

Industrial Policy 2005 of Bangladesh: A Critical Analysis of Achievements and Challenges

A Dissertation

By

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Session: 2007-2008

MA in Governance and Development

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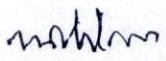
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A Dissertation

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The Author

LIST OF ABBREVIATIONS

ADB	Asian Development Bank
ASEAN	Association of South East Asian Nations
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BCSIR	Bangladesh Council for Scientific and Industrial Research
BCI	Bangladesh Chamber of Industries
BGMEA	Bangladesh Garments Manufacturers and Exporters Association
BIM	Bangladesh Institute of Management
BJMA	Bangladesh Jute Mills Association
BOI	Board of Investment
BSB	Bangladesh Shilpa Bank
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSTI	Bangladesh Standards and Testing Institution
BTMA	Bangladesh Textiles Mills Association
CCCI	Chittagong Chamber of Commerce and Industries
CPD	Center for Policy Dialogue
DCCI	Dhaka Chamber of Commerce and Industries
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
ERD	Economic Relations Division
FBCCI	Federation of Bangladesh Chamber of Commerce and Industries
FDI	Foreign Direct Investment
GAP	Gender Action Plan
GDP	Gross Domestic Product
GM	General Motors
GOB	Government of Bangladesh
ICT	Information and Communication Technology
IP	Industrial Policy

JPY	Japanese Yen
KEPZ	Korean Export Processing Zone
KRW	Korean Won
LDC	Least Developed Country
MCCI	Metropolitan Chamber of Commerce and Industries
MOF	Ministry of Finance
MOI	Ministry of Industries
MYR	Malaysian Ringit
NASCIB	National Association of Small and Cottage Industries of Bangladesh
NIEs	Newly Industrialized Economies
NIP	New Industrial Policy
NPO	National Productivity Organization
NRB	Non Resident Bangladeshi
OECD	Organization of Economic Cooperation and Development
PME	Public Manufacturing Enterprise
RIP	Revised Industrial Policy
ROK	Republic of Korea
R & D	Research and Development
SEDF	South Asia Economic Development Facility
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SMEF	Small and Medium Enterprise Foundation
SOE	State Owned Enterprise
TFP	Total Factor Productivity
THB	Thailand Bath
US	United States of America
USD	United States Dollar
WB	World Bank
WEF	Women Entrepreneurs Forum
WTO	World Trade Organization

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ABSTRACT

A study was undertaken entitled 'Industrial Policy 2005 of Bangladesh: A Critical Analysis of Achievements and Challenges'. The objectives of the study were i) to find out the extent of achievements of IP 2005 especially the SME sector as per its objectives laid out in IP 2005 and ii) to find out the challenges in the IP 2005 and obstacles that impedes implementation of the SME policy strategy and come up with possible recommendations. In the beginning of this research literature review has been done. Theories and the context of the IPs, trends of the IPs in Bangladesh, the importance of the SMEs and various analytical frameworks for the policy implementation have been widely discussed. Analytical framework given by Grindle (1980) has been selected to be tested in aiming to find out a policy implementation framework in regard to implementation process of IP 2005. The researcher relied upon secondary data and personal observations. The findings of this research revealed some policy outcomes and policy failures. Achievements that have been identified as the outcome of IP 2005 are establishing of private EPZ, Accreditation Board, SME policy framework, SMEF, offering CIP award to NRB entrepreneurs, launching of SME web portal are the important ones. The policy failures that have been revealed in this study are: The month of January still has not been declared as a month of productivity; a national 'Excellence in Productivity and Quality' is yet to launch; the productivity development program has not yet been declared and accepted as national movement; a productivity 'Data Bank' has not been established yet; regular broadcast through radio and television on the importance of productivity is yet to start; a women bank has not yet been initiated; 'Independence Day Award' recognizing the special contribution of entrepreneurs to the industrial sector is yet to put into effect; no meeting of NCID has been held till August 2008 since the formulation of IP 2005; meeting of OGC was held only four times till 2006 and after that time no meeting has been held till August 2008 and no sub-committee meeting was held after formulation of IP 2005.

However, some challenges have been found out. Among these challenges, some are in-built in the policy. Over emphasis on privatization process, weak mechanism of implementation and monitoring, inconsistencies of the objectives and strategies of IP 2005 are the major content challenges of IP 2005. Contextual challenges of IP 2005 are: downward flow of FDI to Bangladesh, increasing poverty rate due to global and national socio-economic events, lack of interests of bureaucrats and agency managers in implementing the policy plans related to productivity etc. are note worthy. These challenges of the content of IP 2005 are mainly associated with the reasons of lack of mastery over policy formulation and lack of required understanding of the policy actors, especially of the bureaucrats. The remaining contextual challenges are not related with the expertise of the bureaucrats, the important policy actors. But the challenges related to context are closely linked with the political instability of the country. The framework that has been obtained through this study states that a total of 50 per cent implementation failures in the process of IP 2005 have been occurred due to inefficiency and inertia of the bureaucrats. And 40 per cent implementation failures happened due to political instability triggered by the political events which took place at the end of 2006 and onwards. Only one-tenth of the total implementation failures of IP 2005 is linked with the funding problem. Though the public policy process is thought or considered as a political process, finding of this study suggests that the role of the permanent bureaucracy is crucial in the process of policy implementation. Another idea has also been evolved through this study. Involving of the development partners play a successful role in materializing the public policy process in Bangladesh. Policy plans related to SME promotion have almost come to a state of reality because of the direct involvement of ADB with the MOI. Some recommendations have been given to address the state of implementation failures for the consideration for the policy actors involved in the public policies of the GOB.

CHAPTER 1

INTRODUCTION

Background Information:

Bangladesh is a developing country, and the Government is striving relentlessly to attain rapid economic development in the country. Many programs to address market failure have been carried out successfully. Despite a lack of resources faced by the Government, development programs in the key sectors have continued.

Bangladesh, with a population of 147 million, is the ninth most populous country in the world, but in terms of income and standard of living, it is among the poorest. Based on the United Nations (UN) criteria of per capita income, contribution of manufacturing activity to Gross Domestic Product (GDP), and the rate of literacy, Bangladesh is considered one of the least developed countries. Per capita income of the country is about US\$ 520 and nearly half of the population lives below the poverty line. The economy is dependent mainly on agriculture, which accounts for 22 per cent of GDP but provides employment to as much as 52 per cent of the country's labor force (Bhuyan 2005,p.8). Meanwhile, the country's population and labor force are growing rapidly every year. Under the circumstances, growing labor force can never be absorbed in the agriculture sector, unless employment opportunities can be created by rapidly expanding the country's manufacturing sector.

It is here that the importance of industrial development, and with that the need for an effective industrial policy (IP), comes to the forefront. IP is purported to create a stable climate for industrial growth and improve the long term performance of the economy in terms of productivity, employment, and international competitiveness. It is now agreed by most experts that given the unfavorable land-man ratio and the under-developed state of the country's agriculture sector, the key to poverty alleviation lies in the generation of

productive employment through rapid economic growth and structural transformation of the economy away from agriculture and towards industry.

In fact, all successive Governments in the country since independence in 1971 announced policies and strategies for accelerating the process of economic growth through the development of the industrial sector, but unfortunately the desired development in the economy has not yet been achieved. Despite three decades of planned development efforts, Bangladesh's record of industrial growth has been frustrating. The little structural change that was achieved in the decades of 1970s and 1980s, came to a virtual halt in the 1990s (Bhuiyan 2005, p.8). While the slow growth of the manufacturing sector may be attributed to factors like energy shortage, reduced capital supply, poor inward investment, labor unrest, poor law and order conditions, no less responsible are the inconsistent policies, which vitiate the overall business environment, discourage investors and hinder the country's economic growth. Therefore, an effective policy is needed to facilitate strong growth and expansion of the industrial sector.

During the early 1990s the Government of Bangladesh (GOB) implemented a series of reforms to improve economic performance. As part of the package, IP 1991 put emphasis on privatization of loss making State Owned Enterprises (SOEs) and increasing efficiency and productivity in the industrial sector was one of the major objectives of that policy (GOB 1991, p.1)

In 1999, the Government announced a new IP to achieve the long term objective of manufacturing contributing at least 25 per cent GDP 20 per cent of overall employment. The Government also continued its effort for privatization of public manufacturing enterprises (GOB 1999, p.8).

However, to reduce poverty and generate employment opportunities more efforts are needed to establish agro-based industries as well as to raise agricultural production. This will ensure the protection of fair price of agricultural products and employment of a huge number of unemployed people. In order to create further employment opportunities

development as one of their major area of interventions After adopting the policy in 2005, already three years have passed. This has created a scope of studying the achievements of the policy. In particular, it is necessary to investigate the extent of achievement of the SME sector as per the objectives of IP 2005 and to trace out causes of the problems, which have led to non realization of the policy target.

Objectives of the Study:

Therefore, the focus of this study is to evaluate the implementation and challenges of IP 2005 and the SMEs as stipulated in IP 2005 in attaining economic development of the country. Particular objectives of this study are:

1. To find out the extent of achievements of IP 2005 especially in the SME sector as per the objectives laid out in IP 2005.
2. To find out the challenges in the IP 2005 and obstacles that impedes implementation of the SME policy strategy and come up with possible recommendations.

Importance of the Study:

Since independence of Bangladesh in 1971, many IPs have been adopted for accelerating the process of economic growth through the development of manufacturing sector. After 1971 the Government adopted an inward looking IP and nationalized all the major industries. However from 1990s, the initial attempts at industrial deregulation were made to provide larger scope for the private sector to contribute to industrial growth and productivity improvement. The New Industrial Policy of 1982 and the Revised Industrial Policy of 1986 limited public sector monopolies. It also included denationalization and disinvestment, financial restructuring and rehabilitation. As a result, more than 650 industrial units were privatized in the second half of the 1980s (Sobhan 1991). Although the Privatization Commission was set up in 1993 to provide an institutional framework for privatization, there was little privatization on the ground. In the new century, the IP of

2005 gave especial importance to agro-based, agro processing industries and SME. Despite all the efforts of planned industrialization, sustained and continuous industrial growth could not take place.

The development and expansion of SMEs is regarded as a very important medium of achieving industrialization and economic growth in both developed and developing countries. The role of SMEs in industrial revolution in the industrialized countries was enormous, and this trend has continued to-date. As such the SME sector has been treated as a priority sector in the IP 2005. The share of industry to GDP is still below 30 per cent and annual growth rate is below 10 per cent. So it can be pointed out that industrialization could not bring a sound and prospective foundation for economic development. The question is what went wrong and why the IPs could not bring successful industrial as well as economic development? And more importantly, how SMEs can contribute towards industrial development?

The researcher considered it necessary to conduct research regarding the achievements and challenges of the government's IP spelled out in the latest document of GOB. Considering the time and resource constraints, among the different important sectors the SME sector has been highlighted for study. Moreover, the researcher was working in the Ministry of Industries (MOI) and was directly and indirectly linked with enacting IP 2005. So the researcher has immense interest in investigating the achievement and challenges of IP of the GOB. This research will be helpful in evaluating the IP specially the SME policy strategy of the Government. This study will explore the achievement of the said policy and major challenges hindering attaining the goals of IP of the Government.

