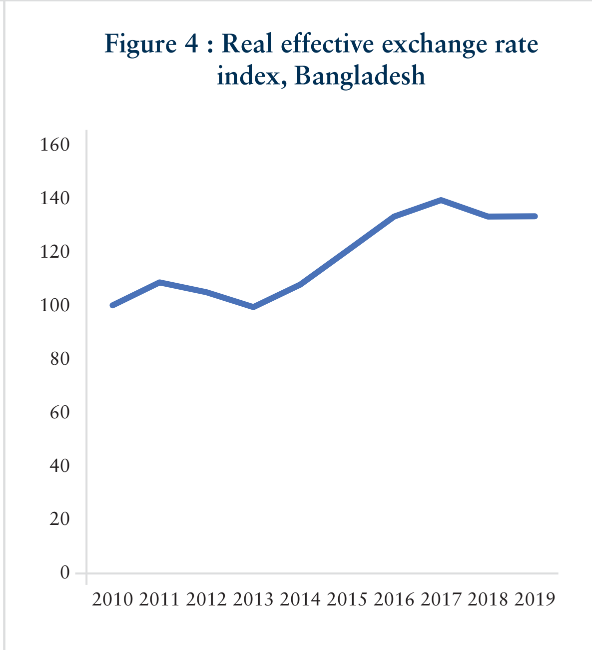
In the last three decades, there has been an upward trend in private investment as a share of GDP, from close to 10 percent in 1985 to more than 23 percent in 2018. Private investment in Bangladesh can be understood in the context of the rapid growth momentum since independence as the country progressed from a fragile state toward a middle-income economy.

- In a first phase, between 1985 and 1991, private investment remained flat as the country was finalizing denationalization and structural reforms and beginning to lay the foundations for economic expansion (Figure 3).
- The second phase, between 1991 and 2010, were the golden years of the private sector, which more than doubled in volume and became the key growth driver in the economy. GDP growth rates during the 1990s and 2000s averaged more than 5 percent a year, making Bangladesh a stable performer. The 1990s and 2000s marked an inflection point as private investment became the major driver behind the rising ratio of investment to GDP.
- During the third phase, since 2010, there has been a relative slowdown in private investment. The ratio of investment to GDP has fluctuated along a narrow band between 21.0 percent of GDP and 23.5 percent of GDP. In 2018, the country showed a strong growth rate of more than 7.9 percent. Since 2010, public investment has risen, but is still dwarfed by private investment. Performance of private investment as a proportion of GDP contrasts the targets of The Seventh Five Year Plan (FY2016-FY2020) that envisages this rate to reach to 27 percent of GDP by 2020.

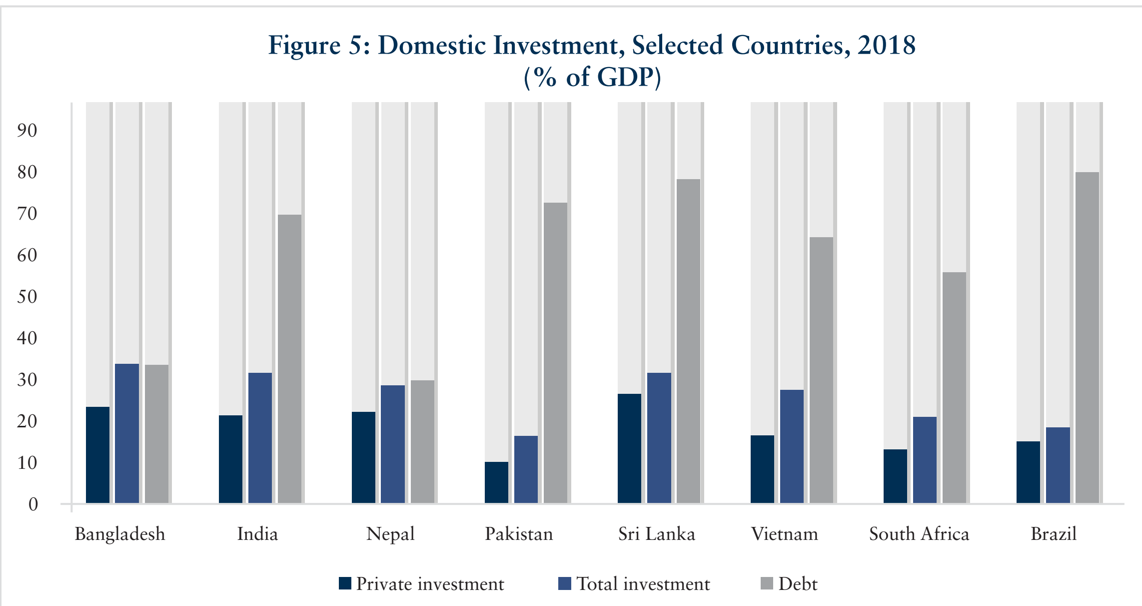
For the last decade, private investment has been at between 21 percent and 23 percent of GDP, leading to policy challenges, although private investment is continuing to grow in absolute terms. Despite the strong private sector credit growth, the ratio of private investment to GDP rose 0.3 percentage points in 2017–18, while public investment increased 1.3 percentage points (Figure 3). Total investment rose to 31.6 percent in FY2018-19, compared to 31.2 percent in FY2017-18. In FY2018-19, public sector investment reached 8.2 percent and private sector investment was 23.4 percent of GDP. Moreover, private investment has not managed to outpace GDP growth despite the significant dynamism. There is also some evidence of slight real exchange rate appreciation in 2019 mostly due to a stronger taka-dollar rate, which can be affecting private sector competitiveness (Figure 4). It is also important to note that Bangladesh's low debt to GDP allows some scope for spurring higher public investment that could catalyze higher private investment (Figure 5).

As Bangladesh moves to middle-income status, it will have to increase private investment to between 29 percent and 32 percent of GDP. According to a growing body of international evidence, especially in the context of the East Asian miracle, one of the outstanding features of the high-performing East Asian economies has been the large rates of savings and investment, which have helped accelerate the long-term rate of economic growth. To grow in the next decade, Bangladesh will need to increase domestic private investment as well as FDI. According to the government's medium macroeconomic projections and framework, private investment must be increased by several percentage points to create jobs and sustainable growth. By 2021, the government aims to raise the ratio of private investment to GDP to above 26 percent to achieve the targeted growth rate and employment rate. According to latest BBS estimates, the Bangladeshi economy grew at record 8.13 percent at the end of the fiscal year 2018-2019, and private investment/GDP reached 23.5 percent. Only a substantial increase in private investment will lead to an appropriate growth acceleration in GDP.





Source: BBS data, IMF



Source: International Monetary Fund; United Nations Conference on Trade and Development.

II. Public policy for the private sector: How it generally worked for Bangladesh

Many aspects of public policy have supported the development of private business over the years, and it is important to study them.

Political economy and governance

The political economy of Bangladesh has been complex, but there has been a growing nexus between business and politics. Over the years, the share of businessmen in Parliament has increased. Now, more than 50 percent of the current members of Parliament are affiliated with business. This has occurred in all the major political parties. There were many more lawyers than businessmen and farmers in the 1970s, but the tide has reversed, with a growing influence of the commercial elite on the political process. On the one hand, there are risks of bad governance and corruption. According to Transparency International's Corruption Perception Index 2018, Bangladesh was ranked 149th among 180 countries, which is six steps lower than its 143rd rank in 2017. On the other hand, the existence of a powerful commercial elite has fostered development in three ways. First, the garment industry benefited from both civilian bureaucrats such as Noorul Quader – a pioneering RMG industrialist and the military, who each played important roles. Second, as Hossain (2017) argues, the political elite in Bangladesh is committed to development, and there is a consensus among the ruling class that rural residents must be protected against the crises in subsistence and survival, which are so frequent. Third, the presence of commercial interests in Parliament and the lobbying of private sector business associations mean that steps are being taken to protect private sector activities.

Exchange rate and monetary policy

A central feature of Bangladesh macroeconomic management that has been beneficial to private sector exporters is the maintenance of competitive exchange rates for much of Bangladesh's history. In trade-weighted terms, real effective exchange rates were roughly stable between 1993 and 2014, thus maintaining the competitiveness of the economy (Figure 4). Only in recent years has there been a significant increase in the taka real effective exchange rate. It is fair to say that the exchange rate policy in Bangladesh has supported RMG garment industry exports. Throughout the 1980s to the 2000s, during the period of the ascent of light manufacturing, policy makers have been careful to prevent the appreciation of the taka. The mandate of Bangladesh Bank, the central bank, has been to stabilize domestic monetary value and maintain a competitive currency, while fostering growth and development.

Historical analysis confirms the competitiveness of the currency. In the wake of independence in 1971, the taka was devalued by 37 percent in 1975, and, in subsequent years, Bangladesh Bank pursued a policy of devaluating the taka to improve balance of payment deficits. Younus and Chowdhury (2006) find that Bangladesh devalued the taka about 130 times from 1972 to 2002 to reduce balance of payment deficits. In 1985, a real effective exchange rate index (using a trade-weighted basket of major trading partner countries as a benchmark) was introduced to determine the strength of the taka against foreign currency, and the exchange rate was occasionally adjusted by monitoring the trend in the real effective exchange rate to maintain the competitiveness of exports. By 2003, the Bangladesh authorities had decided to float the currency and had abandoned the pegged exchange rate regime. Since then, the exchange rate has been market determined, with occasional interventions by Bangladesh Bank. Never has it been so overvalued as to create strong disincentives for Bangladeshi exporters, although there has been a recent REER appreciation of more than 5 percent with a growing misalignment at the end of 2019 raising concerns among some exporters. Unlike some central banks, historically Bangladesh Bank has not only focused on inflation, but has also paid attention to growth targets.

Financial sector policy

Bangladesh Bank has implemented several policies that have been beneficial for the private sector, but in recent years there has been significant policy slippage. First, the banking sector was liberalized in the late 1980s, and new banks could come into existence. As a result, the share of private banking grew considerably.[3] Currently, of a total of 59 banks, 9 are state-owned; 41 are private banks; and 9 are foreign banks (Figure 6). There are five generations of new banks based on the nature of the banks and the timing: first generation banks (1980s), second generation banks (1991–95), third generation (1996–2000), fourth generation (2013), and fifth generation (2019). Second, historically, the banking sector reform has encouraged domestic and foreign private commercial banking that has helped in the successful intermediation of the large volumes of remittances, which have averaged US$10 billion in recent decades. Third, Bangladesh Bank has encouraged private sector credit growth to the economy, including the rural sector, although the allocation of credit has not been efficiently managed. Most money has gone to industry and not to consumption loans, and certain preferential loans have been directed at the private sector (Figure 7). Recently, Bangladesh Bank has asked banks to lower the lending rate on farm loans to 9 percent from 11 to 13 percent and cut interest rates on term loans, working capital, and trade financing to support farm machinery. Effective April 1, 2020, Bangladesh Bank has decided to cap lending rates on all loans except those on credit cards at 9 percent. However, in recent years, there has been some policy slippage, with the accumulation of non-performing loans, deteriorating governance standards, and lack of long-term bond market development. This has had a negative effect on the private sector cost of capital.

