

The Bangladesh Private Sector Development Support Project: A Case Study in Public-Private Dialogue

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1. Introduction

The proposed Bangladesh Private Sector Development Support Project (PSDSP) is a \$150 million multi-development partner initiative aimed at improving the investment climate of Bangladesh. The PSDSP was developed in the context of the withdrawal of the Multi-Fiber Agreement on January 1, 2005, and arose out of the need to increase the competitiveness of Bangladesh in global markets by diversifying the export basket. The PSDSP has three distinct thematic components: Regulatory Reform, Special Economic Zones and Capacity Building.

The proposed project is a milestone for Bangladesh for several reasons. Primarily, the project places a heavy emphasis on partnership between all stakeholders in the design and development of the project. As such, the project has brought together all major development partners in Bangladesh to provide technical assistance and facilitate the design of a project spearheaded by the Government of Bangladesh with extensive input from the private sector. This project has therefore established a framework for the development of a mechanism for public-private dialogue in Bangladesh, and the response of all stakeholders to this dialogue mechanism has been extremely positive.

In this case study, we will look at the way this mechanism for public-private dialogue was established, and shall examine in detail how this mechanism has been used in the design of the proposed PSDSP. We shall also examine how the dialogue can be strengthened and enhanced in the future for maximum benefit, and some projected benefits and constraints of the dialogue mechanism as it stands today.

The Bangladesh Enterprise Institute (BEI) has been engaged with the PSDSP from its inception, and has played an important role in facilitating the activities of the design phase. BEI is a non-profit, non-political research centre. Established in October 2000, the Institute has established for itself a reputation for excellence in its research and advocacy work focusing on the growth of private enterprise in Bangladesh. The Institute promotes issues of importance to the private sector and seeks to initiate essential measures and influence policy for the development of a market-oriented economy. Through the promotion of sustainable growth in domestic trade, commerce and industry, BEI hopes to address the enormous challenge for Bangladesh in securing a fair share of the global market. BEI has a particular interest in the support and growth of Small and Medium-Sized Enterprises (SMEs), which have the potential to be the engine of economic growth in Bangladesh.

2. Background

The PSDSP was originally envisioned to be a private sector development project aimed at increasing the competitiveness of Bangladesh in global markets by diversifying the export basket. Since readymade garments (RMG) has been the major export item of Bangladesh throughout the 1990s, a diversified export basket has become much more important, especially with the withdrawal of the Multi-Fiber Agreement, which previously offered protection to Bangladesh's RMG exports to the USA. Since the withdrawal of the MFA on January 1, 2005, Bangladesh's RMG industry now faces intense competition from China and India in terms of exports to the USA. Therefore, to ensure Bangladesh's competitiveness in global markets, it is necessary to diversify Bangladesh's export basket, in order to remove the existing reliance on RMG as the major export item.

As a result of these concerns, a major roundtable conference was organized in Dhaka, Bangladesh on December 14 and 15, 2004 by BEI and the Foreign Investment Advisory Service (FIAS), and supported by the World Bank, the UK Department for International Development, the Canadian International Development Agency, the European Commission, the International Finance Corporation and the Japanese Government. The Roundtables on An Enabling Environment and Free Zones for Investment Promotion and Export Competitiveness developed a solid set of recommendations for improving the investment climate of Bangladesh through regulatory reform, Special Economic Zones and the capacity building of Government officials. These recommendations were used in the initial conception of the PSDSP. The project was envisioned to be composed of a year-long design phase, followed by a four year implementation phase.

The Design Phase of the PSDSP began in late March, 2005, and is expected to be completed by April, 2006. As part of the Design Phase of the project, four groups of stakeholders have been convened to assist in the development of the project.