In the context of the increasing role of industrialization, specially of SMEs in the economy and the governance issue of both public and private sectors, a detailed analysis of the policy needs more attention and thus it deserves specific investigation.

Findings of this research will be helpful for the policy makers, policy planners, policy implementers i.e. policy actors and policy entrepreneurs and the other stakeholders for analyzing the weaknesses and potentials of IP 2005 of Bangladesh. This study will also help the policy actors of the government implement and monitor regularly and bring changes in IP consistent with the needs of economic development.

Limitations of the Study

IP 2005 and its achievements and challenges is a vast area to cover in a single dissertation. To investigate it in detail, it requires a lot of data, information and various documents of the government which may not always be available. The researcher has tried to make this study sizeable and meaningful. From the view point of meaningful resource availability and research needs, the following limitations must be recognized:

- (1) The study tries to cover the whole areas of IP 2005 generally and attempts to highlight SME sector specifically.
- (2) There are many stakeholders of SMEs, but among them SMEF has been covered in this study.
- (3) The researcher did rely on secondary data provided by MOI, SMEF and BSCIC and other available data from various resources. And data and information obtained from personal observations have been used frequently.
- (4) The researcher has to face time, resource and spatial constraints. He has to conduct this study simultaneously with the course work of MA in Governance and Development.
- (5) Since only a little more than 3 years elapsed since the introduction of IP 2005, so detailed data or information was not always available.

Methodology

Locale of the Research

The research covers IP 2005 of Bangladesh. This policy is enforceable in whole area of Bangladesh. So any particular area or locale is not relevant in this study. The whole of

Bangladesh is covered by this study. But in regard of data collection, capital city of Bangladesh, Dhaka has been the locale of this research.

Data Collection

Secondary data provided by SMEF, National Association of Small and Cottage Industries of Bangladesh (NASCIB), MOI, Ministry of Finance (MOF), Asian Development Bank (ADB), Bangladesh Bank (BB), Board of Investment (BOI), BSCIC, Center for Policy Dialogue (CPD), Bangladesh Enterprise Institute (BEI) were used in this study. The data collected from the concerned organizations and stakeholders was analyzed in accordance with the objectives of the study. The researcher personally collected secondary data from the MOI, SMEF, NASCIB, BSCIC and FBCCI. He has also consulted various sources of ADB, CPD, WB, MOF available in the library of BRAC University and Bangladesh Public Administration Training Center. He also used data and information from various web pages and different sources. He also collected some valuable and latest information regarding industrial and SME development from various leading newspapers of home and abroad. The researcher has relied upon the knowledge and information obtained from personal observations as he had been working in the MOI from 2003 to 2007 and still he is maintaining intensive communication with the sources of the MOI. This has provided with insights about formulation and implementation of the policy.

Analysis and Presentation of Data

Data have been presented mostly in the general discussion form tabular forms and some diagrams also have been used. Trends would be discussed relying upon the latest information available in the Government publications and leading newspapers. Mainly secondary data have been used in this study.

Chapter Outline

The whole of this thesis is organized into six chapters. The initial chapter dealt with the introduction of the thesis. The upcoming second chapter will discuss the context and

rationale of industrial policies. This second chapter will be mainly covering the theoretical aspects of having IPs for attaining development of a developing country. At the end of this chapter an over view of the previous IPs of Bangladesh and trends of the IPs will also be presented. The third chapter will be focusing on the importance of the SMEs at home and abroad and the SME policy and organizational framework of Bangladesh. Theories related to policy implementation with some analytical frameworks will be discussed at the end of this chapter. In the fourth chapter, achievements and challenges of IP 2005 and SME policy will be explored on the basis of personal observations and secondary data available in the area of IP and SME policy. The next fifth chapter will attempt to analyze the policy outcome of IP 2005 and will explore the findings. And this chapter will be followed by sixth chapter that contains conclusion and recommendations.

CHAPTER 2

THE CONTEXT & RATIONALE FOR INDUSTRIAL POLICY

The objectives of this study are to find out the extent of the achievements and the challenges of the IP 2005. For achieving these objectives, it is imperative to have theoretical discussion about the necessity and basis of preparing IP. For that purpose, literature review of arguments of industrial policy will be given at first in this chapter. This subsection will be followed by a subset of the issues on which policy makers would have to be knowledgeable. Then East Asian experiences in relevance to industrial policies will be explored through reviewing the related literature. This will be followed by a subsection entitled 'Does industrial policy work' and then the next subsection will contain 'Is industrial policy relevant for development'. The domains of industrial policy will be looked into in the following subsection. At the last end of this chapter, a brief review of the previous and the existing IPs of Bangladesh will be done.

Why Industrial Policy?

In this subsection, various theoretical arguments in favor of IP will be discussed. At a general level, there is room for government intervention either when markets are characterized by some distortions or because they are incomplete (for example future markets for many goods simply do not exist). As is known from one of the basic theorems of welfare economics, under market failures, a competitive market system does not yield the socially efficient outcome.

Most developing countries have taken the view that the process of industrialization cannot be left to the market and that a conscious strategy of industrialization in their respective countries demands purposeful intervention by the state. This intervention may

involve direct state participation in setting up and managing IPs as well as measures to promote private investment in industry. Industrial policies were in this context designed to both stimulate and direct private investment to conform to the industry strategy formulated by the government. Within this strategy the broad direction of industrial expansion and the agents of this industrialization process, public or private, domestic or foreign were spelt out.

Unfortunately not all developing countries tended to recognize that an industrial policy needs to be preceded by an industrial strategy which spells out a longer term vision of industrialization for a country. The pace of industrialization must derive from a notion of alternative possibilities in agriculture and services for promoting growth in output and employment. In defining the role of public, private or foreign investment there must be an underlying assessment of the available domestic entrepreneurial capabilities and the need to develop both public and private entrepreneurship. An enabling climate needs to be built and sustained not just to promote entrepreneurship but to keep it competitive and efficient.

Finally, there has to be a vision of what areas of industry need to be developed based on a carefully studied analysis of the changing structural features and comparative advantage of the domestic economy in relation to the dynamics of the global economy. The problem with many developing countries lies in the fact that investment decisions tend largely to be made on an *ad hoc* basis without situating the policy within a wider strategic context. In such cases industrial IPs are formulated to stimulate industrial activity without any underlying notion of which industries will be developed, the underlying logic of these choices, the resource base and appropriate agents to carry through this strategy.(Sobhan 1991)

In favor of IP three arguments have received the most attention. The first is derived from the presence of knowledge spillovers and dynamic scale economies; the second stems from the presence of coordination failures, while the third concerns informational externalities. Apart from these arguments, there is a well known argument for trade protection that is in many ways the precursor for modern arguments for IP. Pack and

Saggi (2005) argue that at least two of the aforesaid arguments for IP play an important role in the infant industry argument for trade.

The Infant Industry Argument: A Precursor of Modern IP

The infant industry argument is one of the oldest arguments for trade protection and is perhaps the only such argument that is not dismissed out of hand by trade economists. The most popular (and the simplest) version of the argument runs as follows. Production costs for newly established domestic industries in a country may be initially higher than those of well-established foreign competitors due to their greater experience. However, over time, new domestic producers can experience cost reductions due to learning by doing (i.e. they enjoy dynamic scale economies) and can end up attaining the production efficiency of their foreign rivals. However, due to the initial absence of experience, if domestic industry is not protected from foreign competition, it will never take off and if dynamic scale economies are strong enough, temporary protection of the domestic industry can be in the national interest (Pack and Saggi 2005).

A stronger version of the argument states that the domestic industry might even be capable of attaining production costs below its foreign rivals if it is given sufficient protection. In this version of the argument, true comparative advantage lies with the domestic industry so that temporary protection may actually be in the global interest – consumers in the rest of the world can also benefit from the eventual lower production cost of the domestic industry. In an influential paper, Baldwin (1969) provided an incisive criticism of the infant industry argument. He argued “... if after the learning period, unit costs in an industry are sufficiently lower than those during its early production stages to yield a discounted surplus of revenues over costs (and therefore indicate a comparative advantage for the country in the particular line), it would be possible for firms in the industry to raise sufficient funds in the capital market to cover their initial excess of outlays over receipts.”

Bardhan (1991) shows that it is socially optimal to subsidize the infant industry and that the time profile of the optimal subsidy depends upon initial conditions – when the initial

stock of experience is relatively small, the optimal subsidy decreases over time to a stationary rate otherwise it increases over time. The nature of the infant industry argument suggests that the first case is the more likely scenario. Of course, the infant industry argument is predicated on the idea that the learning effect is temporary. To allow for this, Bardhan also considers optimal policy under the scenario where the learning effect is present only till cumulated industry output falls below a certain threshold. Under such bounded learning, the optimal subsidy is positive only till the threshold level of cumulative output is reached after which zero subsidy is optimal. Finally, Bardhan also considers the case where the foreign industry is also subject to learning and the domestic industry enjoys spillovers from foreign learning and shows that it might still be optimal to subsidize the domestic infant industry. However, his framework does not capture the idea that international spillovers may partially *substitute* for domestic learning since the learning effect function contains the stock of domestic and foreign outputs as separate arguments and the relationship between the two is not really considered.

Succar (1987) extends Bardhan's (1971) analysis to allow the learning in one sector to generate spillovers for both sectors thereby providing an *inter-industry* spillover rationale for the infant industry argument. As might be expected, the optimal path of output subsidy in the presence of both intra and inter-industry learning by doing economies lies above that when only the former are present. However, the presence of such economies is not sufficient to justify intervention. As Succar astutely notes, the discounted stream of productivity gains generated by learning by doing in the infant industry should outweigh the discounted stream of subsidies or else intervention would be socially.

Furthermore, like Bardhan, Succar assumes that industry learning and firm learning are one and the same. Such need not be the case and firms may learn more from their own experience relative to that of other firms. Of course, if this is true then models of perfect competition would have to be abandoned – once a firm realizes that its own output lowers its future costs, price taking behavior cannot be assumed since the firm would never be in equilibrium. But it is worth noting that the presence of imperfect competition does not necessarily weaken the argument for infant industry intervention – firms with market

power typically produce too little output and an even larger subsidy may be called for to correct the underproduction problem (Pack and Saggi 2005).

Knowledge Spillovers, Dynamic Scale Economies, and Industrial Targeting

One of the most powerful ideas in all of economics is the notion of comparative advantage. Ever since David Ricardo, it has been well known that under free trade a country can increase its national income (and welfare) by moving resources into sectors in which its opportunity cost of production is lower than its trading partners. But is this prescription sufficient to generate economic growth? Perhaps not. Allocating resources according to comparative advantage can only ensure static efficiency and in no way guarantees dynamic efficiency. Succar (1987) argues "...the comparative advantage theory is a static construct that ignores forward linkages exist between present choices and future production possibilities. Therefore, it cannot guide the pattern of international specialization when there are asymmetric learning opportunities associated with the production of different goods and/or use of certain techniques. Promotion of industries which generate substantial learning by doing economies should be an integral part of a strategy of human capital formation in Least Developed Countries (LDCs)." In other words, Succar argues for some sort of industrial targeting although her model does not explicitly deal with this issue.