Figure 6: Share of banking sector assets (%)

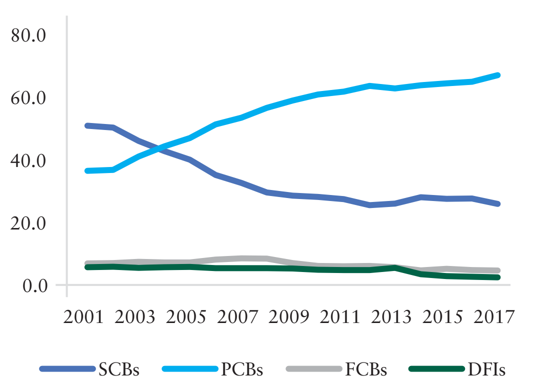
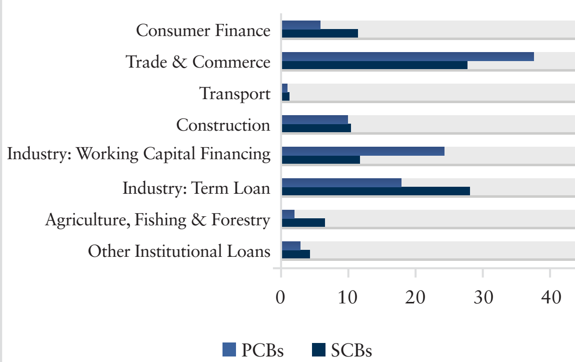


Figure 7: Banking advances, by lending category, 2018 (%)



Source: Bangladesh Bank.

Note: DFI = development financial institution. FCB = foreign commercial bank.
PCB = private commercial bank. SCB = standard chartered bank.

Fiscal and debt policy

Another macroeconomic policy that has benefited the private sector has been prudent fiscal management. In the last two decades, the government has maintained a relatively prudent fiscal policy, ensuring that expenditure growth is well aligned with revenue performance, thus leading to sustainable and manageable fiscal deficits below 5 percent in most years. Until the mid-1990s, the overall fiscal deficit was high, ranging from 8 percent to 12 percent of GDP in most years and significantly financed from external loans and grants, in recent years, it has come down.

[3] A debate has recently erupted on whether the fourth and fifth generation of banks have undertaken due diligence and maintained strong capital standards.

External debt was high in the early years, but it relied on concessional financing; however, in last two decades, domestic debt financing has been used, with some consequences. The government's fiscal management has generally been prudent, with expenditure limited at around 15 percent of GDP for about four decades, despite pressure for higher spending. However, in last few years, a combination of weak revenue mobilization and greater fiscal spending for pensions payments and energy subsidies has challenged the historically low deficits.

Agricultural policy and significant private sector participation in agriculture

Agricultural reform has been important in Bangladesh historically, and it has been a major catalyst in the country's transformation. The private sector has played a central role in allowing the country to escape from the shadow of famine because it was responsible for importing and distributing food efficiently and stabilizing food prices. In a seminal study, Kabir, Hossain, and Rahman (2011) find that two waves of agricultural reform took place from the 1980s to the mid-1990s. During the first wave (early 1980 until the mid-1980s), subsidies on inputs were cut back, and the domestic trading of inputs were liberalized. During the second wave (from the mid-1980s to the mid-1990s), imports of inputs were liberalized, the public distribution of grains subsidized, and private trading in grain markets locally and internationally increased, supplemented with decreases in public programs for grain distribution. Because of these reforms, the markets for farm inputs and outputs were liberalized from public control. Unlike in many low-income countries, the liberalization of fertilizers and of irrigation pumps was significant in Bangladesh, leading to increases in rice production and, indirectly, to nonfarm production.

Industrial and trade policy

Another policy that has historically helped the private sector, especially RMG exporters, has been trade liberalization, but there have been many policy reversals in the last two decades While the country was highly protectionist, trade liberalization had accelerated by the 1990s, but since the 2000s, there has been policy reversal that have been counter-productive for the non-RMG sector, especially the rise of supplemental duties and the anti-export bias. The initial overall reform has focused on a substantial scaling back and rationalization of tariffs, the removal of trade-related quantitative restrictions (QR), and the elimination of import licensing, although there has been a growing anti-export bias (Zaidi 2014). There has been a dual system whereby RMG has benefited from a combination of a bonded warehouse system for duty-free imported inputs, back-to-back letters of credit for import finance, a customs green channel for rapid import-export cargo clearance, and an overall free trade channel for RMG production in export processing zones (EPZs) or the domestic economy, while there has been a general increase in para-tariffs, leading to higher effective protection rates in the non-RMG sector. This has led to companies exporting less than they can because they have a captive domestic market, where they can charge higher prices. It is also important to make a distinction between open trade policy (where Bangladesh has reversed) and more positive selected sector-specific trade policy interventions, such as export subsidies and back-to-back LCs.

Industrial land policy

There has been reform in the last decades in the agenda on economic zones, partly due to access to land as being one of biggest constraints to investment and growth. Given Bangladesh's dense population and small land area, land has been a challenge for industrial development. In this context, the Bangladesh Export Processing Zones Authority Act of 1980 was aimed at boosting industrialization and job creation through the promotion of trade and investment in specially demarcated areas with available infrastructure and a supportive fiscal and customs regime. It has had some success. The law led to the establishment of the semi-autonomous Bangladesh Export Processing Zones Authority (BEPZA), which leases serviced land to industrial tenants in eight EPZs across the country, primarily focused on the garment sector. Investors enjoy several fiscal incentives (tax holidays, duty-free imports, exemptions on the dividend tax, and so on) and non-fiscal incentives (100 percent foreign ownership permissible, full repatriation of capital and dividends, and so on), in addition to a host of support services aimed at helping investors navigate the formidable bureaucracy linked to doing business.

In July 2017, BEPZA hosted 463 tenants in both RMG and non-RMG sectors (such as chemicals and footwear), 56 percent of which were fully foreign owned; 16 percent were joint ventures between foreign and domestic investors; and the remaining were local ventures. BEPZA estimates that, in the two decades before fiscal year 2017, the EPZs attracted US$4.3 billion in investment (the average annual FDI inflows in Bangladesh are about US$2.0 billion), contributed US$59.4 billion in export earnings (19 percent of the total in fiscal year 2017), and directly employed 481,000 workers. The trend now is to move away from the EPZ model because it has weaker domestic links and instead cater both to the domestic and the export market.

There has been a lot of recent momentum in the zones. The Bangladesh Economic Zones Authority Act and the Bangladesh Hi-Tech Park Authority Act, both of 2010, led to the creation of two new semi-autonomous agencies, the Bangladesh Economic Zones Authority and the Bangladesh Hi-Tech Park Authority, tasked with overseeing the expansion of economic zones and hi-tech parks in the country. The Bangladesh Economic Zones Authority aims to develop 100 economic zones by 2030, including in underdeveloped regions. As opposed to BEPZA, the zones under BEZA include many private zones and aim to produce also for the growing domestic market. Unlike the EPZs, which are publicly owned and operated by BEPZA, the Bangladesh Economic Zones Authority and Bangladesh Hi-Tech Park Authority would rely mainly on private capital and expertise to build and operate the new zones.

Energy policy

An important priority for the government since 2010 has been energy sector reform, with energy capacity increasing more than three-fold in the last decade. To promote increased electrification, Bangladesh has made impressive progress in generation capacity, mostly through megaprojects and the expansion of gas use, more than tripling the capacity, from less than 6,000 megawatts in 2009 to more than 18,000 megawatts in 2018. To support economic growth and meet a 10 percent annual demand increase, the government intends to double capacity by 2021 and reach 50 gigawatts by 2041. Challenges remain in terms of cost (especially of the quick rental powerplants) and the optimal mix among gas, liquefied natural gas imports, and renewables. About 67 percent of electricity generation is based on natural gas. Subsidized prices keep demand artificially high and stifles offshore field development.

Improving ease of doing business

In the last decade, Bangladesh has not experienced much success in Doing Business reforms. Bangladesh is among the top 20 reformers in Doing Business 2020. Having climbed eight notches since 2019, the country has made certain improvements in three specific indicators which are starting a business, getting electricity and getting credit. The improvements are primarily attributable to reducing name clearance, registration fees and abolishing fees for certifying digital certificates; Moreover, there has been a reduction in the number of days needed to get an electricity connection (to 115 days from 150 days); Additionally, Bangladesh improved access to credit information by expanding coverage of the credit information bureau. Despite strong efforts from the investment authority, the government faces substantial challenges in implementing doing business reform recommendations mainly due to the lack of commitment from several line agencies.

Policy slippage since 2000s

Many of the key reforms in Bangladesh were done in the 1990s, and there has been some reform slowdown since then. With the conspicuous exceptions of energy policy and zones policy, coupled with some strong infrastructure projects, there has been slippage in reform in several areas, especially the financial sector, doing business, tariff harmonization, and logistics modernization. Bangladesh's future success will depend on the continuation of reforms in these key areas.

III. Rise of private sector entrepreneurs: surveys and case studies

Bangladeshi entrepreneurs have emerged in recent decades, and the private sector has grown.

Anatomy of the private sector

- **The Bangladeshi private sector is heterogeneous, including services and manufacturing.** Most firms are microenterprises that exist on the margins of the formal economy. According to the 2013 Economic Census which covers all sectors, only 137,000 (close to 2 percent) of the 6.6 million firms have 10 or more employees.
- **In terms of manufacturing, SMEs (more than 10 workers) are important, but large firms dominate.** The SMEs come out as a significant component of the manufacturing sector in Bangladesh, accounting for close to 50 percent of the establishments, 36 percent of employment, and 47 percent of gross value added. However, in terms of employment and value added, the large firms dominate, accounting for more than 15 percent of jobs and close to 45 percent of value added, while SMEs account for 23 percent of each (Figures 8-11).
- **Most large companies are in the manufacturing sector and are large family conglomerates or business houses, with diversified production structures.** There are more than 100 large family-run conglomerates in Bangladesh, but only 10 percent are listed in the stock exchange (Table 1). The companies are run not as holding companies (because the double taxation taxes both parents and subsidiaries), but as family businesses lacking consolidated balance sheets. There are also diversified companies that operate across sectors (sometimes in sectors that have little to do with one another but represent niche opportunities). As of early 2019, the leading manufacturing establishments were in textiles (25 percent), food products (20 percent), RMG (16 percent), mineral products (9 percent), and metal products (5 percent).[4]
- **The Bangladeshi private sector has gone through several phases.** In the first phase, between 1971 and the mid-1980s, the industries were slowly getting to their feet, spurred by the exit of Pakistani businesses, the early success of RMG, and the privatization campaigns of the early 1980s. From 1975 to 1981, 23 industries were privatized. The second phase, between the 1990s and 2010, was the golden era of the private sector, as it expanded dramatically in the wake of economic liberalization and effective industrial policy. There was the rise of the nascent service sector, especially banking and financial services, pharmaceuticals, real estate, and insurance. Third, beginning in 2010, the private sector was consolidating, building on their earlier success.
- **The empirics from a recent 2019 BBS survey present a mixed picture with declines in large and medium size firms but increases in small firms.** The number of large industries fell by 16.7 percent from 3,639 in 2012 to 3,031 in 2019, and the number of medium enterprises fell by 50.6 percent from 6,103 in 2012 to 3,014 in 2019. However, despite having a small contribution to the GDP, the number of small industries rose by 50 percent from 15,666 in 2012. to 23,557 in 2019. Large and medium industries account for 19.1 percent of GDP, while small industries contributed 3.8 percent. Large industries have fallen due to consolidation, while smaller industries are growing as microenterprises achieve more scale.

[4]The fiscal regime is different depending on the sector. The tax administrator collects taxes in eight categories. Telecommunication operators, banks, and financial institutions and cigarette manufacturers pay taxes at the highest rate, 40 percent to 45 percent, while the lowest tax rate is 10 percent for jute millers. Garment exporters pay 12 percent. The corporate income tax for nonlisted companies is 35 percent and 25 percent for listed companies.