The **Private Sector Development Task Force** is chaired by Mr. Mahmudur Rahman, Adviser, Ministry of Energy and Mineral Resources, and Executive Chairman, Board of Investment, and co-chaired by Dr. Kamal Uddin Siddiqui, Principal Secretary to the Prime Minister. Membership of the PSD Task Force is drawn from the heads of the various Government Ministries and agencies that work with the private sector of Bangladesh. The PSD Task Force is tasked with the overall design and development of the PSDSP, with support from the other groups of stakeholders.

The **Private Sector Consultative Group (PSCG)** is composed of over 20 representatives of the private sector in Bangladesh. The membership of the PSCG is drawn from various chambers of commerce, trade bodies and associations, along with a large contingent of young and women entrepreneurs. The PSCG provides the valuable input of the private sector

into the overall design of the project, as well as more specific inputs into the project's various subcomponents.

The **Private Sector Development Core Group** is composed of over 30 mid-level Government officials, drawn from various Government Ministries and agencies that work with the private sector. The members of the Core Group have undergone almost one year worth of capacity building on private sector development issues, through learning events and study tours. The PSD Core Group was formed to develop agents of change within the Government itself, and to sensitize Government officials about the needs and constraints of the private sector in Bangladesh.

Finally, the **Development Partners Support Group (DPSG)** is composed of representatives from the World Bank, DFID, EC, CIDA, ADB, IFC and the Japanese Government. The members of the DPSG have been providing technical assistance and expertise to facilitate the design and development of the PSDSP from its inception.

The PSDSP combines nearly thirty different sub-projects focusing on Economic Zone Reviews, Administrative Barrier Reviews, Regulatory Impact Assessment, e-Government, Stakeholder Analyses, Capacity Building, and Competition Policy. These projects are grouped under three thematic areas: Regulatory Reform, Special Economic Zones and Capacity Building of Government officials.

3. Basic Dialogue Opportunities

Primary dialogue between the public and private sectors occurred through initial joint meetings of the PSD Task Force, the PSD Core Group, the PSCG and the DPSG in mid-2005. At these meetings, the members of the various stakeholder groups engaged in debate and discussion on the proposed project components, and these interactions allowed for the design of the project to be refined in order to derive maximum benefit from the project.

The interactions between the stakeholder groups were considered to be highly successful by all participants. Most interestingly, the interactions developed a deep desire among the government to engage in more frequent dialogues with the private sector on a wide variety of issues related to private sector development in Bangladesh. Government officials praised these interactions as they had been instrumental in increasing the awareness of the Government about the constraints faced by the private sector in doing business in Bangladesh. Further, the Government requested the DPSG to assist in establishing a permanent mechanism for dialogue between the public and private sectors, which is being developed under the Private Sector Forum (PSF; see section 5.1 for details).

4. Specialized Dialogue Opportunities

Besides these interactions between the PSCG and the PSD Task Force and PSD Core Group, the PSDSP has also brought together the members of these groups for specialized discussion on individual project components. In this section, we will look at some of these interactions in detail.

4.1 Working Groups

The first project preparation mission of the PSDSP was fielded in Dhaka in early October, 2005. In order to produce concrete inputs on the different project components, the four stakeholder groups of the project were split into three working groups on the three thematic areas of the project: regulatory reform, special economic zones and capacity building.

The Working Groups were each co-chaired by a member of the PSD Task Force and a member of the PSCG. Each Working Group met twice in August and September, 2005, and discussed their relevant area in detail. Each Working Group also produced a paper based on the discussions, presenting options and recommendation for consideration by the project preparation mission for implementation under the project.

The Working Groups allowed representatives of the Government and private sector to come together and discuss the project components in much more detail than had been possible at the joint meetings of the groups in mid-2005. Further, they allowed for close collaboration between members of the PSD Core Group and the PSCG in developing the Working Group papers.