Even if one accepts the premise that certain industries are more likely to generate spillovers (based on knowledge diffusion or other factors), can policy be designed to encourage the 'right' industries? The ideal but rarely attained goal of IP is the development of a general-purpose technology. DARPA, a small unit within the United States (U.S) Department of Defense that generated and financed a portfolio of projects, is widely credited with having been the key contributor to the development of the internet, the demand for this innovation being derived from the need to maintain communications during an assault on the U.S. This breakthrough was clearly fundamental and has social benefits many-fold the cost of the DARPA effort. This instance of success addressed a market failure, namely, the social benefits of research were much larger than the anticipated private benefits. Moreover, DARPA foresaw a

potential need that may have escaped the purview of private firms. While the internet was a major technological breakthrough and suggests the potential gains from such an activity, it is useful to remember that, by their very nature, the discovery of such “general purpose technologies” is a rare event (Pack and Saggi 2005).

The informational constraints facing policy-makers pursuing IP are severe and any realistic model of industrial targeting needs to account for them. In a recent paper, Klimenko (2004) models industrial targeting as an optimal experimentation strategy of a government that lacks information about the set of industries in which the economy has comparative advantage with respect to rest of the world. He examines the set of industries in which a country will specialize as a result of such policy. In his model, for any set of targeted industries, it is possible to know whether or not a country will specialize in this set with positive or zero probability. He shows that an optimally designed industrial policy can actually lead a country to specialize in sectors in which it does not have comparative advantage. The key issue is the beliefs of the policymaker.

Depending on the nature of such beliefs, a country can end up abandoning the industries in which it has “true” comparative advantage.

Coordination Failures as a Rationale for IP

The basic idea behind the coordination failure argument for IP is that many projects require simultaneous investments in order to be viable and if these investments are made by independent agents there is little guarantee that, acting in their own self interest, each agent would choose to invest. As Scitovsky (1954) noted, reciprocal pecuniary externalities in the presence of increasing returns can lead to market failure because the coordination of investment decisions requires a signaling device to transmit information about present plans and future conditions and the pricing system is not capable of playing this role.

Pack and Westphal (1986) argue that such pecuniary externalities related to investments in technology are pervasive in industrialization. They provide an example of two infant industries (say A and B) where industry A produces an intermediate that is required in industry B and neither industry is profitable if it is established alone. However, if both

industries are established together, then both are profitable implying that it is socially optimal to indeed establish both. Of course, the problem is that without explicit coordination between investment decisions this outcome would not be obtained.

Informational Externalities

Rodrik (2004) has argued that the traditional view of IP (based on technological and pecuniary externalities) is out-dated and does not capture the complexities that characterize the process of industrialization. According to Rodrik (2004), IP is more about eliciting information from the private sector than it is about addressing distortions by first-best instruments. He envisions IP as a strategic collaboration between the private and public sectors the primary goal of which is to determine areas in which a country has comparative advantage. The fundamental departure of this viewpoint from classical trade theory is that entrepreneurs may lack information about where the comparative advantage of a country lies. Or more to the point, at the micro level, entrepreneurs may simply not know what is profitable and what is not. In the presence of informational externalities, a free rider problem arises between initial investors and subsequent ones. It is worth noting that Baldwin's (1969) classic paper anticipates Rodrik's argument almost exactly. He wrote "...suppose, for example, that a potential entrant into a new industry, if he could provide potential investors with a detailed market analysis of the industry, could borrow funds from investors at a rate that would make the project socially profitable. However, should this information become freely available to other investors and potential competitors, the initial firm might not be able to recoup the cost of making the market study....under these circumstances the firm will not finance the cost of the study, and a socially beneficial industry will not be established." Besley and Case (1993) note that late adopters may learn from early adopters when "a technology is of uncertain profitability, some potential adopters may wait until they observe whether others have fared well by using it" and that such "externalities are potentially important in agricultural technology adoption."

The International Dimension: Role of Exports and Foreign Direct Investment (FDI)

For small developing countries, the case for IP is rarely a purely domestic one. International considerations are fundamental in many respects but the role of exports (on the part of domestic firms) and inward FDI has received considerable attention.

A potential rationale for IP in the context of exports arises when product quality is unknown to foreign consumers. The informational asymmetry can lead to market failure that can then potentially justify some form of intervention. To make the argument concrete, some of more influential models of IP based on asymmetric information may be considered in the context of exports. Mayer (1984) argues that when foreign consumers lack information about quality, an IP of subsidizing exporters can indeed be a first-best policy. In his two-good model, foreign consumers can discern the quality of good one only after purchasing and consuming it whereas the quality of the second good can be determined through inspection alone (if the first good has been consumed). The intuitive idea behind this assumption is the firms that produce good one generate positive externalities for those that produce good two by 'cultivating' the foreign market. Mayer's view could underlay the important role assigned

by many analysts to publicly supported trading companies in Japan and Korea (Lall and Keesing 1992).

Policy Makers would have to be Knowledgeable

This review of arguments for IP indicates the enormous difficulties of implementation of IPs. The range and depth of knowledge that policy makers would have to master to implement a successful policy is extraordinary. They would have to understand the relevance of, and be accurately informed about, a huge range of complex questions and have the ability to accurately evaluate very subtle differences.

A subset of the issues on which policy makers would have to be knowledgeable is suggested by Pack and Saggi (2005,p.28) and those are as follows:

1. Whether consumers learn the quality of a good only after consuming rather than inspecting it?

2. Whether firms that are trying to reduce production costs also begin a simultaneous effort to improve their product's quality to obtain a better reputation?
3. Which firms and industries generate knowledge spillovers?
4. Which firms and industries benefit from dynamic scale economies – what is the precise path of such learning and the magnitude of the cost disadvantage at each stage of the learning process?
5. Which sectors have a long term comparative advantage?
6. Knowledge of the size of scale economies of different firms and sectors in order to facilitate investment coordination.
7. The potential effects of FDI or international trade in solving some of the coordination problems, including a detailed knowledge of which of tens of thousands of intermediates are tradable.
8. A better sense than individual firms possess that allows the latter to learn about their potential competitiveness.
9. The nature and extent of capital market failures.
10. The magnitude and direction of inter-industry spillovers.
11. The relative amount of learning by individual firms from others and from their own experience.
12. The extent to which early entrants generate benefits for future entrants
13. The extent of heterogeneity of firms learning abilities.
14. A forecast of which firms can create new knowledge and discover better production methods.
15. The spillover effects of FDI as well as the likely intensity of their purchase of domestic intermediates.

It is possible that government officials might be this omniscient but the performance of the portfolio managers in developed country stock markets suggests that few of the very well trained (and remunerated) equity analysts can evaluate even much more certain and

grosser characteristics of existing firms and industries with long track records. Nor do industrial firms themselves have the ability to successfully forecast such developments. Acknowledging that a first best policy would argue for the government to address such market failures or externalities, the task is daunting. Quite apart from the dangers of optimal policy being subverted by industries and firms that would benefit, the sheer knowledge and skill requirements would exceed that possessed by almost any institution including the best consulting firms. On a far more circumscribed set of tasks, measuring and explaining the sources of lower total factor productivity for a small number of sectors in the Republic of Korea (ROK) and Brazil relative to the US, McKinsey & Co., a preeminent consulting firm spent several years and employed dozens of people whose qualifications exceed those possessed by officials in almost any developing country (McKinsey Global Institute, 1998a, 1998b).

No study has attempted to assess whether governments have been successful in mastering any of these fifteen issues that have to be addressed. The evaluation of IP has to evaluate its success by the realized results of either firms or industries that have been encouraged. The underlying market failures or externalities that contributed to the decision to foster a firm or sector cannot be identified from the policy such as subsidized directed credit, only the effects of the policy can be assessed (Pack and Saggi 2005).

East Asian Experiences and IP

What are the roles of governments in industrialization? Can IP effectively foster domestic firms and enhance economic growth? Most East Asian economies began growing rapidly in the latter half of the 1980s, which lasted until the Asian currency crisis in 1997. *The East Asian Miracle* published by the World Bank in 1993 pointed out common factors such as trade liberalization and openness to FDI, but it did not focus on how industrialization policy differed among the countries of East Asia. Can typical patterns of industrialization policies be classified for economic growth in East Asia? Komiya, Okuno and Suzumura (1988) found that IPs helped Japanese companies become competitive with multinational corporations by cushioning the dynamic inefficiencies of Japanese markets through the protection of infant industries. Hamada (1974) studied export-

processing zones (EPZ) and found that their establishment was a key factor in the introduction of FDI.

The Japanese model was based on Government-guided IP, under which the Government selected key industries, gave them preferential treatment including tax deductions and exemptions, and tried to help them become competitive with foreign multinational corporations. The Government intervened in markets to complement goods and services that could not be supply efficiently (Komiya, Okuno, and Suzumura 1988).

The Asian model was centered on the central Government establishing EPZs to attract FDI. Foreign companies enjoyed the same preferential treatment that domestic firms did under the Japanese model, but were requested to export competitive products to the global market.

The Chinese model was similar to the Japanese model, except in its use of FDI. The model intended to foster domestic companies as so-called "pillar industries" by guiding IP and forming alliances between domestic companies and foreign multinationals. The most typical case was seen in China's automotive industry, where the Government selected eight domestic firms, gave them preferential treatment and permitted each company to make alliances with up to two foreign companies, such as General Motors, Ford or Citroen (Kuchiki 2007).

The key lessons derived from the East Asia experience are as follows: first, FDI played a key role in developing East Asia's international competitiveness; second, Governments set IP not only by protecting domestic firms but also by inviting foreign investors; and third, special economic zones (SEZs) such as EPZs were used to attract foreign investors.

Comparison of Industrialization Policies in East Asia

Kucchiki (2007) argues in his paper that there are two entirely opposite two concepts of industrialization policy in East Asia. The neo-classical concept is based on market competition without government intervention, while the aim of the Government

intervention was to protect and support infant industries. One concept is based on the importance of market competition and the other on Government intervention.

The neoclassical concept maintains that price competition in the private sector results in the most efficient allocation of resources from the point of the Pareto efficiency, or Pareto optimality. The World Bank implements structural adjustment programs in developing countries to create competitive markets by requesting Governments to abolish price controls. Government regulations that prevent market competition are moderated and eventually removed.

First, Japan implemented its IP to foster domestic companies until the 1960s by protecting them from foreign competition. But the Government was forced to liberalize the economy and let Japanese companies compete internationally due to emerging globalization. The ROK's IP was the same as that of Japan, except that companies introduced foreign management methods and imported parts and components.

Most Association of South East Asian Nations (ASEAN) countries successfully used EPZs by offering preferential tax treatment to attract FDI. The strategy faced bottlenecks in human resource development and exporting, however, when the Asian financial crisis occurred in 1997.