Table 1: Examples of Leading Bangladeshi Corporations and Businesses

	Conglomerates, Revenues $US (2019) ($1 billion plus)	Sector	Background
1	Conglomerate A	Construction material, tobacco, consumer products	Starting in the 1950s as a single product company, the Group is diversified and spans many products lines
2	Conglomerate B	Cement, real estate, paper, steel	One of the oldest and most successful real estate companies, with a highly diversified portfolio
3	Conglomerate C	Edible oil, milk and milk products, sugar, chemicals, cement, paper, printing	One of the leading conglomerates in Bangladesh, having more than 30,000 employees, it began its journey in trading
4	Conglomerate D	Real estate, white goods, media	Initiated in mid-1970s, it now controls more than 20 large-scale enterprises, including real estate
5	Conglomerate E	Health care, consumer brands, textile, RMG	Started in late 1950s as a small partnership firm; it now employs over 28,000 people and is one of the leading pharmaceutical companies
6	Conglomerate F	Commodity trading, construction materials, edible oil, poultry feed, chemicals	Started in 1970s, the company has more than 20 enterprises with over 50,000 employees; large producer of edible oil products
7	Conglomerate G	Construction material, dairy, beverages, paper, liquefied petroleum gas, tobacco	Started in jute trading in the 1940s, the company is one of the largest names in construction and tobacco
8	Conglomerate H	Pharmaceuticals, RMG, textiles, real estate, ceramicware	Founded in 1970s, the company is one of the leading conglomerates, with a significant market capitalization in the stock market
9	Conglomerate I	Power generation, real estate, healthcare, education, retail	Started in late 1970s, it is one of the leading conglomerates ; plays role in energy sector
10	Conglomerate J	Branded staples, commodity trading, economic zones, consumer products	Began in 1970s, it is now a large consumer goods producer
11	Conglomerate K	Construction material, commodity trading	Consisting of more than 30 companies; pioneering the steel and glass industries in Bangladesh
12	Conglomerate L	Food processing, plastics	Strong company specializing in agro-processing
13	Conglomerate M	Food processing, construction material	Large family-run conglomerate with food, beverages, real estate
	Conglomerates, Revenues $US (2019) ($500 million - $1 billion)	**Sector**	**Background**
14	Conglomerate N	Home textile	Large conglomerate in textiles and garments; employs more than 50,000 workers
15	Conglomerate O	Construction material	Major Chittagong-based steel manufacturer
16	Conglomerate P	RMG, steel manufacturing, information and communication technology, logistics, banking	Founded in 1980s; one of the largest garment-based conglomerates
17	Conglomerate Q	RMG, textile	Significant exporter of RMG and denim fabric
18	Conglomerate R	Health care, consumer brands, agribusiness, retail chain	Conglomerates with three evolving segments: pharmaceuticals, brands, and agribusiness
19	Conglomerate S	Beverages, distribution electronics, consumer products	Established in 1970s; in many industrial and service sectors; more than 10000 workers
20	Conglomerate T	RMG, power, agribusiness	Rapidly growing business house
21	Conglomerate U	RMG, denim, hospitality	World-class casual wear RMG producer
22	Conglomerate V	Light engineering, cement, paint, power generation	Growing firm involved in mid-level engineering production
23	Conglomerate W	White goods	Conglomerate involved in refrigerators/ electronics

Source: IFC estimates

Figure 8: Manufacturing establishment, by size, Bangladesh (%)

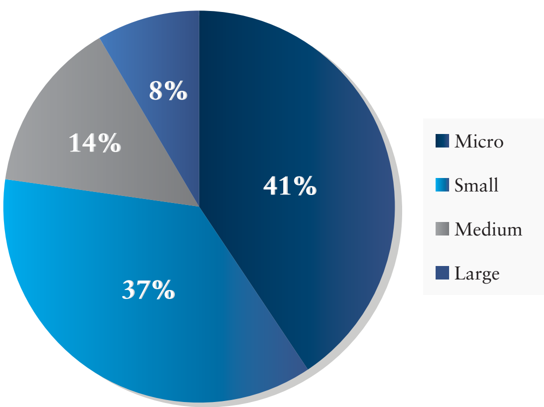
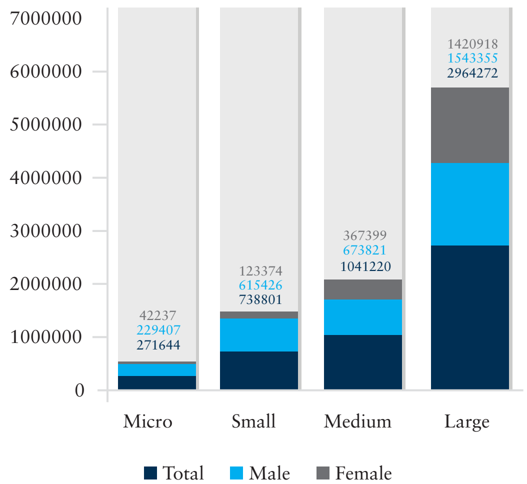


Figure 9: Employment in manufacturing, by size and sex



Source: Census of manufacturing industries 2012. Note this is based on a survey, not a census. However, important and representative information can be obtained from this approach.

Figure 10: Establishments by industry (number)

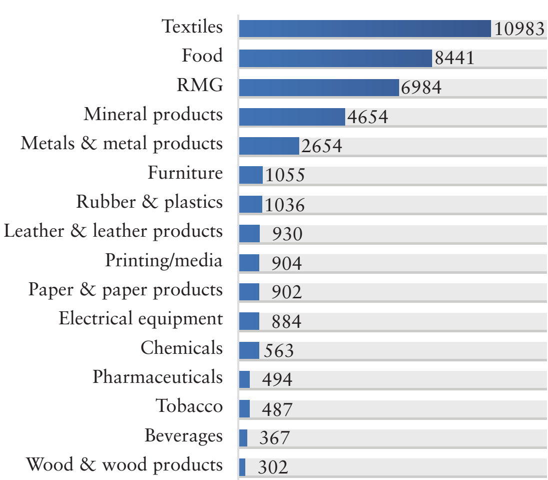
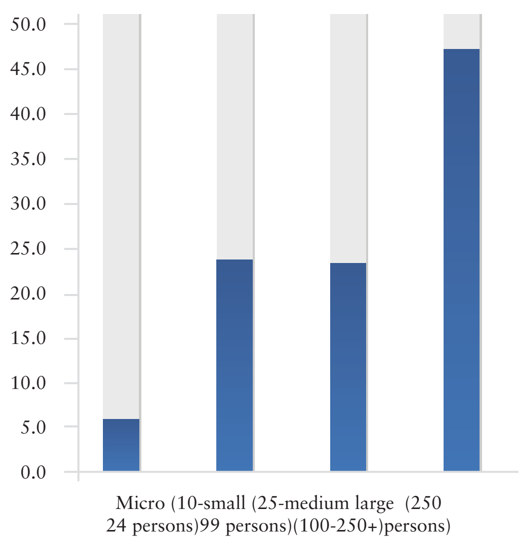


Figure 11: Total value added, by firm type (%)



Source: Census of manufacturing industries 2012

Ten case studies

To understand the landscape of successful Bangladeshi firms better, a team conducted detailed case studies. The goal was not to get a representative view of private firms in Bangladesh but rather looking at some of the biggest and most successful firms. Managers or owners of eight companies were interviewed in Dhaka, neighboring industrial areas, and Chittagong, and desk research was done for two companies. The questions were based on understanding the history and evolution of the firm and analyzing six main constraints on the growth of industry - the availability, cost, and quality of inputs; access to industrial land; access to finance; trade logistics; entrepreneurial capabilities, both technical and managerial, and worker skills (Annex C provides the questions). For confidentiality reasons, the firm names have been kept anonymous.

Case Study 1: Construction company

One of the pioneering companies in Bangladesh is a leading construction conglomerate that has more than 10,000 workers and is valued at more than US$1 billion. The founder came to Dhaka in the 1950s. He had a diploma in civil engineering in the roads and highways division and started a government engineering job as section officer at the Government Construction Office, but then decided to set up his own company based on advice from colleagues. He resigned and started working as a subcontractor for other people's construction work. He helped improve the commercial profitability of his company by winning contracts and working closely with World Bank and Asian Development Bank–financed infrastructure projects in the 1960s and 1970s. His name became synonymous with many high-profile construction projects, and the company also ventured into multistoried construction in neighboring Afghanistan, Tajikistan, and Uzbekistan. Although the lack of a skilled workforce is a constraint (especially the lack of subcontractors), the company has invested heavily in training. In terms of finance, the company relied on subsidized finances from friends and relatives, but once it reached a certain skill, received bank loans. Technology has been a challenge, and projects are short term

(about three or four years), but the company obtains high-quality inputs from Germany, Italy, Japan, and other countries. The company has benefited from government policy, especially duty drawbacks, benefits on specific equipment, and a price preference of 7.5 percent for local procurement. Company expansion is constrained by the shortage of capital and difficulty in accessing low-cost long-tenure foreign financing due to domestic regulations.

Case Study 2: Agro-processing

This company is one of the leading companies in commodities and agribusiness in Bangladesh. Having more than 5,000 workers with an annual turnover of approximately US$60 million, the company has a diversified spectrum of business interests, with a core in commodity brokerage, together with information technology, logistics, real estate, and insurance. The business originated in the 1990s, when the founder enticed by the untapped business opportunities in Bangladesh, moved back to Asia and started selling petrochemicals. With capital of Tk 200,000 (US$4,550), the company paired with a British company to introduce Argentinian steel in Bangladesh. The business model was based on bulk commodity brokerage. In 2004, the founder set the up the country's first frozen food factory, with the support of a bank loan and his personal savings and exported to the UK. Facing global competition leading to lower prices on the international market than on the domestic market, the company refrained from exporting and started contract farming, ensuring the quality of raw materials. Over time, the company profits were reinvested in information technology, real estate, aviation, logistics, ice cream, and insurance. The company is envisaging a state-of-the-art cold chain network nationwide with potential assistance from the International Finance Corporation. The company is constrained from further expansion by the lack of capital and difficulty in accessing lower-cost long-tenure foreign financing due to domestic regulations.vv

Case Study 3: RMG

The company is one of the leading companies in RMG manufacturing in Bangladesh, with a total of 9,000 workers dispersed across four factories. The humble beginnings of the company and the expansion that followed in the next three decades is an embodiment of the growth that the RMG sector experienced in Bangladesh. The family business was founded in 1983. During that time, export orders were moving away from Sri Lanka to Bangladesh because of riots and political unrest in the former. The founder set up a factory on a piece of land that he owned and took out a bank loan of US$50,000 to import machinery, while keeping the land as collateral and gathered another US$25,000 from his personal savings. It started operating with 60

machines and 100 workers to export basic flannel shirts (woven) to the United States that spawned a turnover of US$100,000. When their buyer started exploring knit sources in 1990 and recognizing this attractive opportunity, the company ventured into knitwear and diversified its portfolio. Considerable growth in the factories translated into a greater need for land and space and, consequently, the company bought 300,000 square feet of land for its factories, and it experienced an impressive average growth rate of 23 percent annually over the past three decades and currently generates a turnover of US$100 million. The group has a composite knit textile mill and a button manufacturing plant. Although logistics is a constraint for manufacturers, the companies uses roads as well as waterways during floods to transport goods to port. However, the company has acquired auto-trimmers and pocket attachment machines, although it has been reluctant to engage in much automation due to cost. The company has benefitted from government policies, especially back-to-back letters of credit and a bonded warehouse, but it is constrained by a lack of serviced land and difficulty in accessing low-cost long-tenure foreign financing. Although the company faces wage rises and expensive compliance costs, it is optimistic about the future of RMG due to its capacity and its compliance with recommendations from Accord on Fire and Building Safety and the Alliance for Bangladesh Worker Safety.