4.2 Vision

In August, 2005, work began on developing Bangladesh's first Vision for Private Sector Development. The Vision was constructed using the Government's own Poverty Reduction Strategy Paper (PRSP) as a basis, and an international expert on the development of a vision was brought in to facilitate the development of the vision. The PSD Vision for Bangladesh was developed by a small working group on Vision, chaired by the Chair of the PSD Task Force and consisting of representatives from the PSCG and the PSD Core Group. The Vision for Private Sector Development that was developed is as follows:

"A vibrant and efficient partnership between the public and private sectors, based on mutual trust, will transform Bangladesh into a major business hub in Asia through creating a competitive and transparent business environment. We will raise private investment to 26% of GDP, quadruple annual FDI inflows to \$2.65 billion, increase real GDP growth to or above 8%, increase per capita income to \$1000, attain 100% literacy rate, and halve the percentage of the population below the poverty line to 20% by 2015."

The Vision is currently in the process of being approved by the Prime Minister, prior to the development of a small slogan or motto that will be used to publicize the vision to the world.

4.3 Administrative Barriers Review

As part of the PSDSP, the Foreign Investment Advisory Service (FIAS) piloted Bangladesh's first Administrative Barriers Review (ABR), a regulatory reform tool that they had introduced in Pakistan with great success. The Bangladesh Administrative Barriers Review looked at six key processes that are currently in practice in Bangladesh – Bonded Warehouse Licensing, Customs Clearance of Capital Machinery, Duty Drawback, and Environmental and Location Clearance Certification – and examined options for reforming each of these processes in order to ensure that they did not serve barriers to investment.

The ABR was composed of three components: a Process Map of the processes, a survey of the Business Intermediaries who undertake these processes regularly on behalf of their clients, and Focus Group Discussions of private sector representatives who have undertaken these processes in the past. Dialogue between the public and private sectors was especially important in the Administrative Barriers Review. Members of the PSD Task Force, PSD Core Group and PSCG were instrumental in identifying processes that would be examined under the ABR, and were consulted regularly in finalizing the list. Further, the members of the stakeholder groups were engaged in the ABR process, and were also consulted throughout the duration of the ABR, in order to refine the outputs of the three components identified above. Once the three components were completed, a workshop was held to present the results to all stakeholders, and to refine the options for reform that were presented.

The recommendations of the first Bangladesh Administrative Barriers Review will shortly be presented officially to the Government of Bangladesh for implementation.

4.4 Regulatory Impact Assessment

Another regulatory reform tool that is being introduced under the PSDSP is Regulatory Impact Assessment (RIA), which looks at the regulations and legislation that govern the interactions between the public and private sectors. Regulatory Impact Assessment is important in analyzing the effect of current or proposed regulations and ensuring that they have no negative repercussions on any stakeholder group. RIA is currently used successfully in several countries around the world.

Since RIA is a brand new concept, and is also relatively complex in structure, extensive capacity building is required to effectively use this tool. For this reason, a small focus group of private sector and government officials were used. This focus group was introduced to the RIA concept, and undertook a pilot RIA on the Duty Drawback system, using the outputs from the ABR on the same topic. At the end of the consultations, a set of reform options was

developed, as a result of extensive cost-benefit analyses. Dialogue between the public and private sector was instrumental in understanding the scope of the regulatory burden, and developing these options for reform.

It is expected that a Regulatory Impact Assessment Working Group will be formed in the near future, to take forward the pilot RIA and to conduct RIAs on other regulations in the future. Membership of this Working Group will be drawn from both the Government and the private sectors, in order to derive maximum benefit from the RIAs. Further, it is hoped that future RIAs will be conducted by a special unit under the proposed "Better Business Unit" to conduct ex-post and ex-ante assessments of regulations. This unit will be composed of highly trained government officials, consulting frequently with the private sector, in order to arrive at options for reform for most current and proposed private sector-related regulations in place in Bangladesh.

5. Future Options for PPD under the PSDSP

The Design Phase of the PSDSP is almost complete; however, a much longer implementation phase lies ahead. Given the positive outcomes of the current public-private dialogue mechanisms that have been used so far, it will be of great importance to ensure that the dialogue process continues in the implementation phase as well. As such, several critical areas for dialogue and discussion between the public and private sectors have been planned for implementation under the project.