Third, Chinese IP is a hybrid of the Japanese and Asian models. The Chinese Government has fostered domestic corporations by making use of foreign capital and managerial skills. International alliances have been a key.

Kuchiki (2007) indicates the lessons from East Asia's experiences are as follows: first, FDI played a crucial role in East Asia's strategy to deal with globalization by developing international competitiveness; second, IP does not necessarily have to protect domestic firms and instead can leverage the benefits of attracting foreign capital; and third, SEZs such as EPZs are a valuable option for any Government seeking to attract foreign investment. IP both in Japan and ROK imposed high tariffs to protect domestic companies from foreign competition. But Japan liberalized its policy in the 1960s and the

ROK welcomed foreign technology in the 1970s. The ASEAN countries and Taiwan established EPZs to attract FDI through preferential treatment, such as tax deductions or exemptions. China utilized both methods, Government-led IP and EPZs, but also used FDI to introduce capital and managerial skills and thereby strengthen international competitiveness. This has two key implications. First, the introduction of FDI can produce high economic growth in East Asian countries, and conversely, it is difficult for countries to grow without FDI. Second, central Governments played crucial roles in the Japanese, Chinese and Asian strategies for industrial development and growth. To enhance aggregate growth in developing countries like Bangladesh, Governments should follow the foot steps of East Asia and China.

Does IP Work?

As Pack and Saggi (2005,p.28) comment that, it is impossible to offer a single agreed upon counterfactual to evaluate the past success of IP targeted to individual industries. Thus there have been a number of research strategies pursued to provide an empirical evaluation of IP. These have been reviewed in Noland and Pack (2003). Not all of the methods have been explored for all countries. Researchers have examined, inter alia, the impact of: (1) trade protection; (2) subsidies to research and development (R & D); (3) general subsidies; and (4) preferential lending rates on the evolution of productivity and capital accumulation. Few of the empirical analyses find that sectoral targeting has been particularly effective.

Let some of the evidence may be considered. In Japan, more than 80 per cent of on-line budget subsidies were devoted to agriculture, forestry, and fisheries in the 1955-80 period, the peak of Japan's IP efforts. Implicit tax subsidies for investment was highest in the mining sector, and quite low in the high technology sectors. Government subsidies to R&D were also small. Unless elasticities of investment and R & D with respect to subsidies were implausibly high, their effect was limited. Industries that were encouraged did not experience significantly faster rates of Total Factor Productivity (TFP) growth than others, and R& D subsidies were largely ineffective.

Beason and Weinstein (1996) examined the connection between IP and sectoral TFP growth in Japan. Working with a 13 sector sample for the period 1955-1990, they fail to uncover evidence that preferential policies (measured by the effective rates of protection, taxes, or subsidies) targeted sectors with increasing returns to scale or that they contributed to the rate of capital accumulation in sectors or their TFP growth. They did find some evidence that prior to the first oil shock, IP targeted sectors with high labor usage. Lawrence and Weinstein (2001) extended this research employing a slightly different data set and found that differential corporate tax rates had an impact on sectoral TFP growth, while direct subsidies and subsidized loans did not. Moreover, they find the paradoxical result the effective rate of protection was negatively associated with sectoral TFP growth and that imports, not exports, were positively associated with TFP growth.

The latter result can be explained by noting that there are at least two channels through which imports could contribute to increasing productivity. The first allows domestic producers to use new, improved, or highly specialized intermediate inputs to which they would not otherwise have access. The second is imports compete with domestic products and their availability acts as a constant spur to domestic producers to cut costs and improve quality. Lawrence and Weinstein divide imports into "competitive" and "noncompetitive" imports and in the case of Japan, find evidence to support the second hypothesis. From this they conclude that Japan's growth would have been even faster if it had cut tariffs and exposed a greater share of its domestic producers to foreign competition.

Lee (1996) following a method broadly similar to Beason and Weinstein finds a similar lack of impact of Korean industrial policies on sectoral capital accumulation or TFP. Pack (2000) follows a different path, assuming that TFP in favored manufacturing sectors was in fact increased in both Japan and Korea and estimates how much of an impact even an assumed successful policy could have had on the growth of gross domestic product. The most favorable estimate is a roughly. A total of 5 percent age point increase out of a total GDP growth rate of roughly 10 per cent over the relevant periods. While this is significant, it is hardly the magical key to accelerated growth.

It is possible that the impact of IP is manifest largely in sectors that purchased inputs from the promoted sectors, even if the latter did not themselves benefit.

However, Pack (2000) finds that sectors that were encouraged had few linkages with no favored sectors via input-output relations and there is little evidence of labor flowing from favored to neglected sectors, a likely mechanism for the transmission of knowledge. Nevertheless, as noted at the beginning of this paper, the difficulty of constructing a single agreed upon counterfactual precludes a robust conclusion. Moreover, all of the empirical analysis examines the contemporaneous impact of policies,

Nevertheless, even if it should be shown that the success of a few firms could be attributed to earlier encouragement by the Government, the aggregate effects just cited suggest there was not a major impact at the national level during the main period of growth acceleration. And any such effects would have to be weighed against the negative long run impacts in the financial sector cited by those skeptical of IP. For example, the Asian financial crises of the late 1990s and Japan's stagnation since 1990 can be interpreted as partly the result of the earlier Government direction of lending that minimized the need of banks to learn modern techniques of evaluating individual projects and managing the riskiness of their overall portfolio (Pack and Saggi 2005).

Is IP Relevant for Development?

From Hamilton and List to contemporary discussions of IP, the implicit framework has been that of a firm producing tradable goods at an initial cost disadvantage given the limited industrial history of the country, learning to become more efficient, and then competing with imports in the local market or successfully exporting. The marketing of the efficiently manufactured product was implicitly assumed to be routine. Reduction of production costs whether through internal learning-by-doing or through spillovers within industrial clusters was viewed as paramount. In discussions of post-war Asian experience some attention was given to the catalytic role of Japanese, Korean, and Taiwanese trading companies in assembling large quantities of goods and achieving scale economies in marketing but this activity was not given center stage (Lall and Keesing, 1992). Even if

countries could now pursue the export oriented policies of four decades ago in ROK and Taiwan (China), it is not clear that they would be efficacious given the changed nature of both retailing and production networks.

In the last two decades there has been a shift in the institutional mechanism of international trade. Two types of organization have evolved: (a) international production networks, in which a producing firm organizes large numbers of suppliers in a number of locations; (b) buyer-led networks in which retail large chains provide specifications for the desired final product and encourage suppliers in developing countries to organize their own production system that most often includes large numbers of local subcontractors. These networks have become increasingly important, and are dominant in clothing and electronics and growing in importance in other products such as automotive components. In East Asia in recent years components "... constitute at least a fifth of manufacturing exports and ... have typically grown 4-5 per cent faster than overall trade in East Asia." (Yusuf et. al., 2003, p.272).

One effect of the growing importance of international production networks is their efficiency at organizing production and continuously reducing costs so that the global price that non-member firms must compete with shifts down rapidly. Infant firms undergoing learning face other hurdles: rapidly improving quality; changing characteristics of existing products (Ernst, 2002); and an array of new goods that compete with existing ones. For firms attempting to enter export markets, it cannot be assumed that simply achieving low cost is sufficient to realize foreign sales. There is no guarantee that lead firms will be able to identify one or two firms in a small African nation. The existence of supply networks imposes a significant challenge to LDC firms that are not embedded in such a network as the lead firms usual succeed in generating higher performance in design, engineering, the effective use of information and communication technology, and the ability to coordinate production in several locations. (Yusuf et. al., p. 278).

Local participants in the network must “... label track, respond to product orders in real time on the basis of style, color, fabric, and size; exchange information on an ... electronic basis, provide goods to a retailer’s distribution center that can be efficiently moved to stores ... including containers with bar codes concerning contents” (Yusuf, p. 283).

These requirements, now fairly standard in many product areas, suggest that successful penetration of Organization of Economic Cooperation and Development (OECD) markets will become increasingly difficult for nations that have not yet industrialized.

In electronics, an important efficient, labor-intensive growth sector in the past for many of the Asian countries, much of the production is now carried out by contract manufacturers whose size has grown enormously in the last decade. Firms such as Soletron and Flextronics now undertake activity that was formerly under the aegis of major developed country firms who have outsourced the activity. Examining the location of several activities: headquarters, manufacturing, materials purchasing and management, new production introduction centers, and after sales repair centers, Sturgeon and Lester (2002) show that most of these activities of Soletron, the largest of the contract manufacturers, take place in developed countries or the more advanced semi industrialized nations contiguous to them such as Mexico, Puerto Rico, Romania, and Turkey. Ernst, (2002, p. 24) confirms these results and points out that specialized clusters in countries such as the Nordic nations, the U.S., France, and Germany are major sources as are Singapore, Hungary, Israel, ROK, and Taiwan (China). Poorer countries even if they have a potential cost advantage after a long learning period will have trouble breaking into these existing circuits.

Moreover, China and India present formidable competitors as demonstrated by the concern over the termination of the multi-fiber agreement and the potential losses incurred by nations that formerly had guaranteed access to OECD markets. While it might be argued that the two giant nations will encounter rising wages and thus enter more capital and technology intensive sectors, providing room for new countries, both still have hundreds of millions of workers, largely in the rural sector, who remain poor and will keep a lid on the real wage faced by industrialists over the next decades,

implying a continuing supply of low cost products in many sectors. While in principle poorer nations can find a niche in which they have a comparative advantage, finding them is likely to require a vector of skills that are best nurtured by membership in a production network or direct interaction with large retailers.

According to Pack and Saggi (2005), designing a proactive system to foster industrial growth was difficult at a simpler time when countries such as Japan, ROK, and Taiwan (China) could rely on comparative advantage to enable them to successfully enter the world market. Four decades later in a world of international production networks, very fast innovation with dramatic declines in product prices, rapidly changing product characteristics, new products that quickly lead to the obsolescence of older ones and the premium on the ability to rapidly communicate electronically, it may be beyond the competence of any government to help their domestic firms foresee and successfully deal with more than a small fraction of the unknowable changes that will affect their future trajectory.

Viewed from the perspective of potential Government policies the growing importance of production networks suggests an array of potential interventions. ROK and Taiwan (China) had numerous trading companies that aggregated orders of local manufacturers, following the Japanese model of the shosha sogu. Most of these arose spontaneously from private efforts. Governments could attempt to encourage the development of trading companies as there may be a market failure given the characteristic that setup costs for such a firm may be significant but marginal costs of adding firms to the network may be small. Such trading firms would operate across clusters of manufacturing firms. Again, this assumes that there are capital market failures that preclude a nascent trading firm from obtaining finance. Other policy issues arise. Will Government sponsored clusters be as effective in generating sustained improvements in product development, quality upgrading, and growing efficiency in order to continue to compete on the world market or will firms within clusters improve faster by becoming part of networks. There is some anecdotal evidence that international networks attempt to limit the extent of upgrading, especially in higher value added segments of design. If this is so, one is back to a situation of deciding whether to promote specific activities within the entire production

nexus but this is surely beyond the capacity of all but the most competent of Governments. Taiwan (China)'s experience in the Hsinchu Science Park may be provide a counter-example, so far unconfirmed by systematic evidence (Pack and Saggi, 2005).