Case Study 4: Telecommunications

The company is one of the leading telecommunication operators of Bangladesh and one of the biggest corporates. It is a joint venture between a Bangladeshi firm and an international company. It now reaches most of the country's population and was the first operator to introduce Global System for Mobile Communications technology into the country. Its founder is a Bangladeshi investor banker by training, mobilized personal funds and New York investor money to launch the company and applied the successful model of microcredit. Taking five years to go from concept to launch, the company received a license for cellular phone operation in Bangladesh in 1996 and started operations in 1997. It is one of the largest companies on the stock exchange and one of the largest taxpayers in the country. Close to 700,000 people are directly dependent on the company for their livelihoods, working with retailers, scratch card outlets, suppliers, vendors, contractors, and others.

It has taken advantage of the large density of the Bangladeshi population. For example, it makes twice as much profit in Bangladesh as in Kenya due to this density. Originally envisaging a million customers, the company has now reached close to 70 million subscribers. It has built a large telecommunication infrastructure in

Bangladesh and now has the largest cellular network in the country, with about 13,000 base stations and towers. Finally, it has 3,000 staff and personnel who are densely deployed and well trained.

Case Study 5: RMG

It is one of the most prominent names in the sphere of Readymade Garments Industry (RMG) in Bangladesh, with a total of 26,000 workers distributed among 8 factories. The family business was founded in 1991, where a small factory was started with 500 machines. However, it wasn't until 2005, when the sons joined the company and catapulted it to a new trajectory. The company has a diversified garment portfolio, ranging from denim, suits and lingerie and had an annual turnover of $300 million in 2018.

Two factors that were crucial to its success were getting the right investors and attaining the correct and necessary technical skills. In 2010, an international hedge fund made an equity investment of $8 million in the company which gave it the must needed boost to diversify their portfolio in garments. A major turning point emerged when the same hedge fund introduced the company to a leading international high-street fashion brand, who agreed to do Joint Venture operations. Together, they came up with the idea of making suits, which is a high-valued item and a premium product for Bangladesh. Another Joint Venture with a company helped the company to learn the technical know-how on making world-class suits for export. Few macro and micro-level challenges restrain the company from expanding further. As far as macro challenges are concerned, the company says that access to energy sources has been a key constraint hindering expansion. Access to gas has been a deterrent for the past decade as gas was prioritized for power plants nationally. The factories still rely on generators for electricity which adds to the production cost. Logistical constraints increase lead times, thus eroding

competitiveness of the factories; for instance, a truck takes eight hours to travel from Dhaka to Chittagong, which should be receded to two hours which will enable maintaining good lead time. Moreover, it takes seven days for the imported raw materials to reach the factory from the sea-port. In terms of micro challenges, the company reckons that finding competent mid-level management is an issue. The company does not perceive the looming industrial revolution and automation as a treat as garments such as suits are still very labor-intensive. Despite the challenges in the industry, the company believes that several government policies have been fundamental in the industry's success. Policies such as back to back L/Cs, bonded warehouses and a comparatively lower tax rate of 12 percent for the industry have played a key role in its growth. Cash subsidies for vertical integration in the knit sector and cash incentives of 3 percent for non-traditional markets have helped in providing a boost to the industry in recent times.

Case Study 6: Conglomerate

It is one of Bangladesh's leading conglomerates and has a diversified set of industries. Having a capitalization of close to US$3 billion, it has 35 industry verticals, including chemicals, cement, consumer products, real estate, insurance, securities, and utilities. It also established a private economic zone in Bangladesh— in 2018, with the intent of attracting FDI and generating 30,000 jobs. Currently, it has 45 factories and more than 30,000 employees. In 2018, it managed to attract key companies from Australia and Japan to invest in the private economic zone. It has a vast network of more than 1,000 suppliers. It was established in 1976 as a trading company in the heart of Dhaka's wholesale trading area, and it progressively expanded to include new industries and sectors. The first factory was set up in the industrial park in 1989. To overcome financing constraints, it borrows regularly from a set of key banks in the country and ensures good logistics. It has a network of trucks and factories and a strong supply chain.

In Bangladesh, it recently purchased two brand new oceangoing vessels for US$50 million, the first time a private company has done so. Finally, it has invested considerable time in training staff and management in many of its industry verticals.

Case Study 7: Food

It is a renowned name in the food industry in Bangladesh. Established in 2006, it was launched by a nonresident Bangladeshi who had observed a gap in the country- the absence of premium quality meat and state-of the art slaughter and processing facilities. He started with an initial capital of US$2 million acquired from friends, with the intent of exporting world-class premium-quality meat. However, he soon realized that his competitive edge would be better utilized in the local market, as the local input price for meat is high compared with global. The company is unique due to its innovation over its production process to provide quality control. It owns a 30-acre farm where animals are reared according to the best global practices and obtain international expert advice on food processing, automation, plant set

up, and hygienic meat processing. The company relies on contract farming, where training is provided mostly to women farmers on animal rearing. It manages its own seamless supply chain through cold chains and refrigerated trucks, which carry the product to 35 supermarkets and other shops all over Dhaka. These act as mini-distribution hubs and provides its own sales personnel to these supermarkets. Access to affordable finance is a key constraint that hinders the company from expanding. The company reckons that certain government policies may help it expand business; for instance, it pays a tax of 37 percent that is comparable with manufacturing companies, but because it is an agro-processing business, the company believes it should be subjected to a reduced level of taxation. The company remains optimistic about business in Bangladesh and intends to diversify in the agro-processing space.

Case Study 8: Steel

It is one of the top steel producers in Bangladesh. Now controlling more than 3 percent of the market, it is based in Chittagong and originated first as a trading company in 1987 with a focus on cement, iron, and zinc. However, in the late 1990s, the company transitioned to first a cement and power producer and then to a steel producer and was incorporated in Bangladesh as a private limited company in 2006. It was subsequently converted to a public limited company in 2012. It is one of the producers of low- and medium-carbon and low-alloy steel billets in Bangladesh, the main ingredient for manufacturing graded steel bar. The experience of working as a trading company allowed the founder to have experience and a large countrywide network of business connections. Employing more than 1,000 workers, it relies on high technology and imported European machines financed through concessional loans from local and international banks to produce more than 400 metric tons of sophisticated steels

bars daily. It has been building a state-of-the-art steel plant, scheduled for production in 2019, with ultramodern technology to meet the current and future demand for steel. The company has overcome financing and skills constraints by prudent borrowing from banks and from the use of foreign technology and ideas.

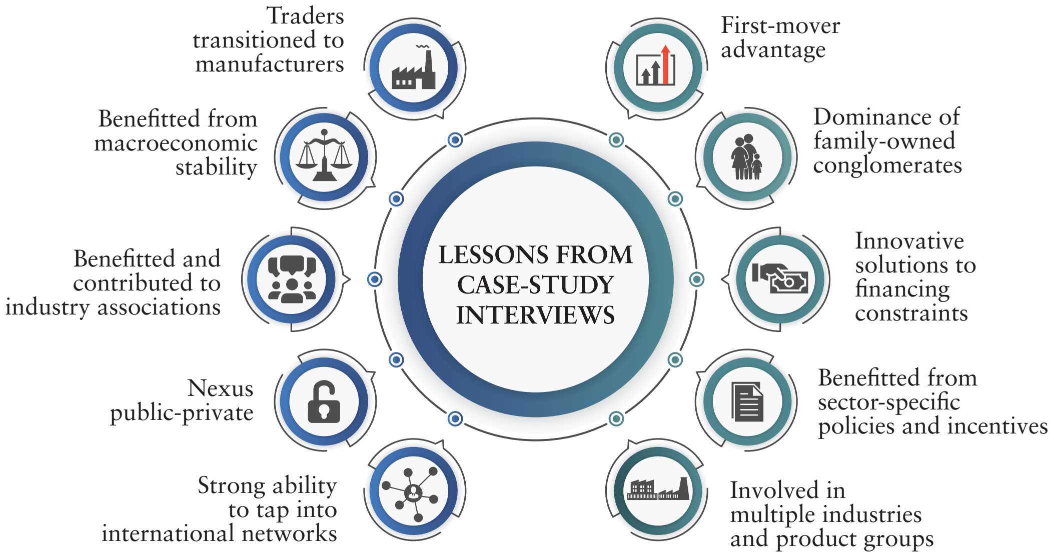
Case Study 9: Mobile banking

The company has been one of the most innovative companies in Bangladesh and a key player in the growing fintech space. Founded in 2011, the company is a pioneer in money transfer systems using mobile phones and was able to reach 10 million customers by 2012 and 23 million customers by 2018. Its platform processes five million transactions a day, with a daily value of $84 million and an annual value of about $30 billion. About 51 percent of its share at from a bank, while the remaining 49 percent of its shares are divided among the founder's group. The company benefited from a US$10 million start-up grant in 2010 and support from international lenders. The company relies on good technology and advanced features that are drawn from international fintech models, and it benefited from a certain regulatory freedom. The Bangladesh Bank allowed it to operate even though it is not a deposit-taking institution. However, it has accounts with more than 15 commercial banks. Also, it has a dense deployment of close to 200,000 rural agents and handlers (known as human ATMs) to ensure that the unbanked in remote areas have access to the agents and can convert physical cash into electronic money that can be used to send remittances, make salary payments, and pay utility bills. Third, the company relies on simplifying transactions with no charge for opening accounts and a small fee for cash payments, the majority of which goes to the agent. Fourth, the company recruits good workers and managers through a meritocratic system.

Case Study 10: Pharmaceuticals

The company is one of the largest conglomerates in Bangladesh. Founded in the mid-1980s by an ex-Army officer interested in niche products, the company, together with the sector has grown dramatically. In 2019, the company controls close to 20 percent of the local market and has an annual turnover of more than $1 billion and employs more than 50,000 people. It is due to this company that Bangladesh is independent in pharmaceutical production, with less than 5 percent imports, and country has emerged as an exporter. A technical collaboration with Belgium and US companies in 1974 helped the company maintain a good manufacturing practice for its products. Several factors have helped its success. it has a competent management team that is well-versed in international best practices. Second, it has an innovative product and is the first mover in the industry. Third, the company has a good research and development, which allows it to provide good knowledge and industry practices, and it has very good labs. All products are developed in-house for transfer to regulated markets. Fourth, it has succeeded in being cost competitive by focusing on generics. Fifth, by being tied to a bigger company, it has easy access to capital.