5.1 *The Private Sector Forum*

Due to the positive nature of the interactions that have taken place between the PSD Task Force, the PSD Core Group and the PSCG till date, all stakeholders have requested that such a mechanism for dialogue is formally established in Bangladesh. As such, a delegation from Bangladesh recently attended the International Workshop on Public-Private Dialogue, organized by the World Bank in Paris, France in early February, 2006. The goal of the delegation was to learn from the experiences of other countries in terms of public-private dialogue, and to utilize these lessons in the development of a Private Sector Forum (PSF) in Bangladesh. The delegation is currently preparing a proposal for the PSF that will be presented to the Government shortly for ratification and implementation.

The PSF is expected to a permanent platform for dialogue between the public and private sectors, through regular interactions between all stakeholders. Such a mechanism would allow for the private sector to have a forum to express their views and discuss the constraints they face in Bangladesh today. It is expected that the Prime Minister of the Government of Bangladesh will serve as the patron for this forum, thus providing the private sector with the authority to push for reforms.

5.2 *Public-Private Partnership in Infrastructure Development and Provision in Economic Zones*

The review of Economic Zones in Bangladesh that was conducted under the PSDSP clearly shows that one of the constraints to the development of many of the struggling economic zones in Bangladesh is the lack of proper infrastructure, which serves to discourage potential investors. It is expected that the Government of Bangladesh will soon examine the opportunities for soliciting private sector involvement in the provision and development of infrastructure in economic zones.

Private sector involvement in infrastructure provision in Bangladesh is rare, especially in the economic zones themselves. Therefore, providing the private sector with the opportunity to participate in the infrastructure in economic zones would be of great benefit to the country, as it would relieve some of the strain on the Government's budget. There is also consideration of allowing economic zones, particularly industrial estates, to be managed by the private sector, thereby enabling the Government to rid itself of the

responsibility of managing some of the worst-performing zones, and boosting competition in the private sector. The Government is also aware of the opportunities that exist for the private sector in the development and management of special economic zones that may be established in Bangladesh in the future.

5.3 Private Sector Involvement in the Better Business Unit

As highlighted in Section 4.4 above, the PSDSP is aiming to establish a Better Business Unit in Bangladesh, ideally under the Board of Investment, to coordinate the Government's regulatory reform agenda. There is extensive scope for private sector involvement in this Unit, in future ABRs and RIAs. Regulatory reforms must be conducted with the input of the private sector, in order to effectively identify the constraints and bottlenecks to investment. Furthermore, the development of options for reform should be undertaken through extensive consultations with the private sector, as they will be the primary beneficiaries of any reform.

5.4 Private Sector Involvement in the Capacity Building of the Civil Service:

Members of the PSD Core Group have frequently highlighted the fact that the exposure to representatives of the private sector were crucial in sensitizing them about the needs and constraints of the private sector in Bangladesh. Indeed, it is of vital importance for civil servants to be exposed to the private sector as part of their training and capacity building. The PSCG members have invited the members of the PSD Core Group to visit their businesses and to engage in dialogue. At the same time, it has been suggested that civil servants may be posted at business houses on secondment, as part of their training, in order to further build their awareness on the needs of the private sector.

6. Projected Benefits of PPD under the PSDSP

In the context of Bangladesh, increased dialogue between the public and private sectors is of utmost importance, in order to decrease the mutual feeling of disconnect that exists between the Government and business in Bangladesh. The PPD mechanisms established by the PSDSP are therefore of great value, as they can assist in decreasing the gap between the public and private sectors in Bangladesh. In this section, we will examine some of the projected benefits of these mechanisms to greater public-private dialogue in Bangladesh.