The Domains of IP

Haque (2007) describes that despite its widespread use, IP remains controversial. There is better tolerance of policies that aim only to create a favorable environment for industrialization, such as macroeconomic stability, public provision of education, guaranteed property rights, and legal enforcement of contracts. But there is considerable resistance to policies designed to promote specific industries. The failure of industrialization in many developing countries is one reason why this viewpoint prevails. However, the main reason is that policies intended to promote particular industries go against the basic tenets of the prevailing economic orthodoxy. Interventions are held to distort market signals, Governments are seen as incapable of successfully "picking winners", and the protected infants are believed never to grow up. Before discussing the considerations that may guide IP in the current global economic environment, it is necessary to dispose of these points of criticism.

With respect to the first criticism, it is generally recognized that market prices fail to provide adequate incentives for developing skills and human capital or to guide investment decisions needed for structural transformation of developing economies. In such situations, policies are needed occasionally to reinforce, other times to counteract, the allocative effects of market signals, or what Alice Amsden has called "getting prices wrong". Prices are at any rate "distorted" even without state intervention when conditions for perfect markets do not prevail, which is usually the case. The issue of "picking winners" arises when policies are targeted at specific industries. It is argued that governments have no sound, economically rational basis for promoting one industry against another. However, "picking winners" is a mischaracterization of IP, for there is no such thing as a "winning" industry. In selecting an industry for promotion, policy makers must obviously take account of market conditions and the country's existing capabilities, but whether the industry is viable in the long term depends on a variety of

factors, notably, perseverance in learning from experience, continual search for improvements in products and production methods, and agility in finding and securing new markets (Haque 1995). Government can and do help to *create* conditions that permit a country to become particularly good at producing certain things, whether it is aircraft manufacturing in Brazil, steel in the ROK, or cut flowers in Kenya. Rodrik (2004,p.3) emphasizes that what matters is not so much the specification of the *outcome* as the *process* through which policy decisions are made. He notes: "...The right model for IP is not that of an autonomous Government applying Pigovian taxes or subsidies, but of strategic collaboration between the private sector and the Government with the aim of uncovering where the most significant obstacles to restructuring lie and what type of interventions are most likely to remove them."

Finally, according to Haque (2007,p.7) with respect to the assertion that "infants never grow up," two points may be made. One, a number of "infants" in developing countries actually did mature into competitive, world class industries; examples range from garments to sophisticated electronic equipment in different parts of the developing world. Two, there is really no specific moment when industrial development can be considered as successfully accomplished, for, in the competitive world, "success" is constantly under challenge. Established industries and firms frequently go through difficult periods, and governments take risks in supporting or not supporting them. Thus, it was under the Reagan administration – the foremost champion of neo-liberalism – that Harley-Davidson Motor Company and Chrysler Corporation were saved from bankruptcy. Similarly, aircraft manufacturing in Brazil, pharmaceuticals the developing world. Two, there is really no specific moment when industrial development can be considered as successfully accomplished, for, in the competitive world, "success" is constantly under challenge.

The rationale for IP in the sense of selective promotion of industries remains robust despite recent developments. What has, however, changed over time is the context in which industrial policy is framed. Globalization, a general predilection for liberal economic policies and increased openness in trade, have not made IP disappear but they have nevertheless brought about a fundamental shift in the general view on what

Governments can and should do to foster industrialization. Perhaps, the most significant change has occurred with respect to the role of trade policy, which was the principal instrument for industrial promotion in the past. While it remains relevant and useful as a policy tool, the general lowering of trade barriers and more stringent World Trade Organization (WTO) rules have resulted in lessening its importance. While traditional barriers to developing country exports remain significant, it is today rather difficult for developing country producers to sell labor intensive products in foreign markets without going through established supply chains or trade networks. Establishment of national trading companies, as proposed by Pack and Saggi (2001), could help to overcome these new obstacles to trade. But Government policy also needs to pay greater attention to domestic enterprise development, for it is individual firms that innovate and harness technological change and compete in the world market. Successful industrialization depends on these firms (Haque 2007).

Review of Previous IPs of Bangladesh

After gaining its independence Bangladesh has got nine IPs till this one. Among them the last policy was promulgated in 2005. A short description on each policy is given hereinafter. This study will help understand the evolution of the latest one.

Industrial Investment Policy : Nationalization

In Bangladesh, public enterprises were created by the Government right after liberation. The 1970's election manifesto of the Awami League was to nationalize the heavy industries, including iron and steel, mining, machine tools, heavy engineering, petrochemicals, fertilizers, cement fuel and power. In March 1972, nearly three months after independence, the government announced major large-scale nationalization. The government nationalized jutes, textiles and sugar industries. Including these heavy industries, Government nationalized all the abandoned industries worthy of more than Taka 1.5 million. To run those industries the then Government constituted 11 sector corporations. Nationalization can be analyzed into two distinct parts: first, it provided a legal framework for the management of the enterprises abandoned by the Pakistani

owners; and second, it provided for the take over of large scale industries owned by Bengali entrepreneurs. However, immediately after liberation, the industrial investment policy was dominated by the theme and goal of socialism. The first IP of the Government of Bangladesh entitled 'Industrial Investment Policy' was announced in January 1973. To facilitate the establishment of a socialist economy, key sectors including trade and commerce were reserved for public sector. Investment for the private sector was limited to Taka 2.5 million. A moratorium on further nationalization was declared for ten years. Foreign investment could take place only in association with the sector corporation (GOB 1973).

New Investment Policy 1974: Ceiling of Private Investment Revised

The policy announced in 1973 was revised in July 1974 when, in view of the rising prices both at home and abroad, the ceiling on private investment was raised to Tk. 30 million from the amount of Taka 2.5 million. In this New Investment Policy 18 industrial sectors were kept reserved for public sector investment (Bhuyan2005,p.11).

Revised Industrial Policy 1975 :Focus on Privatization:

After the regime change in 1975, the new Government reviewed the new Industrial Investment Policy. With a view to accelerating economic activities and industrial investments in the country, particularly in the private sector, the Government revised the aforesaid new investment policy 1974. This revised investment policy (RIP) 1975 put emphasis on the private entrepreneurship with a view to afford adequate scope and facilities for setting up industrial enterprises within the broad framework of a planned economy. In this RIP 1975 and the ceiling on private investment was raised to Taka 100 million. It was stipulated that public sector corporations may set up industries falling within the reserved list but outside the hard-core items in collaboration with the private sector, both foreign and local, but the majority shares should be retained by the public corporations. Private investment, both local and foreign, was permitted in additional 10 sectors, thus reducing the reserve sector to a hard-core of 8 categories of industries. The moratorium on nationalization, which had earlier been raised to 15 years, was altogether

deleted in the 1975 policy. It was affirmed that any industry nationalized would receive compensation on an equitable basis. The Investment Corporation of Bangladesh was set up to provide bridge finance. To generate private savings, the stock exchange market was reactivated. Furthermore, some industrial unit taken over as abounded units were 'disinvested' to Bengali entrepreneurs. Compensation for the industries taken over by the Government was promised. The RIP recognized that foreign investment can play an important role in promoting economic development of Bangladesh. The Government also decided to disinvest enterprises which had been taken over and placed under public sector. This step was a logical follow-up of the decision to reactivate the private sector whose role had been drastically curtailed. By the end of 1977 out of 785 units, 224 enterprises were transferred to Sector Corporation and 84 were marked for disinvestment. The thrust of the new policy was to bring a fundamental change in the approach of the Government towards the role of the private sector in industrial development. The liberalization of private sector activity may have widened its scope, but the liberalization did not proceed to demarcate the zones of the public and private sectors on a logical basis. The public sector corporation picked up only those units for disinvestment which had been incurring losses or had problems of other sorts. The objective seems to be to get rid of liabilities and retain control of units which are not in the red (GOB 1975).

New Industrial Policy 1982 : Reforms Addressed

Major policy change in Bangladesh came out as implementation of a package of structural adjustment program under the auspices of the World Bank and the IMF in 1980s and early 1990s. Major reform under the policy in industrial sector is characterized by denationalization, reduction of excess labor in SOEs, rationalization of jute mills; improve operational performance of public utilities and privatization of selected public manufacturing and commercial enterprises. The most significant move in the privatization process occurred in 1982 with the announcement of the New Industrial Policy (NIP) declared on June 01, 1982. The Government introduced fundamental changes in the IP environment and the adoption of various promotional measures, designed to improve the operating efficiency of the sector corporations by reducing

overheads and wastage, toning up management and improving productivity. A number of large industries in the jute and cotton textile sectors (33 jute mills and 27 textile mills) were returned to the owners under the auspices of the NIP. This NIP proposes to establish a "One-Stop" service agency, i.e. Board of Investment (BOI) for providing necessary services to the investors regarding processing of projects, acquisition of land, arrangement of power, gas and other support and utility service. This NIP was larger in volume and more elaborated than the previous ones. It provides a reserved list of industries for public sector investments and this list contains 6 sectors. It also retained another concurrent list which covered sectors where both public and private investments can take place. This policy also focused on the avenue of opening up in private sector (GOB 1982).

For attracting foreign private investment, the Foreign Private Investment (Promotion and Protection) Act of 1980 was drawn up. The act permitted foreign private investment either directly or in collaboration with local investors. Besides liberal terms and incentives were made available to foreign investment in the EPZs. For the first time, this policy gives a direction that the EPZ is expected to act as a catalyst to attract foreign investors to the country (GOB 1982).

Revised Industrial Policy 1986: Total Denationalization

The Government announced the Revised Industrial Policy (RIP) in 1986 with a view to further expanding, relaxing and strengthening the measures required providing further impetus to the privatization process through a deliberate denationalization program. The RIP provisions also encouraged foreign private investment, provided export incentives, and allowed the liberalization of import regulations as well as fiscal and monetary measures. Reflecting the government's policy of reducing the role of the public sector in the economy and promoting private sector-led growth, the public sector corporations were intended to be converted into public limited companies in order to make up to 49 per cent of their shares available for public subscriptions. A total of 7 categories of industries were declared reserved for public sector investment in RIP 1986 (GOB 1986).

Under the RIP, a large number of fiscal and other incentives were introduced or expanded in order to promote rapid industrial development of the country. The promotion of foreign private investment and export-oriented industries was given a greater emphasis and a one-stop investment service agency, BOI was set up which commenced operations on 1 January 1989 (Bhuyan 2005,p.14).