The lessons from the case studies are many. Overall, government policy has helped the firms in several key ways, and private sector was also innovative. First, the firms all benefited from the overall macroeconomic stability and lack of any macroeconomic crisis. Second, most of the firms benefited from policy continuity. Third, sector-specific policies have also helped industries in particular ways – from the back to back L/C and bonded warehouses for the RMG companies to the support and licensing for telecom companies, from the regulation support for fintech to the liberalization and facilitation of agricultural marketing to help agribusiness grow. Fourth, in parallel, the successful private firms all showed elements of resilience and innovation. In industries ranging from RMG to agro-processing, form telecommunications to agro-processing, many of these private sector firms have been resilient in identifying niches in the market. Fifth, as in many other parts of emerging Asia, many of the Bangladeshi corporates interviewed are family-owned, with previous experience as trading companies, where they learned the skills and knowledge required to survive in a competitive global economy. Based on the interviews, the advantages of family businesses are: trust; focus on longer-term sustainability; and creative use of internal capital to fund company (including cross-financing from other companies in the same conglomerate). Many corporates avoided debt and were not interested in listing the stock exchange as they already had access to capital from some banks. Most of the companies interviewed chose to keep their business within a tight circle of family members and associates and did not seek outside talent. While concentration of some assets among conglomerates was noted, many firm managers argued that there are many other players in each of the sectors, leading to greater competitiveness. Sixth, the private sector companies have been innovative in coping with market constraints around supply chain development, finance, and skill development, including use of back to back LC's, overseas training, and taking advantage of a dense consumer market. Seventh, private sector has also lobbied for specific policy support from the government via various chambers of commerce and associations.



Survey of private sector sentiment and constraints

In order to quantify and qualify the constraints, a broader survey was conducted of more than 1000 firms, with 103 respondents, to assess private sector sentiment, since most enterprises surveys and censuses are out of date. The survey follows a mini-Enterprise Survey approach with focus on a few key strategic questions. As opposed to the stories above of successful larger firms, this survey not only looks at big firms but at smaller firms and is a more representative sample of the firms. There was a wide heterogeneous sample of companies, ranging from garment and leather producers to information technology and energy suppliers (Figure 12).[5] Firms were evenly divided between manufacturing and services. Of the companies, 93 percent were local, 6 percent were foreign, and 3 percent were joint ventures (Figure 13). There was a heterogeneous size of firms (Figure 14). About 85 percent were run by men, and 15 percent were run by women (Figure 15). About 16 percent of the companies had 5 to 9 employees; 40 percent had 20 to 99 employees; and 44 percent had more than 100 employees. The companies represented a wide range, from recently established to long-standing, but the average age was more than 10 years. Less than one in five firms interviewed were exporters; the rest were producing for the growing domestic market.

[5]This is a representative sample and there was not a conscious oversampling by sector, firm, size and geography.

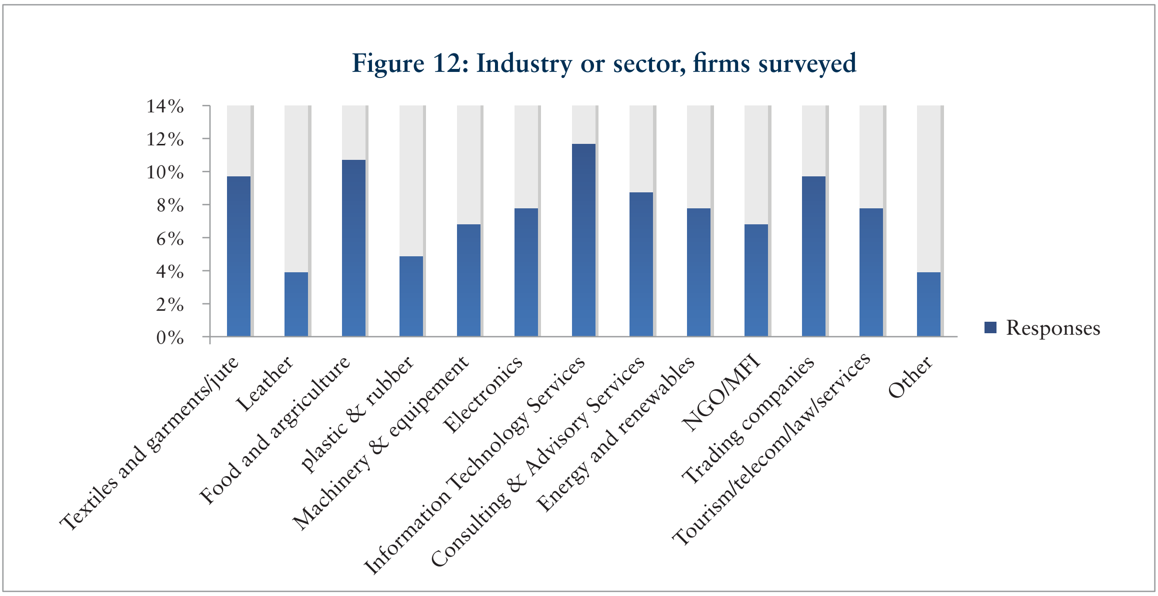


Figure 12: Industry or sector, firms surveyed
14%
12%
10%
8%
6%
4%
2%
0%
Textiles and garments/jute
Leather
Food and argriculture
plastic & rubber
Machinery & equipement
Electronics
Information Technology Services
Consulting & Advisory Services
Energy and renewables
NGO/MFI
Trading companies
Tourism/telecom/law/services
Other
Responses

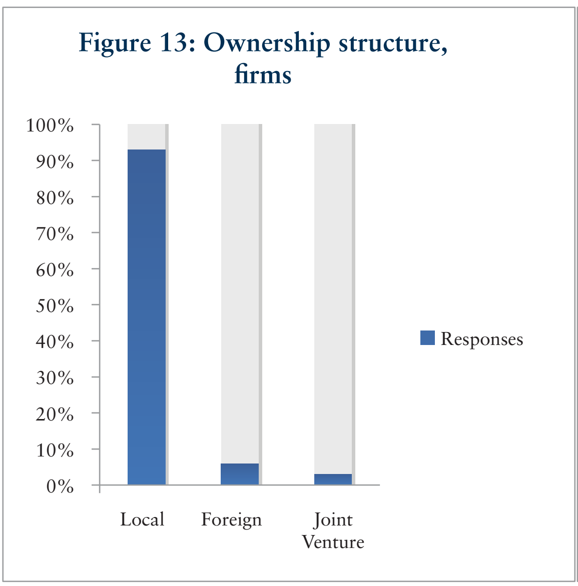


Figure 13: Ownership structure, firms
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Local
Foreign
Joint Venture
Responses

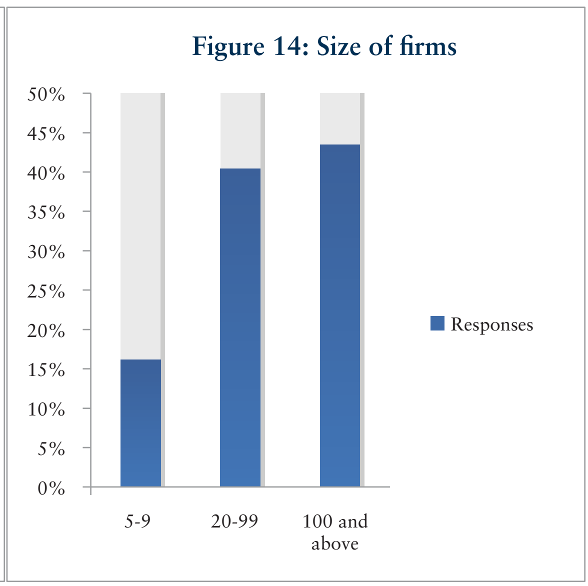


Figure 14: Size of firms
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
5-9
20-99
100 and above
Responses

Figure 15: Firm managers, by sex

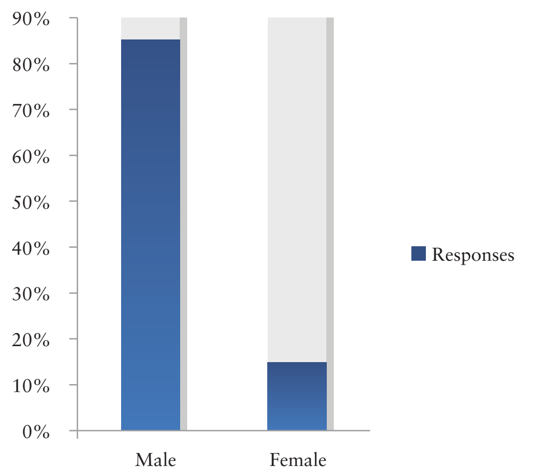


Figure 16: Impact of technology and automation, businesses and companies

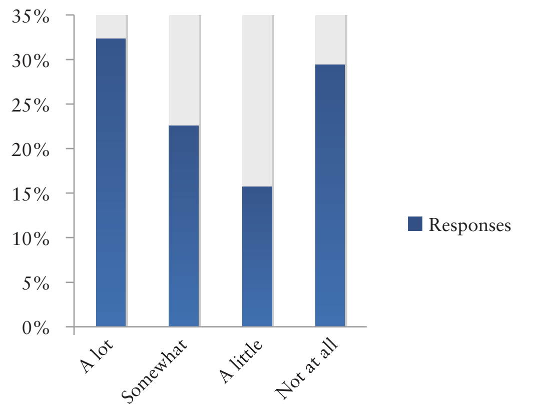


Figure 17: Do companies benefit from foreign direct investment?