6.1 *More Awareness in Government of Private Sector Concerns*

As highlighted above, there is a mutual feeling of disconnect between the private sector and public sector in Bangladesh. One of the primary complaints of the private sector is that the Government does not understand its concerns and constraints, and that Government officials are unwilling to ease these constraints to enable them to do business. The Government, on the other hand, complains that there is not enough awareness within the civil service of these private sector needs, and therefore Government officials find it difficult to change their mindsets from that of *regulators* of the private sector to that of *facilitators* of the private sector. The cause of this disconnect is the lack of a proper mechanism for mutual discussion and consultation between the public and private sectors.

It is expected that, through the dialogue mechanisms under the PSDSP and the establishment of the PSF, such a permanent mechanism and platform for dialogue between the two sectors will be established. This would enable the public and private sectors to engage in frequent interactions, and would allow the private sector to air their concerns to the Government directly, so that actions can be taken to correct the problems.

6.2 *More Scope for Private Sector-Friendly Reforms*

The Government of Bangladesh, due to the lack of a proper dialogue and consultation mechanism, often lacks the necessary direction of reforms, and therefore any reform agenda is flawed in that it does not comprehensively address the problems of the private sector. It is expected that the PSF, as a platform for the private sector to air their concerns directly to the Government, will allow future reforms to be formulated in a manner that is of maximum benefit to the private sector.

In addition, it is expected that an efficient dialogue mechanism will be highly successful in placing added pressure on the Government to reform some of its regulations and processes, since the Honourable Prime Minister herself will be the Patron of the PSF. Therefore the necessary authority for reforms will also be provided by the PSF, and this may provide the necessary impetus for wide reforms to occur.

6.3 More Partnership between the Public and Private Sectors

Public-private partnership is rare in Bangladesh, due to the sense of suspicion and mistrust that exists between the public and private sectors. It is expected that increased dialogue between the Government and business will assist in reducing this mistrust. Such a move will be of great value to the private sector, as it will help increase the potential for public-private partnership in many sectors, including infrastructure provision, economic zone management and pro-poor development activities. It will also help in developing further opportunities for investment in Bangladesh.

7. Projected Constraints of PPD under the PSDSP

The mechanism for public-private dialogue that will be established under the PSDSP will therefore be of great benefit in ensuring future development of the private sector in Bangladesh. However, the success of these initiatives is dependent on several important factors that must be met by all stakeholders. We will focus on some of these factors in this section.

7.1 SMEs Require Advocacy

Bangladesh's trade bodies and chambers of commerce are generally populated by the heavyweights in the private sector, with little or no representation from small and medium enterprises (SMEs). Therefore, any mechanism for dialogue must include and cater to the SMEs, since the growth and development of this sector of the economy is of critical importance to the nation. The SMEs must therefore be empowered to also be able to air their concerns at meetings of the PSF and through other dialogue opportunities.

7.2 National Approach Necessary

In recent years, there has been much growth and development of the private sector in and around Dhaka, with much less emphasis placed on the other cities and rural areas in Bangladesh. In designing and constructing the PSF, it will be necessary to ensure that there is representation from all parts of the country. This will ensure that development proceeds unilaterally across the nation, instead of being confined to specific regions.

7.3 Political Will Necessary

Bangladesh is prone to frequent political turmoil between the two major parties, and trends show that, in the past fifteen years, no incumbent political party has been returned to power in the elections. Therefore, to counter the potential problems caused by political fluctuations, it is necessary for the leaders of both major political parties to be committed to the sustainability of the PSF. This will ensure that, no matter which political party is at the helm of the Bangladesh Government, the PSF will continue to be an effective platform for public-private dialogue in Bangladesh.

7.4 Efficient Secretariat Required to Facilitate PSF Activities

The PSF needs to be a government-owned and government-operated initiative. To ensure that the PSF is meeting its goals and objectives, it will be necessary to ensure that the PSF is served by an efficient Secretariat, ideally located within the Prime Minister's Office. The Secretariat will convene meetings of the PSF, record the proceedings, and monitor the implementation of the recommendations of the meetings, to ensure that the discussions are fruitful. The PSF must also report frequently to the Prime Minister, to keep her abreast of the progress of the PSF-directed reforms.