Industrial Policy 1991: Enabling Investment Environment:

During the early 1990s, the GOB implemented a series of reforms to improve economic performance. The objectives were to (1) create competitive industries and (2) enhance private sector development. Complementing the reforms for trade and exchange rate liberalization, the Government began reforms to reduce its presence in manufacturing activities. From 1988 to 1990, the Asian Development Bank (ADB) provided policy-based loan to introduce policy reforms for the steel and engineering, textiles and leather industries. The second industrial program was initiated to continue the process of improving the overall policy environment to promote industrial growth and efficiency. The new Government's 1991 IP was accompanied by an ambitious agenda of policy reforms; the program was essentially designed to support implementation of this policy as it related to public manufacturing enterprises (PMEs). The program was also to implement divestment and privatization measures for selected PMEs. The program set out an ambitious timetable for reducing Government shareholdings and privatizing the PMEs. Fourteen units with existing private shareholdings were to be substantially divested, whereas 20 other textile units had to be privatized. In addition, the Government was to prepare a privatization plan for the remaining PMEs. In reality, only three units were privatized during the program.

Industrial Policy 1999: Shifting from Agriculture to Manufacture:

In 1999, the Government announced a new IP to achieve the long term objective of manufacturing contributing at least 25 per cent of GDP and 20 per cent of overall employment. In this new policy, the Government has retained only four areas (arms and ammunition, security printing, nuclear energy and forest plantation) under the reserved list for the public sector. The private sector can set up units without any restriction for all

other industrial activities. Under the privatization and reforms of state owned enterprises, the Government contemplated international collaboration and management contracting system to make these units competitive. The Government also continued its efforts for privatization of PMEs. The 1999 policy proposed a new scheme, employee-owned stock program, to divest some units. Nine textile mills are being handed back to the workers.

Industrial Policy 2005: SMEs Highlighted

In the IP 2005, special importance has been given on agro-based and agro- processing industries and on steps to overcome possible adverse conditions in the export-oriented garment sector. More importance has been given on considering the SMEs and cottage industries as one of the major driving forces, providing assistance to women entrepreneurs on a priority basis, setting up special economic zones in different parts of the country, improving the quality of industrial products to world standard, marketing of goods at competitive prices, and enhancing productivity in the industrial sector. The provisions of all facilities for attracting foreign investments have been envisaged in the IP.

The latest IP was approved in January and announced in March 2005. The major objectives and strategies of IP 2005 are to reiterate the dominant role of private sector in industrial development in which the Government will act as a facilitator, and gives emphasis on the privatization of state-owned- enterprises, export orientation of the industrial sector, raising competitiveness of industries in both domestic and international markets, and promoting industrial development by effectively utilizing the country's resources, and so on. The policy envisages that in the next one decade the manufacturing sector will account for about 30 to 35 per cent of GDP and about 30 per cent of employed work force. This political vision of this IP 2005 is much ahead of that of previous IP 1999. As IP 1999's major objective was to have within a decade, a sizeable industrial sector where manufacturing would account for at least 25 per cent of GDP and 20 per cent of the workforce.

The IP 2005 incorporates several new provisions for the first time. IP 2005 states that SMEs will be established on a greater scale across the country in order to bring about poverty alleviation, unemployment reduction and creating more employment opportunity so that national growth can be made accelerated. In IP 2005 a separate chapter has been endorsed entitled 'Massive Establishment of SMEs and Cottage Industries in Countrywide Industrialization.' In the previous IPs, SME issue was quite unaddressed. This policy proposes to draw up a separate SME policy with a view to providing necessary guideline and strategic assistance in respect of establishing SMEs throughout the country.

This IP 2005 proposes for establishing a women's bank to assist women entrepreneurs, for promoting agro-based and food-processing industries, for establishing SEZs in different parts of the country.

Moreover, a chapter containing the importance and some action programs for increasing the productivity of industrial sector has been included in this industrial policy for the first time.

Another chapter based on participation of women entrepreneurs in industrialization and their advancement is included in IP2005 which was also absent in the previous IPs.

It is worthy noting that for the first time, a new action program is proposed in this policy. This proposes that an accreditation body will be set up and arrangements will be made for properly conducting activities of public and private laboratories or institutions engaged in examining and fixing the standards of goods produced at home or imported from abroad.

Apart from this, IP 2005 has expanded the list of the thrust sectors. There are now 33 thrust sector industries (Annex 1) instead of the 16 in the previous policy. The new policy designates RMG as a thrust industry for the first time. Foreign investors will get incentives if they invest in the designated thrust sectors, particularly in the SMEs.

The coverage of the service sector activities, recognized as industries, has also been widened. IP 2005 provides a list of 19 service industries (Annex 2) as against 5 in the IP 1999. The reserved industries for the Government investment are the same as spelled

out in IP 1999. The reserved industries are arms and ammunitions, nuclear energy, security printing and afforestation and mechanized extraction within the boundary of reserved forest.

Furthermore, the IP 2005 has also changed the definition of the different sizes of industry. It divides industrial enterprise into manufacturing and non-manufacturing (services, for example) industries. The size of manufacturing is defined in terms of the size of capital investment, while in the case of non-manufacturing industries, the size is measured in terms of the employment of the workers (GOB 2005, p.9).

Trend of the IPs of Bangladesh

Reviewing the IPs of Bangladesh following comments are made hereby :

1. The Government of Bangladesh formulated as many as nine IPs since its independence. After each average four years the respective Governments have formulated a policy for industrial development.
2. The very first policy put emphasis on socialism as an economic principle for attaining industrial development and the last one has been buzzing among the very concept of developing and expanding the SMEs all over the country through private sector with the possible support and intervention of the Government.
3. Initially the reserve list contained 18 sectors for public investment and gradually it has reduced to the number of four.
4. The first IP contained the ideology of socialism and the last ones recognize the consensus among the political parties regarding the economic policy of Bangladesh i.e. encouragement of private entrepreneurship along with limited Government intervention.
5. From the first IP of 1973 to the seventh IP of 1991 there was no thrust sector in the said policies. The eighth (1999) and the ninth (2005) IPs contained the thrust sectors.

Chapter 2 mainly dealt with the theoretical and economic arguments for having the IP. The East Asian experience with the IP and the role of FDI and the rational of IP has been explained. Lastly, brief review of the past and existing IPs of Bangladesh has been done to have an understanding of the trends of the IPs in Bangladesh. In the following chapter, conceptual dimensions on the role of the SMEs and their promotion and the analytical frameworks for policy implementation will be discussed through reviewing the contemporary literature in the concerned area.

CHAPTER 3

CONCEPTUAL DIMENSIONS: IDENTIFICATION OF A FRAMEWORK

Introduction

Global wealth has almost doubled since 1990, but nearly half of the world's population subsists on less than US \$ 2 per day. Poverty remains a major challenge to sustainable development, environmental security and global stability (WBCSD 2004, p.1). The key to poverty alleviation is economic growth that is inclusive and reaches to majority of people. Well managed and healthy SMEs are a source of employment opportunities and wealth creation. SMEs can play pivotal role in creating dynamic, market oriented economic growth, employing the working force in developing countries, alleviating poverty and promoting democratizations (UNDP 1999).

For the first time emphasis has been put on SMEs and its promotion as a tool of poverty reduction in PRSP and IP 2005 of Bangladesh. This country has been continuously struggling against poverty with a vision to achieve the millennium development goals. So when anyone moves to study IP 2005 and its implications and challenges it is obvious to have a basic idea and knowledge of the SMEs and its trends in the internal and external context. Its implementation status is also relevant in this regard. Keeping these aspects in mind, in this chapter, definitions, and importance of the SMEs at home and abroad, strategies for promoting the SMEs, as well as requirements for a level playing field for the SMEs and the policy and institutional frameworks of the SMEs in Bangladesh will be tried to discuss. In the later part of this section, literature relevant to frameworks for policy implementation and the causes of implementation failures will be reviewed through which IP 2005 will be analyzed in the successive chapters.

Definition of SMEs : Global Context

Definition of the term SME varies country to country. It is generally based on the number of persons employed or the amount of fixed capitals or a combination of the two. Some countries have different definitions for SMEs in the manufacturing and services sector and may exempt firm from specialized industries or firms that have shareholdings by parent companies. To have an idea at a glance on SME, the following table will help understand SME definition. Table 1 illustrates the range of SME definitions in the Asia-Pacific region.

Table 1 : SME definitions in the Asia-Pacific Region

Country	Definition of SME	Measurement
China	Varies with industry, usually less than 100 employees	Employment
Hong Kong	Manufacturing -100 or fewer employees Other -50 or fewer employees	Employment
Indonesia	Less than 100 employees	Employment
Japan	Wholesale -less than 100 employees or JPY 100 million assets Services -less than 100 employees or JPY 50 million assets Retail - less than 100 employees or JPY 50 million assets or JPY 50 million assets Other -less than 300 employees or JPY 300 million assets	Employment and Assets
Malaysia	Manufacturing -less than MYR 25 million Services -less than MYR 5 million or 50 employees Different for Bhumiputra enterprise	Shareholders, Funds and Employment
The Philippines	Less than 200 employees or PHP 60 million Assets	Employments and Assets
ROK	Manufacturing -less than 300 employees or KRW 8 billion Assets Wholesale -less than 100 employees or KRW 10 billion annual sales revenue	Employments, Assets and Sales revenue
Singapore	Manufacturing -Fixed Assets worth SGD 15 million or less Services -less than 200 employees	Employments and Assets

Taiwan (China)	Manufacturing -less than TWD 80 million of paid in capital or less than 200 employees Other -less than TWD 100 million annual sales revenue or less than 50 employees	Employments, and Sales revenue
Thailand	Manufacturing and services -less than 200 employees THB 200 million Assets Wholesale -less than 50 employees or THB 100 million Assets Retail -less than 30 employees or THB 60 million Assets	Employments and Assets

Source: White paper on Small and Medium Enterprises in Taiwan, 2006

Definition of SMEs: Bangladesh Context

Rapid and sustainable growth of SMEs is undoubtedly one vehicle for accelerating national economic growth to the point of having a measurable in the way of reduction of poverty and unemployment, generation of more employment. According to Miah (2007, pp. 80-81) the government has expressed its commitment in the PRSP and as well as IP 2005 to consider SMEs as vehicles for quality of life improvement, economic growth and poverty alleviation of the general people. Miah (2007, p.81) continues, “ ... from the vantage- point of industrial assistance policy, a classification of establishments based on employment of labor—the abundantly available factor of production – may not have a great deal of policy relevance, as the amount of capital that is combined with a given level of employment may widely vary”.

The GOB defined size of establishment based on fixed investment. According to IP 2005, an enterprise will be treated as **small** if, in today’s market prices, the replacement cost of plant, machinery, building, structures and other parts and components, fixtures , support utility and associated technical services (such as turn-consultancy), etc were to up to Taka 10 million. An enterprise will be treated as **medium** if, in today’s market prices, the replacement cost of plant, machinery, building, structures and other parts and

components, fixtures, support utility and associated technical services (such as turn-consultancy), etc were to up to Taka 100 million. From both definitions given above land is excluded and the definition is only for manufacturing industries.

For non-manufacturing activities (such as trading or other services) GOB (2005) 's definition is as follows:

An enterprise would be treated as **small** if it has less than 25 workers, in full time equivalents and an enterprise will be treated as **medium** if it has between 25 to 100 employees.