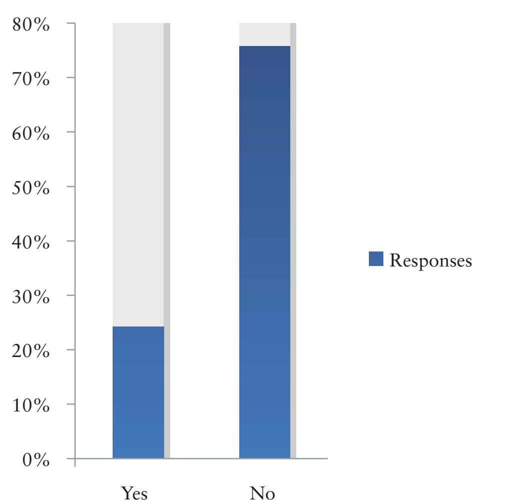


Figure 18: Source of capital

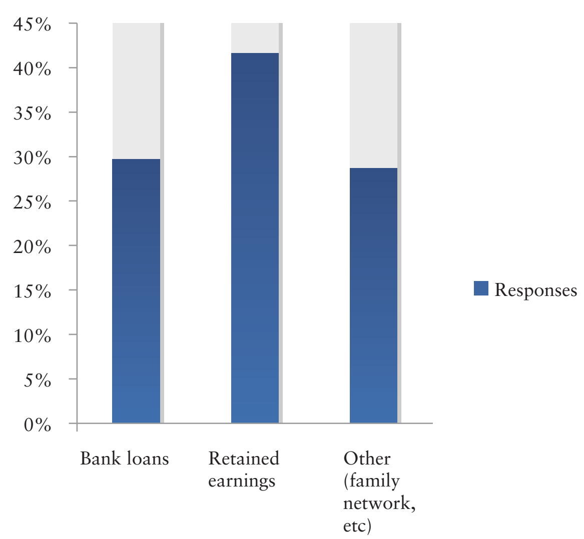
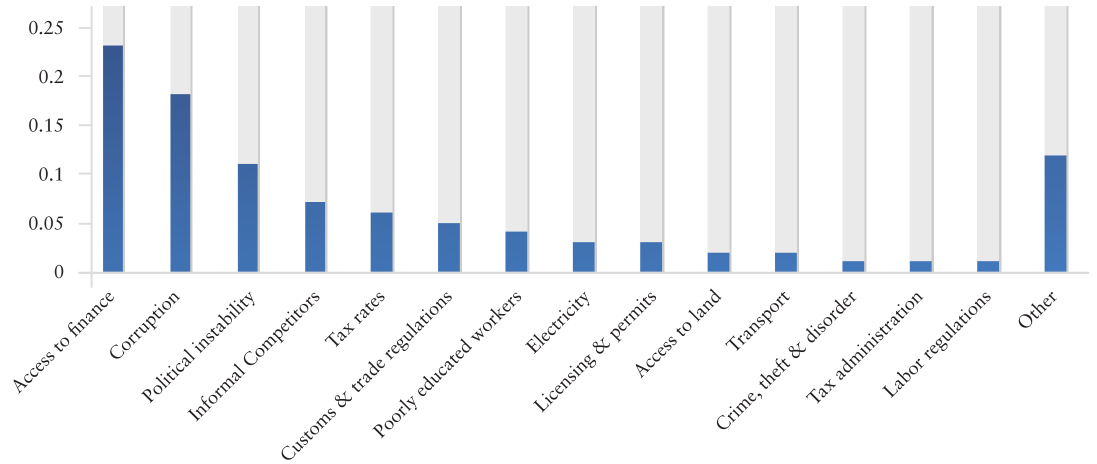
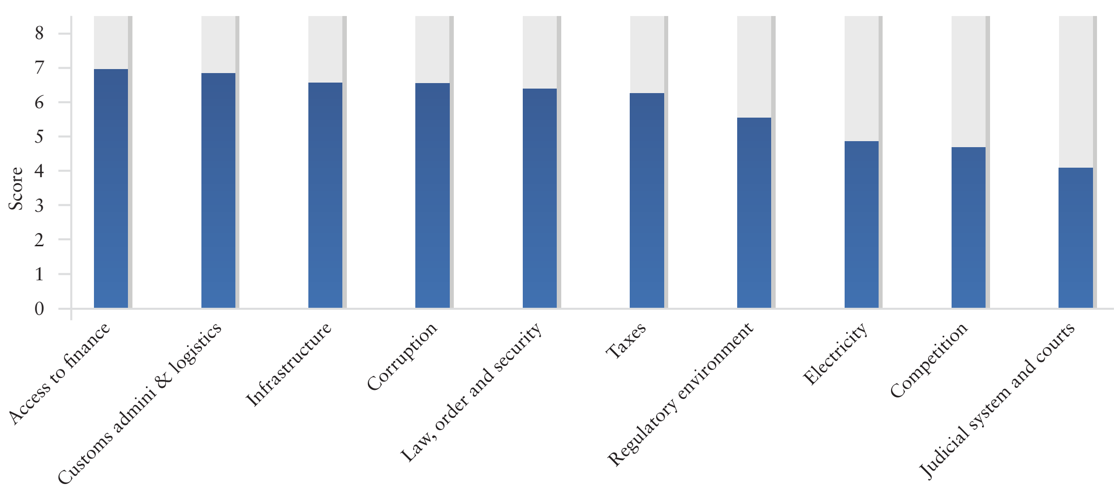


Figure 19: Most difficult challenge facing firms (percentage)



Source: BICF BUILD Survey 2019.

Figure 20: Ranking of factors preventing firms from expanding



Source: BICF BUILD Survey 2019.

Note: Score captures the percent of respondents who found that the particular constraint was the leading constraint.

Survey of firms: Key findings

Private sector mood is generally positive, but with some concerns about challenges facing them.

Firm responses also varied by nature and size. Compared to larger firms, they were more likely to rely on own savings and identify financing as the major constraint and more adversely impacted by taxation than larger firms.

Manufacturing firms and exporters were more affected by land and energy access than service firms. Both were concerned with corruption and logistics issues, and concerns about the future spanned all firms. Smaller firms tend not to engage in product diversification and tend to be more cautious in terms of business expansion.

Only one-third of firms were affected by automation, while one-third were not affected, with the rest only partially impacted (Figure 16).

Most companies were engaged in product diversification during the last decade but were not able to link up with FDI (Figure 17).

About 7 firms in 10 were interested in rapid expansion, while 3 firms in 10 were interested in slow expansion and consolidation.

About 30 percent of companies obtained most of their financing from bank loans, and about 40 percent from retained earnings, while the rest depended on a combination of factors, including family networks, development organizations, foreign partners, and membership fees (Figure 18).

About 40 percent of companies find that the business environment is getting better; about 40 percent said things are the same; and 20 percent feel things are getting worse.

In terms of top current challenges, 24 percent of firms identified access to finance; 18 percent cited corruption; 11 percent mentioned political instability; and 9 percent mentioned informal competition (Figure 19).

In terms of factors preventing the firm from expanding, the top five factors were finance (28 percent), customs administration and trade logistics (18 percent), corruption (16 percent), law, order, and security (13 percent), infrastructure (11 percent), and informal and formal competition (11 percent). (Figure 20).

IV. The unfinished agenda: Addressing Constraints

The quest for upper middle-income status – Improving Bangladesh's investment and export competitiveness

From 2000 onward, Bangladesh's economy has been consistently growing over at 6 percent a year on average, a great feat that many of the advanced industrial nations would seek to achieve. Robust macroeconomic management, sustained growth in export and remittances, a comparatively underdeveloped and insulated financial market have contributed to this growth which is further expected to maintain strong momentum in the coming years. The country's total export volume reaches to a massive $40 billion in 2019 from $7 billion in 2000 mostly driven by RMG exports.

Drawing on these impressive records, Bangladesh has laid out its grand vision to become an 'Upper Middle-Income Country' in the next decade. A fundamental challenge facing Bangladesh to break into this middle-income bracket is to create more and better jobs that will facilitate growth and reduce poverty. Bangladesh's labor force is growing by 3.1 percent per annum and 21 million people are expected to enter the labor market over the next decade.[6] In the period between 2011-2016, overall employment growth was just 1.8 percent annually despite growth in real GDP per capita increasing from 5.3 percent to 5.9 percent.[7] Attaining upper middle-income status through sustainable growth will require a significant increase in private investment in productive sector, diversification of the export basket, and the improvement of overall competitiveness. The 7th Five Year Plan aims to accelerate economic development through stronger trade and investment, including targets such as: (i) increase in gross investment from 29 percent to 34 percent of GDP; (ii) increase in private investment from 22 percent to 27 percent of GDP; (iii) quadrupling of FDI to US$10 billion; and (iv) a near two-thirds increase in exports to US$54 billion. Achieving these targets imply that Bangladesh will need to enter into a more coordinated phase of reforms to sustain its recent growth trajectory and improve overall competitiveness.

World Economic Forum (WEF) in its annual exercise of benchmarking global competitiveness ranks Bangladesh 99th out of 137 countries in its 2017-18 edition. Also, the World Bank in its South Asia Competitiveness report mentioned that, productivity of firms, the key driver of competitiveness, is low in Bangladesh – with high productivity dispersion and a long tail of low productive firms. For example, value added per worker is US$5,657 among Indian apparel firms and US$15,259 among Chinese firms, compared with US$2,524 for Bangladeshi firms.

Bangladesh has tremendous potential to become more productive and, therefore, more competitive, but it will have to overcome the key constraints that are challenging firms in order to facilitate the private sector to invest and grow. While historically policies in the earlier years have been supportive of growth, in recent years, the policy stagnation in several areas has not prevented many firms from expanding. The internationalization of Bangladeshi conglomerates can also help support the country's growth. There are several differences between the policy regime then and now. Now, Bangladesh is moving towards middle income status and needs appropriate regulatory environment that matches its growth. Moreover, many firms are reaching consolidation phase, there is a saturation of some markets, and smaller firms are emerging that are being prevented from expanding.

Based on the survey and the constraints, a clear roadmap can be articulated based on the following constraints. As mentioned, private sector firms rank the following as the main obstacles to expansion and greater investment: access to finance (27.6 percent), customs administration and trade logistics (17.8 percent), corruption (16.5 percent), law, order, and security (13.2 percent), informal and formal competition (10.5 percent), and taxes (7.6 percent).

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[6] World Bank, Systematic Country Diagnostics (SCD), 2015
[7] World Bank Bangladesh Development Update, 2017

1: Financial sector reforms for a better managed sector

It will be important to monitor the financial sector as recent governance issues in the banking sector and liquidity crunches have stressed the sector in terms of capital adequacy and asset quality. The overall banking sector capital and tier 1 capital to risk weighted assets barely exceeds internationally accepted minimum requirements, and nonperforming loans are quite high. There are significant differences in performance (capital adequacy and asset quality) between state-owned and privately owned banks. In terms of capital to risk-weighted assets, nonperforming loans and their provisioning, the state banks and development financial institutions clearly underperform (Figures 21 and 22). Notably, the ratio of nonperforming loans among SCBs and development financial institutions has been worsening despite the frequent injection of public funds, suggesting that weak management and poor oversight continue to be issues. The recent soft loan rescheduling policy of the government to reduce nonperforming loans presents some cause for concern as it does not address some of the willful defaulters and governance challenges in the financial sector. In parallel, Bangladesh can liberalize the strict foreign exchange control laws, based on the Foreign Exchange Regulation Act of 1947 and allow a partial capital account convertibility. Reform measures should help reduce the private sector cost of capital, which is currently between 11 and 14 percent and is only short-term in nature, leading to tight liquidity for many corporates.

Figure 21: Capital-to-risk weighted assets (%)

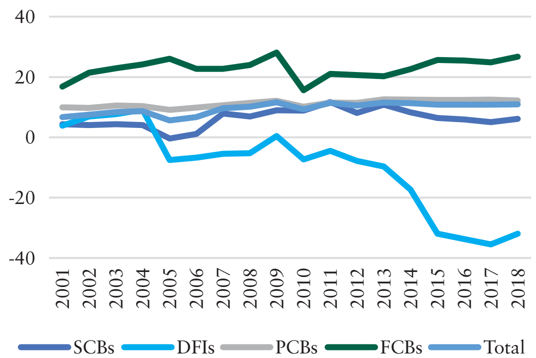
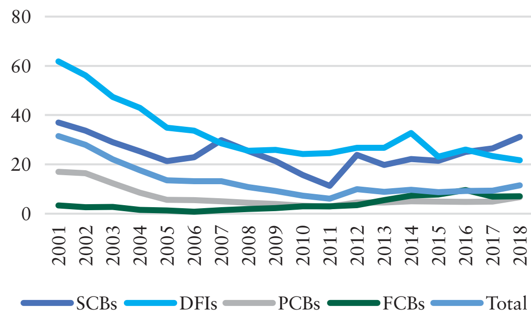


Figure 22: Gross ratio of nonperforming loans



Source: Bangladesh Bank.

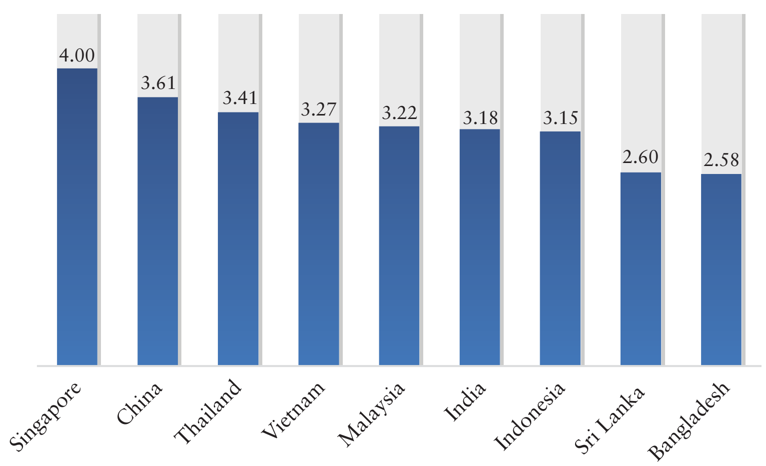
Note: DFI = development financial institution. FCB = foreign commercial bank. PCB = private commercial bank. SCB = standard chartered bank.