Besides these, Bangladesh Bureau of Statistics (BBS), uses another definition for small and medium industries. According to BBS, enterprise with up to 9 employees are treated as **micro**, between 10 and 49 as **small**; with between 50 to 99 as **medium**, and all the rest **large** (Miah 2007, p. 80).

In 2008, Bangladesh Bank (BB) has officially given another definition for the SMEs. For the advantage of disbursement of loans to the enterprises, BB has redefined the SMEs in Bangladesh (The Daily Inqilab 2008). The definition of the SMEs given by BB is as follows:

An enterprise will be treated as **small** if, in today's market prices, the replacement cost of plant, machinery, building, structures and other parts and components, fixtures , support utility and associated technical services (such as turn-consultancy), etc were to up to Taka 05 million or the total number of man power of that enterprise is up to 50. An enterprise will be treated as **medium** if, in today's market prices, the replacement cost of plant , machinery, building, structures and other parts and components, fixtures , support utility and associated technical services (such as turn-consultancy), etc were to up to taka 200 million or the total number of man power of that enterprise is up to 150. In principle, these SMEs will not cover the public limited companies. In this definition, the manufacturing sector and service or trading sector has been treated equally.

Importance of the SMEs in the Global Context

In the global context, SMEs became more important in terms of economic growth and poverty alleviation. The key to poverty alleviation is economic growth that is inclusive and reaches the majority of the people. Improving the performance and sustainability of local entrepreneurs and SMEs, which represent the backbone of the global economic activity, can help achieve this type of growth.

In OECD economies SMEs and micro enterprises account for over 95 per cent of firms, 60 to 70 per cent of employment, 55 per cent of GDP and generate the lion's share of new jobs. In developing countries, more than 90 per cent of all firms out of the agricultural sector are SMEs and micro enterprises, generating a significant portion GDP. For example, in Morocco, 93 per cent of industrial firms are SMEs and account for 38 per cent of production, 33 per cent of investment, 30 per cent of exports and 46 per cent of employment. In Ecuador, 99 per cent of all private companies have less than 50 employees and account for 55 per cent of employees (WBCSD 2004).

SMEs make up to 60 per cent of China's GDP and generate more than half of the country's revenues. They also provide 75 per cent of the employment in urban areas. A possible economic recession in the United States is creating anxiety among SMEs in Asia, a survey by UPS showed this year. While 38 per cent of the SMEs surveyed on the mainland China are worried about the negative impact on the economic slowdown in the US, more than half of the SMEs in Hong Kong, Taiwan, Singapore and Indonesia are concerned their business will be hampered, the survey found. US courier UPS on May 28 2008 released its Asia business Monitor 2008 reveals this information. (The China Daily 2008)

Rapid export growth propelled Vietnam's economy forward. As a share the country's total output produced (GDP), exports made up 75 per cent (as opposed to Bangladesh's 20 per cent) in 2007. Sure, having oil to export helped, but unlike the Middle East, Salahuddin (2008) says, Vietnam's is not an oil story. Most of the export growth of the

country came from the manufacturing sector, where foreign investors from all over Asia and the US built plants and exported a variety of products of increasingly greater value: garments, footwear, auto parts, and now electronics i. e. SMEs. These are learning points for a developing country like Bangladesh.

Importance of the SMEs in Bangladesh

There is a great interest in small and medium industries as a major plank of poverty reduction in Bangladesh. The Government has formulated a comprehensive IP 2005 by putting special emphasis on developing SMEs as a thrust sector for balanced and sustainable industrial development in the country to help deal with the challenges of free market economy and globalization (Miah 2007,p. 77)

Some data with a national scope that are pertinent to characterizing SMEs in Bangladesh as of 2001-2003 are presented in the following table.

Table 2: Numbers of units and levels of employment in SMEs, 2002/2003 (numbers are in thousands)

Descriptions	Urban			Rural			Total		
	Small	medium	large	Small	Medium	large	Small	medium	Large
No. of units	39.9	3.17	4.036	29.0	1.29	0.88	68.96	4.46	5.01
% of total no. of units	50.9	4.0	5.1	38.1	1.6	1.11	87.9	5.7	6.4
Employment	740.4	211.15	1712.67	516.8	85.85	234.6	1257.	297.4	1947.
						69	2		3
% of total employment	21.14	6.0	48.9	14.8	2.4	6.7	35.9	8.5	55.6

Source: BBS Census of Enterprises, 2001/2003

The highlight of this table is the following: (a) there are some 78440 private-sector establishments of various sizes in Bangladesh with some 3.5 million workers employed in them. The urban Bangladesh accounts for some 60 per cent of the units and 76 per cent of employment in the private-sector enterprises. Rural Bangladesh accounts for the rest.

A total of 93.6 per cent of all units in Bangladesh belong to the SME category i. e. have between 20 to 99 employees. However, SMEs account for 44 per cent of the total employment of the enterprise sector.

Private companies limited by liabilities account for strictly a very small portion of total number of the SMEs in Bangladesh. Table 3 shows the average employment per establishment within each of the small and medium classes for urban and rural Bangladesh in 2001-2003. The following results are worth highlighting.

Table 3: Average head-count per establishment across Bangladesh's industries, 2001/2003

	Small	Medium	SME	Large	All
Food and tobacco	18.6	65.1	21.0	470.5	38.9
Textile manufacturing	19.1	66.2	21.9	490.9	56.6
Ready to wear apparels	17.8	70.3	22.9	512.7	249.6
Wood, leather and paper printing	17.0	66.8	19.7	373.9	38.0
Chemicals and plastics	19.1	67.0	22.7	367.2	58.0
Non-metallic mineral products	26.0	70.3	41.5	196.8	83.4
Fabricated goods, electrical and means of transports	17.0	65.7	20.3	282.5	35.1
Mining and manufacture nes	24.6	65.5	32.7	227.7	58.9
Various personal services	17.5	66.0	19.9	293.3	28.2
Education and health care	18.1	65.5	20.3	292.4	27.6
All industries	18.2	66.7	21.2	388.5	44.6

Source: BBS Census of Enterprises, 2001/2003

Let it be noted that these are weighted averages. First, the average employment per establishment for small establishments has values of between 17 to 20 workers across all the industries. A similar a narrow range of between 65 to 69 employees for average employment size for medium enterprises is found here.

Table 4: Structures of industries in Bangladesh with respect to size during period, 2001/2003

	% of establishments			% total persons employed		
	Small	Medium	Large	Small	Medium	Large
Food and tobacco	6.7	0.4	.03	2.8	0.5	3.1
Textile manufacturing	14.2	0.9	1.2	6.0	1.3	13.2
Ready to wear apparels	1.8	0.2	1.7	0.7	0.3	20.1
Wood, leather and paper printing	2.9	0.2	0.2	1.1	0.2	1.4
Chemicals and plastics	1.7	0.1	0.2	0.7	0.2	1.7
Non-metallic mineral products	1.6	0.9	0.9	0.9	1.3	4.0
Fabricated goods, electrical and means of transports	4.3	0.3	0.3	1.6	0.5	1.7
Mining and manufacture nes	0.2			0.1	0.1	0.2
Various personal services	23.6	1.2	0.8	9.3	1.8	5.1
Education and health care	31.1	1.5	0.8	12.6	2.2	5.2
All industries	87.9	5.7	6.4	35.9	8.5	55.6

Source: SME Cell, MOI using data from BBS Census of Enterprises , 2001/2003

Table 4 shows that the percentage importance (in terms of both number of units and the employments level) of SMEs in the overall world of the enterprises in Bangladesh. The main result to report is that the numbers of the SME units predominate the numbers of the large enterprises; typically more than 90 per cent of all enterprises are in the SME class. However the percentage share of the SMEs in total employment is always less than the numbers of the units.

Miah (2007) argues that the relative importance of SMEs both in terms of numerical importance of establishments or employment, in the context of all enterprises with employment size of exceeding 9 workers remains roughly similar across an urban-rural divide. The role of SMEs in production is therefore not affected by geography. He also sees the quantitative importance of food, beverage, textile manufacturing, non-metallic

minerals products among manufacturing sub-sectors as basic areas for SMEs in Bangladesh.

SMEs have historically been one staples of the enterprise landscape within economy globally. Especially growth with clear benefits for poverty reduction puts a premium on integrating, productively and profitably, small and medium enterprises in the very process of economic growth. A historically accelerated pace of trade liberalization in Bangladesh since the early 1990s by spurring a veritable deluge of imports has quiet significantly increased competitive pressures on SMEs in Bangladesh (GOB 2005b). Policy Strategies for Development of SME (PSDSME)--2005 of the GOB in its introduction asserts that rapidly falling cost of communications by unifying global markets have heightened the intensity of competition. Trade is widely seen as safer, richer, smarter and bulkier career to have than manufacturing—bad news indeed for industrialization. Thus the GOB formulated a comprehensive IP 2005 by putting especial emphasis on developing SMEs as thrust sector for balanced and sustainable industrial development in the country to help deal with the challenges of free market economy and globalization (GOB 2005b)

Moreover, Poverty Reduction Strategy Paper (PRSP) of the GOB has put emphasis on the development of SMEs for ensuring robust growth of employment across the country—a key condition for poverty reduction. PRSP recognizes the importance of the SMEs in national development and poverty reduction (GOB 2005c).

Need for a Level Playing Field

SMEs in developing countries meet with obstacles that reduce their ability to benefit from international trade and investment. UNCTAD (2002) identifies some of the impediments that SMEs have to encounter in the countries like Bangladesh and those are as follows: 1) High transaction cost for exporting due to quality requirements, environmental and labor standards; 2) Unreliable infrastructure and expensive transport

3) Restricted access to capital and technology and 4) Constraints to labor productivity improvements.