2: Better infrastructure and logistics management

Infrastructural reform can include: cooperation with private firms to develop plug-and-play industrial zones with research and development facilities, waste disposal and recycling facilities together with investment in infrastructure to better connect and equip secondary cities. In this respect, Bangladesh is already moving fast forward through the development of economic zones in multiple commercial hubs around the country. So far 89 zones sites have been identified, and 13 zones have been licensed by the government in Dhaka, Chittagong, and Khulna. The government has envisioned a mix of public and private economic zones with production for both domestic market and export market. BEZA is developing a self-contained industrial city titled Bangabandhu Sheikh Mujib Shilpa Nagar (BSMSN) in the country's southeastern part to encourage industrial clusters and rapid economic development. The promising zone is being developed around 30,000 acres of land. Consideration should be given to rationalizing or at least coordinating the agencies that are involved in providing logistics infrastructure and services. Zones selection will need to be based on careful feasibility studies and competitiveness analysis.

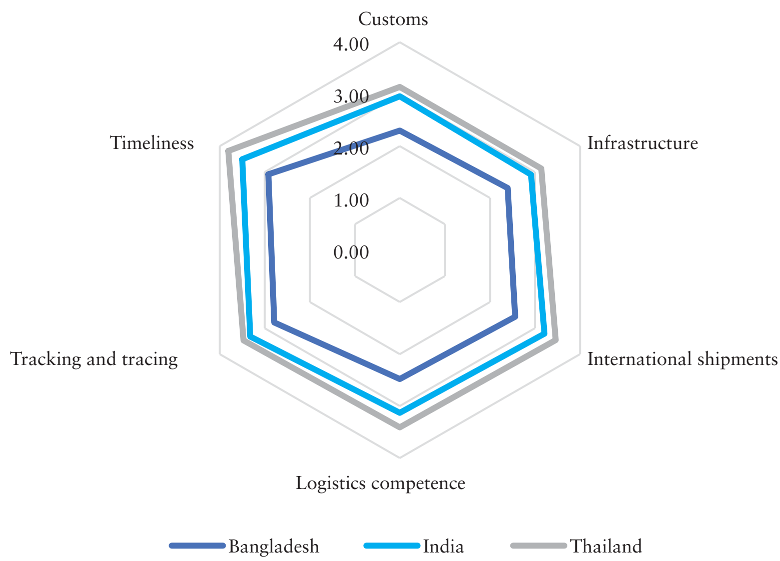
While zones have an uneven international experience, Bangladesh can replicate some of the successful features of zone development in Vietnam and China, based on competitive industrial clusters, strong logistics and management, and successful public-private models. The arrival of Honda and other flagship East Asian investors in 2019 has also been a noteworthy development. As of January, 2020, BEZA has received close to $20 billion in investment proposals from foreign and domestic private firms, including many Japanese and Chinese firms and leading Bangladeshi conglomerates. It will be important for Bangladesh to improve its LPI rankings (Figure 24 and Figure 25).

Figure 23: Logistics performance index score, 2018



Source: Source: World Bank (2019)

Figure 24: Comparative LPI scores 2018



Source: World Bank (2019)

3: Regulatory reforms to address corruption

The business environment in Bangladesh is yet to support its vision for an upper middle income country in next decade. Although Bangladesh has moved up by eight notches to 168 since 2019, there is still a large unfinished reform agenda. Modernizing archaic laws such as Companies Act, improving government service delivery through establishing effective one-stop shop, strengthening contract enforcement through introduction of alternate dispute resolution and more rapid disposal of commercial cases, and strengthening regulatory governance through the introduction of systematic tools such as Regulatory Impact Assessment, are some of the critical policy measures to improve the business operating environment of Bangladesh and reduce incentives for corruption and discretionary behavior. A stronger investment promotion strategy is needed to attract FDI.

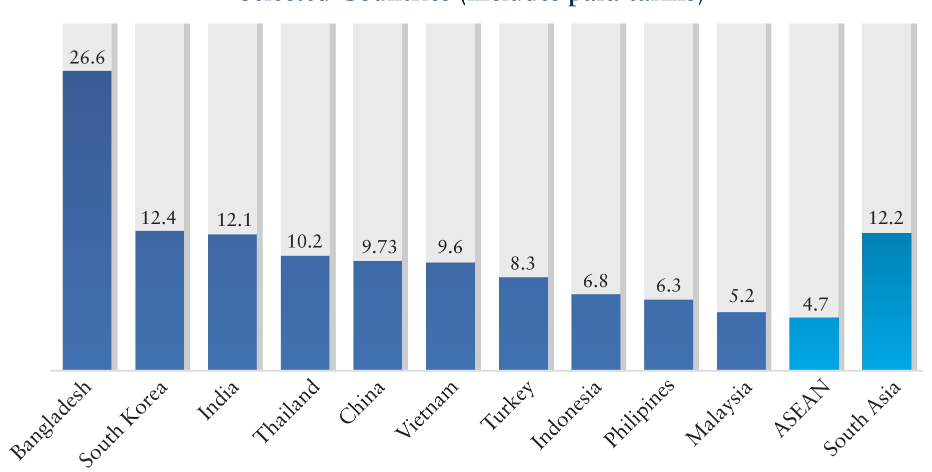
4: Corporate governance reforms for better transparency

Several measures can be implemented to improve corporate governance. First, there can be stronger measures by Government of Bangladesh to ensure that companies provide consistent and updated financial information. Second, the taxation structure for corporates can be further improved by broadening the income tax base and by eliminating special treatments would improve horizontal equity of the tax and make it fairer.[8] Third, it would be important to maintain regulatory independence and ensure distance between a regulator and a company. Fourth, it would be good policy to provide incentives for companies to invest in the stock exchange. In sum, through these changes, Bangladesh can improve its corporate governance.

5: Trade reform for export diversification

Bangladesh can improve export competitiveness by reducing supplementary duties on raw materials and can be more harmonized with other aspirational peers (Figure 25). Developing broad-based global value chain capabilities through policy measures such as reducing average rates of protection and harmonizing tariff schedules across all intermediate and final goods, facilitating easier and faster imports for exporters (e.g. through better functioning bonded warehousing schemes), introducing better standards and product market regulations, strengthening trade logistics to reduce customs clearance and transit times, and adopting a sector-based roadmap for tariff modernization will be needed. The country can also have a stronger competition policy and protection of consumers from predatory business practices.

Figure 25: Average Tariff in Bangladesh and Selected Countries (includes para-tariffs)



Source: NBR, WITS, World Bank
Note: Data varies between 2013 to 2018

6: Reforming tax policy

Bangladesh can strengthen its tax administration and improve the training of personnel to make its tax reform more effective and it can simplify and unify tax rates for the private sector. Also, the government can formalize activities in the informal sector by increasing the number of income taxpayers as well as VAT collection. Widening the tax net is also key to a more effective tax policy and more revenue collection.

Table 2: Bangladesh Reform Roadmap for Private Sector Development

Private sector constraint		Government agency	Timeline
Access to finance	Full asset quality review; nonperforming loan resolution strategy; liberalization of external commercial borrowing and interest rate caps; credit information system for SME; bank mergers; streamlined approval process for corporate bonds; reduction of foreign exchange controls	Bangladesh Bank; Bangladesh Securities and Exchange Commission	1– 3 years
Customs and logistics	Improve customs process and reduce delays; develop logistics warehousing facilities; strengthen port governance; develop a national logistics policy	Ministry of Commerce	3–5 year
Regulatory reform	Develop government policy on regulatory governance and consultation processes; stablish technical oversight body to oversee regulatory reforms; modernize Companies Act	Ministry of Economy and Finance; Ministry of Law	1–3 years
Infrastructure	Full implementation of megaprojects in government Five-Year Plan; development of special economic zones and software technology parks (STPs); creation of new international airport terminal	Ministry of Economy and Finance	5–10 years
Taxes	Separation of tax policy and administration; simplify and unify tax regime for private sector	National Board of Revenue	3–5 year
Energy policy	Continuation of current policy and megaprojects; involve foreign and domestic private power producers; monitor fiscal impact of energy subsidy	Ministry of Energy	1–5 years
FDI policy	Streamlining approval process; marketing and branding policy; establishing effective one-stop shop; simplify approval process for import/exports; support FDI in agro-processing and bringing in new quality and food safety standards	Bangladesh Investment Development Authority	1–5 years
Export diversification	Allow special bonded warehouses facility for non-RMG; implement new Customs Act; implement tariff modernization plan with removal of para-fiscal tariffs	Ministry of Commerce; Export Promotion Bureau	1–5 year
Corporate governance	Encourage more listing and transparency; Strengthening contract enforcement through introduction of ADR		5–10 years

[8] Mansur, Yunus, and Nandi (2011) find that non-compliance and tax holidays compromise the vertical and horizontal equity of Bangladesh's tax system and estimate that Bangladesh's potential for higher tax revenues, given its VAT productivity, exceeds actual tax collection. The generous tax rate for capital gains and de facto exemption of agricultural income creates horizontal inequities. The key recommendation is that broadening the base of the income tax by eliminating special treatments would improve the horizontal equity of the tax and make it fairer for all types of taxpayers.

V. Conclusion

The Bangladesh story

Bangladesh has been a successful developing economy that has lessons for the rest of the developing world, but it faces critical reform challenges if it is to become a successful middle-income country. It is now projected to be one of the ten fastest growing economies in 2020, assuming a reduction in the Corona pandemic. In a world faced with growth stagnation, supply chain disruption, and nascent populism, this is no humble achievement. Bangladesh has reached middle-income status and should addresses fundamental regulatory challenges and solve underlying problems in financial sector, customs and logistics, and overall investment climate.

Annex A: Top Three Ways the Government Has Helped Private Business (Firm Responses)

1	Infrastructure development	Trying to centralize licensing	Development of economic zone
2	Country Action Plan	Household Energy Platform	Infrastructure Development Company Limited; Sustainable and Renewable Energy Development Authority
3	Provides training	Organizes fair and market links	Creates awareness
4	Bank interest should be single digit	Bank finance should be easier	Utility services easier
5	Declared renewable energy policy	Established Sustainable and Renewable Energy Development Authority	Prepared National Guideline on Biogas
6	Digital Bangladesh Vision	Availability and affordability of Internet	Stable electricity and policy level support
7	Good business environment	Develop special zone for industrial support	Government promote alternative energy
8	Tax exemption	Helping the trade body and building infrastructure	Training facility
9	Capital machinery import duty is less	Illegal or undervalued goods, import checked	Electricity, gas available now
10	Putting files and processes online	Granted foreign visas	
11	Regulatory framework	Policies	Government project
12	No support at government end	No support at government end	No support at government end
13	Government declared lower bank interest	Energy electricity available	Better communication
14	Bangladesh Telecommunication Regulatory Commission licenses	Basis membership	Bangladesh Association of Call Center and Outsourcing membership
15	Bangladesh Telecommunication Regulatory Commission licenses	Basis membership	Bangladesh Association of Call Center and Outsourcing membership
16	Finding new sectors of businesses	Building roads and bridges	Trying to support businesses
17	Empowered basis	Empowered e-Commerce Association of Bangladesh	Digitization and internet connectivity
18	Tax holiday in the initial stage	5 percent incentive	Tax free import
19	Smooth electricity supply	Communication (online and offline)	Better business environ. for local investor
20	Low interest rate bank loan facility (software)	Create platform for export software globally	Policy and regulation for software market
22	Technology infrastructure	Internet facility	Now making policy
23	Low cost work place (govt provided)	Fund given	Promotion
24	Export incentives	Back-to-back facilities	Export Development Fund
25	Lower the Internet bandwidth price	Implemented nationwide 4G internet	Implemented Information and Communication Technology Law
26	Policy level support to e-govt	Tax exemption	Support to local information technology services and entrepreneurs
27	Implement poultry policy	Protect small scale farmers	Improve slaughtering houses
28	Easy custom process	Easy bank loans	Lower bank interest rates

29	Formed Palli Karma-Sahayak Foundation (financial institution)	Constituted Microcredit Regularity Authority	Providing fund for social development
30	Supportive to business community	Public and Private partnership	Stable political situation
31	Government involves Dhaka Chamber of Commerce and Industry representative	Government consults with Dhaka Chamber of Commerce and Industry	Chamber representatives on government committees
32	Import duty and tariff on import of tea	Supply of fertilizer	
33	Electricity availability for whole country.	Duty exemption in import stage	National focus on energy efficiency
34	Provided land	Training on capacity building	Monthly district coordination meeting
35	Bangladesh Investment Development Authority	Petrobangla	Energy Ministry
36	increased investment in social sector	Local firms are encouraged over foreign firms	Industry recognition
37	Supported microfinance	Improved regulations	Provided development funds
38	Trade license	Import-export permission	Remittance approval
39	Regulatory support	Policy support	Finance
40	Legal status	Platform for women entrepreneurs.	
41	Reduce source tax	Reduce corporate tax	Electric supply
42	Tax benefit	Reduce value added tax	Flexible policy
43	Export incentives	Tax Incentives for selective sectors	Interest rate intervention
44	Regulatory authority for green business	Specialized value added tax/TAX -energy efficient products	Special financial benefits for green business
45	Funding	Administrative	Linking
46	Safe food rules	Better access to electricity	Open investment from offshore banking
47	Reduce import duties - renewable energy prod.	Govt providing soft loan with low interest.	Monitoring product and after sales services
48	Focus on Digital Bangladesh	Tax structure	BASIS support
49	One stop service at port but still congestion	Quick policy response - factory's worker unstable	Power supply installation improvement
50	Basic training	Market linkage	
51	By loan	Training supported	Grant supported
52	Bank rules	Import policy	County wide security
53	Information and Communication Technology Ministry's High-Tech Park Authority	Ministry of finance	
54	Financial support without interest	Need technical help	Infrastructure help
55	Infrastructure Development Company Limited solar home system (TR/KABITA social safety net programs)	No	No
56	Bank loans	Policy support	Law implementation and enforcement
57	Bangladesh livestock services department	Drug administration department	Ministry of commerce
58	Approval to trade body of women entrepreneurs	Gave scope to attend fair	To some extent loans
59	Equity and Entrepreneurship Fund	Provided payment system operator license	Recognized our network service
60	SME foundation	Jobo unnayon odhidoptor	No
61	Tax and VAT waiver for industry	Improved power supply	
62	Issued a financial institution license for company	Besides that, there was no help	

63	Customs/tax	Electricity	value added tax
64	Training a workshop by SME Foundation	Incentive for participation in a fair in China	Collateral-free loan up to 25 lac to women
65	Import duty stable for solar panel	Advertise for renewable energy	Loan by Infrastructure Development Company Limited
66	Infrastructure	Reduce value added tax	Loan for modernization
67	Dhaka South City Corporation	Bangladesh Investment Development Authority	
68	Nothing		
69	Tax holiday	Hi-tech park	
70	Attention on business sector	Taken steps to improve ease of doing business	Improved infrastructure
71	Information technology development	Partial automation of court process	Good law and order situation
72	Approval license of female entrepreneur trade body	Loan through financial institutions	Encouraging women
73	Digital thoughts	Tax holiday	Eco-friendly
74	Encouraged the sector		
75	Favorable policy on the sectors	Reduction of important duties and taxes	Low interest rate
76	I don't find any		
77	Policy support through cash subsidy	Bond facility	Export Development Fund, Global Drug Facility
78	Jute Sector subsidy	No value added tax in jute industry	Arranging national jute day
79	Government should specify the vision .	Reduce taxation	Avoid conflict policy in power sector
80	Market liberalization	Privatization	Issuing new licenses
81	Batter accountability and transparency	Increasing coordination among nongovernmental organizations	Initiatives with private partnership
82	Bangladesh Investment Development Authority approval		
83	Legal		
84	Limited involvement	Bank helping	Friendship nature
85	No idea	No idea	No idea
86	Research	Bank facilities	Products export facility
87	Land	Incentive	No tax to export
88	Forming New Insurance Act -2010	Forming regulatory body Insurance Development and Regulatory Authority	Planning for automation fund from World Bank
89	Lots of upcoming investment	Developing tourism industry	Signing lots of chain properties
90	Approval to trade body for women entrepreneur	Small loans	Business environment
91	Reduced rate of interest for home loan	Changed few policies	
92	HR Training	Bank loan	Tax free logistics

Annex B: Bangladesh may have several good lessons for other countries

Lesson 1: the importance of good macroeconomic management

Macroeconomic stability through a competitive exchange rate, a contained fiscal position, and a low debt overhang have been essential ingredients for Bangladeshi economic growth. The country has avoided overvalued exchange rates and fiscal slippages that could lead to decline in the tradable sector, and it has avoided falling into a debt trap by prudent borrowing policy. Many countries could learn from Bangladesh's macro policy: Pakistan (on avoiding debt buildups), CFA zone in West and Central Africa) on avoiding overvalued exchange rates that impede competitiveness and slow growth), and resource rich developing economies (on diversification).

Lesson 2: developing countries can produce manufacturing outputs (depends a lot on structural conditions such as density, labor costs, and location), and industries can be developed through combination of experience in trading, sector specific policies, and training

Bangladesh has a level of export of manufacturing that is higher than its per capita income. Many of the leading entrepreneurs in Bangladesh (Meghna, GHH Ispat, Golden Harvest) began as traders. Bangladesh took off due the combination of special economic zones, bonded warehouses, and South Korean training in Busan in 1979-80 (where 129 garment managers were taught the ABC of RMG in six months).

Lesson 3: fix agriculture

Bangladesh liberalized agriculture in the 1990s, especially fertilizer and irrigation, and now has effective value chains and a dynamic rural non-farm sector. The innovation of contract farming has contributed to the removal of marketing bottlenecks, and private sector involvement in fertilizer and irrigation has also improved food security. Like China, Bangladesh had good reforms in agriculture in early stage of development.

Lesson 4: take advantage of density

A large population can translate into a large market, and Bangladesh is one of the world's most densely populated countries. Grameenphone and others are successful as there is a guarantee of customers in a high-volume–low-margin business. Other companies, especially in agro-processing have benefited from the rising middle class.

Lesson 5: the role of private associations

Bangladesh private associations are strong and lobby hard with government to protect the industry interest through pragmatic collective bargaining, as seen with the Dhaka Chamber of Commerce and Industry and the Bangladesh Garment Manufacturers and Exporters Association. India can learn from this experience as can many emerging economies.

Lesson 6: trying to address the access to finance

Bangladesh has used back-to-back letter of credit financing for RMG sector and a proliferation of banks have provided finance for both SMEs and corporates. Access to credit has been identified by many WB Enterprise Surveys as the most binding constraint on small companies in developing countries. However, recent challenges in the financial sector have created liquidity issues for firms.

Lesson 7: the role of entrepreneurial networks

Bangladeshi entrepreneurs can take advantage of global networks. Due to language, geography, and history, Bangladeshi business houses have developed strong networks. This is like East Asian examples, such as China and Vietnam. Unfortunately, firms in Sub-Saharan Africa are less able to take advantage of links to globally competitive suppliers, customers, and competitors than Asian counterparts.

Lesson 8: government policy (big and small)

In Bangladesh, government support for manufacturing enterprises varies according to phases of the business life cycle. There are many ways that government has supported business – through policy, training, financing, and other ways. Annex A provides the responses of 93 surveyed firms on the top three ways government has helped them.

Lesson 9: institutional evolution has moved much slower than economic evolution

In Bangladesh, while the economy has grown, the regulatory environment has lagged, but to reach middle income it will need middle-income-country-type regulators. Many institutions, including Bangladesh Bank, Bangladesh Securities and Exchange Commission, and telecom regulators can benefit from more effective regulation that helps business expand while maintaining good governance.

Lesson 10: family business and corporate governance

While the family business is the dominant mode of business, it will be important to improve corporate governance over the years. The lack of listing of companies in the equity markets (due to control and transparency issues) is noteworthy. As Bangladesh moves toward middle income, there is scope for greater professionalization of business houses. Development of corporate bond market can also help the companies grow.

Lesson 11: diversify and develop

Bangladesh has a growing and heterogenous private sector and there is tremendous growth below the radar screen. Bangladesh is much more than garments, with key emerging sectors including pharmaceuticals, construction, software, leather, and telecom. The policymakers can provide fiscal incentives and regulatory support for the nascent sectors and address challenges of finance and logistics.

Annex C: Interview Questions for Firms

The study is analyzing six main constraints on the growth of industry using an established methodology developed by John Sutton at London School of Economics (LSE). Our analysis will focus on six key variables: the availability, cost, and quality of inputs; access to industrial land; access to finance; trade logistics; entrepreneurial capabilities, both technical and managerial, and worker skills. Several questions may be articulated around these themes, as follows:

- **History of firm and entrepreneur.** How did the firm start? Who came up with the idea and initial capital? What was the evolution of the firm and how did it scale up? How did the owner acquire the technical, and commercial skills to build the business? What was the network if any? Was there support from the diaspora and foreigners in the initial stages? Did it export first or was it producing for domestic market? What were key challenges the firm has faced? How big is the firm and how many people work there? Who are the competitors? Future of firm?
- **Role of government.** What did Bangladeshi government do to help the firm establish and grow? Are there any major decisions that came to mind? What are legislative actions and policy measures that Bangladeshi government has done that impede the firm from even getting bigger? Was there industrial policy? Tariff and credit policy? Does the firm have regular dialogue with government agencies and ministries? Are there any regulations that are too hard for firm to comply with? Is there regular dialogue with Chamber of Commerce and key agencies?
- **Inputs.** What are the key inputs? How does the firm procure inputs? How does it master the supply chain? Does it use domestic or imported inputs? From which countries? Is it expensive and how costly? Is the firm upgrading its technology? Will automation affect the firm?
- **Access to industrial land.** Does the firm own its own land? How much land at what price? Did firm benefit from government support and subsidies? Is the firm in an industrial park/zone or not? Has land been a problem in terms of firm expansion and profitability?
- **Access to finance.** How did the firm get its initial capital? Did its entrepreneurs rely on personal savings and the savings of family and friends to start up the business? Has the firm benefited from bank loans? If so, at what interest rate? Did the firm use collateral to get good access to formal finance and if so, what kind of collateral? Does the firm have its own bank now?
- **Trade logistics.** How does the poor trade logistics—slow and inefficient transport, border delays, and inadequate communications—penalize the firm? How has the firm overcome the logistics challenges and the customs bottlenecks?
- **Worker Skills.** How many workers in the firm? How does the firm recruit the workers? Are they educated? Are they male or female or mixture? How does firm train them? Issues with worker retention? What is the average wage? Has it changed over time? Do workers migrate from other parts of Bangladesh to come and work with firm? Is there room and board for some workers or subsidized housing? Is managing labor a challenge for the firm?

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