According to Chowdhury (2007), economic asymmetries exist in all real-life economies. In terms of access to finance, access to information, access to market and conduits of governance SMEs face odd situation and they abound in low-income countries with institutional under development. These asymmetries fundamentally drive the emergence of market failures. SMEs do not have appropriate access to finance, particularly for long term loans. Their needs can vary quizzically, defying standardization or stereotypes. They could happily do with low interest rates, but they could also still live with high interest rates, if high turn-over of stocks were to translate into a high return to investment. Fast and hassles-free loans disbursement matters too, as does longer grace period in low repayment commencement. Of course to them long term-loan on low rates of interest is the best thing of all. Information is of great importance in a strategy to spur the growth of SMEs. On the one hand, SMEs themselves have to count on extensive and ready access relating to all aspects of business information, such as regulations, forms, procedures, fees, contacts, networks organizations. On the other hand, efficient but pro-poor SMEs development put a premium on information relevant to strategy, choice, policy-advocacy and change management. All of the above is also imperative for SMEs themselves. While the first is widely emphasized in meso-level best practices of donors involved in SME development work in Bangladesh, efforts in the second areas is virtually non-existent. The SMEs face serious competition as their competitors happen often to be much larger, better capitalized and better branded. These failures tend to drive wedges between the reach and the grasp of small producers. The weak and vulnerable are also under-represented in the process of economic and policy governance. Women are stymied awkwardly by the market and Government failures as they try starting up and operating business. Educated young potential entrepreneurs albeit from poor families also experience severe start up drag, arising from these very same adverse forces. There is a strong need to address the issue of a level playing field for small enterprises, women and young entrepreneurs (Chowdhury 2007 , pp.90-92)

Key Elements of SME Strategy

SMEs can play a much bigger role in developing national economies, alleviating poverty, participating in the global economy and partnering with larger corporations. They do however, need to be promoted. Such supports require commitments by and between governments, business and civil society. Chowdhury (2007,p.94) narrates the key elements of the SME strategy to be taken by the Government in his essay titled “SME Development in Bangladesh.” The key elements of the SME strategy is presented below:

- Marshalling an evidence base to authoritatively help assess of what bindingly constrain growth possibilities of enterprises in strategically important industrial “clusters” and or geographical clusters;
- Preparing a staged, sectorally-accented, tactical action plan based on a suitably rich blend of needs assessment, diagnostic gap analyses, and perspective interventions;
- Developing and strengthening R&D for technological and product improvement, and also encouraging or supporting capital goods production;
- Provide regular updates as required of major policy announcement, or market or technology development, from an advocacy perspective
- Improving links with research, technical and vocational institutes focusing on development and introduction of curriculum for business and management studies and skill development;
- Establishing an approach for SME market access through (1) sub-sector assistance linked with embedded services, (2) cross-sector generic service and (3) socially responsible business services—relying on and encouraging the private sector to provide such services;
- Provision for well-developed land, equipped with infrastructural facilities and maintenance capacity, preferably either on a public-private partnership framework or through the private sector
- Facilities for product accreditation by restructuring and strengthening standardization regulatory body and trade associations;

- Enhancing financial sector development in order to increase SME access to finance and financial product development (e. g. factoring, equity financing)
- Establishing a SME business registry as a reliable source for sampling frame for research and analysis of the sector;
- Establishing a SME web portal and an online help desk with consideration given to appropriate maintenance of such portal;
- Establishing and operating helpline outreach center linked to the SME portal
- Streamlining of procedures and requirements for registration, licensing and permit

Miah (2007, p.88) also pointed out some steps for the development strategy for the SMEs. These are as follows:

- a. Types of human resource and management structure
- b. Level of education and skills and management systems
- c. Technology and machinery installed
- d. Access to finance and markets
- e. Use of information technology

Moreover, WBCSD (2004) recommends the following Government interventions for building better SMEs:

- Implement inclusive reforms and create the enabling frameworks and relax the burden of regulatory measures.
- Provide financial and tax incentives.
- Encourage friendly regulatory environments
- Involve business in identifying necessary reforms
- Build capacity through the provision of vocational training
- Procure more goods and services for the public sector from the SMEs

According to UNCTAD (2002) many developing countries have adopted policies to address these constraints by

- Improving the general business environment and infrastructure
- Adopting policies to attract FDI

- Providing training for skill development of SME people
- Making available information and opportunities for business linkages
- Organizing trade fairs and business matching events.

The Role of Market in the Promotion of SMEs

According to WBCSD (2004), the role of market in the promotion of the SMEs is summarized as follows:

- Localizing value creation through engagements with SMEs is a key contribution that large corporation can make to economic development. this underpins their license to operate by creating a positive local impact, can reduce supplier costs and can be important source of innovation to develop new products and reach new consumers.
- Building SME capacity through the localization of supply chains requires leadership from the top, both at the strategic and operational level.
- Facilitating access to finance is critical: this requires business to look to what it can do its own, as well as pressure both on its peers in the business community (particularly the banking sector) and governments to engage.
- Considering partnering across segments and with other development actor to facilitate SME development and access to finance.
- Business planning skills, including training in financial management, are essential for successful SMEs.
- Large corporation can also build capacity and encourage environmental stewardship in the SME sector.

The Role of International and Donor Community in the Promotion of SMEs

Miah (2007) discusses the role of international and donor community in the promotion of SMEs in the developing countries especially in Bangladesh. He says, with multilateral trade negotiations often leading to improving market access and with developing

countries also being a lot more willing than before to participate in globalization, rich country government and the aid-agencies have apparently decided to focus on the SMEs as one important ingredient of private-sector development. A number of donors are working in Bangladesh in the interest of fostering SMEs. Some, like the GTZ, are working not with the entrepreneurs but with the chambers, management institutions and industry associations building their capacities to deliver needed services. Some like the Katalyst are putting together a comprehensive base of knowledge and insights about living production clusters, namely plastics, agricultural tools, textiles, fisheries, vegetable production, maize cultivation. Several of Katalyst's focal areas do not comprehend manufacturing. Of course agriculture and fishery are part of the production economy where enterprises make a living. South Asia Economic Development Facility (SEDF)¹ is building capacities through training programs, effort to upgrade project management skills, enhancing the appraisal and evaluation capacities of financial institutions concerned with the SMEs (Miah 2007, pp. 79-87).

Policy Frame Work: SME in Bangladesh

Many countries have implemented explicit SME development policies and strategies. In East and South Asia, economies such as Hong Kong, India and ROK have formulated special policies to protect SMEs from imports and provided incentives to improve productivity during their early development (ILO 1987). Until 2005, Bangladesh did not have any policy initiative in favor of SME promotion and development. According to the contemporary literature and available documents, a chronological development towards formulating an SME policy framework is discussed below.

Since independence Bangladesh has got nine industrial policies. Among them the first policy gave room for small and cottage industries for supporting nationalized industries (GOB 1973). New Industrial Policy 1982 paid attention to promotion of rural and cottage industries for employment generation (GOB 1982). The successive IP 1986 declared

¹ SEDF is a multi-donor facility managed by the International Finance Corporation and is based in Dhaka and was launched in 2002. The aim of the SEDF is to increase the competitiveness of Bangladesh. Projects are namely Access to Finance, Sector Development and Business services, and Business Enabling Environment.

small and cottage industries as a priority sector (1986). This was followed by the IP 1991 that gave emphasis on extension of small and cottage industries for employment generation (GOB 1991). The IP 1999 gave importance on small and cottage industries for ensuring massive employment through this sector (GOB 1999). Going through the IPs from 1973 to 1999 it has been revealed that up to adoption of IP 1999 no initiative was added to the policy regime regarding SME promotion. Rather, those successive policies were much more enthusiastic to the promotion of small and cottage industries.

In the civil society's review report 2003 it was stated that while SMEs receives lot of preferential support from the government and the banking sector in many countries, it remained relatively neglected in Bangladesh. Task Force of the Civil Society ² in 2003 also recommended creating a data base for the small and medium scale industries (CPD 2005).

The SME cell was created in the MOI on November 05, 2003 and was assigned to accelerate and co-ordinate the activities of SME promotion by an executive order of the GOB (Annexure 3). By the same instrument the Government constituted a National Task Force on Development of Small and Medium Enterprises to recommend SME policy guidelines and implementation strategies. The terms of reference of the Task Force were the following:

1. To draw up a realistic strategy for promoting rapid growth and vigorous competitiveness among SMEs in Bangladesh in the interest of accelerating the growth of the economy;
2. To conduct a country-wide survey on the state of SMEs and prepare a report on the basis of updated data and information;
3. To prescribe, on some well-agreed rational bases, a number of booster industries with a sizeable proportion of SMEs which then to create a package, comprising at

² A meeting of the chairpersons and member-secretaries of the sixteen Task Forces of the Center for Policy Dialogue, CPD's, (a policy think tank of Bangladesh) pre-election policy brief 2001 was held under the chairmanship of the convener of the Task Force 2001 on January 2003 to discuss the rationale for launching a participatory policy bench marking exercise by reviewing the implementation status of the recommendations contained in the policy briefs 2001.

once of major financial assistance, fiscal rationalization and some capacity – building programs for;

4. To recommend a set of SME development policy for Bangladesh,
5. To motivate the SME entrepreneurs and institutions through organizing meetings, seminars, round table meeting, workshops etc.
6. Other functions to assigned by the government(GOB 2004b, p.4).

The OECD Ministerial Conference on Policies for Entrepreneurship and SME Innovation on June 04, 2004 was attended by the then Minister for Industries of Bangladesh. In his speech he said, "...Bangladesh hopes that OECD will play a more pro-active role in barriers for SME access to global market. We also expect that Istanbul Declaration will greatly contribute towards promoting the policies related to foster SME growth and its role as an engine of employment generation and poverty alleviation in developing countries. Bangladesh government is committed to work together with the OECD. We shall pursue future actions to be agreed in this conference to foster the growth of SMEs." (GOB 2004a, p.4)

Before holding of this conference, Bangladesh Enterprise Institute (BEI) produced a paper for the SME Task Force in January 2004 (BEI 2004).University of Dhaka also placed a paper for the use of the National Task Force (BER 2004).During a national workshop organized by the MOI and ADB Bangladesh Resident Mission on SME development held on April 20, 2004 in Dhaka, these two papers were presented as a source of SME policy inputs (GOB 2007).

In consequence to these, the National Task Force of Development of SMEs submitted its report to the then Prime Minister of Bangladesh in September 2004. Subsequently, the Economic Affairs Committee of the cabinet approved the recommendations of the Task Force on January 05, 2005 (GOB 2007). The major recommendations of the Task Force were:

1. Identification of boosters sectors
2. Framing and carrying out policies for SME development

3. Constituting an advisory panel to perform the services of a specialist brains trust for the MOI.
4. Conceiving a tactical plan of action
5. Establishing SME Foundation
6. Defining and identifying SMEs
7. Setting preferential criteria for deserving enterprises
8. Creating credit distribution package and venture capital market
9. Implementing a multi-stage sample survey.
10. Formulation of a package of capacity-building and training.
11. Evolving an SME eco-system
12. Mitigating impediments in clusters.
13. Promoting SMEs through educational generational ethos (GOB 2004b, pp.14-22)

In addition to these policy steps, PRSP in 2005 recognized the importance of SMEs. It says, "... The sheer preponderance of SMEs and their factor intensity advantage suggest that the success of the manufacturing sector of the country is inextricably linked to the success of SMEs." (GOB 2005c, p.101) It also expressed the need for a more proactive policy framework for rapid development SMEs in Bangladesh. PRSP also emphasize the importance of SMEs in national development and poverty reduction and said that it is necessary that urgent measures be taken to ensure an enabling environment for their balanced and rapid growth.

Finally, the GOB formulated a comprehensive IP 2005 in January 2005 by putting emphasis on SME development and promotion. The IP 2005 spells out an initiative to formulate a separate SME policy to provide entrepreneurs with necessary guidance and strategic support in respect of the establishment SMEs all over the country (GOB 2005a).

Keeping continuity with IP 2005 and accordance with the recommendations of the National Task Force, a 'Policy Strategies for Development of SME' (PSDSME) came into being on August 08 in the same year. This policy strategy contained the suggestions and the recommendations given by the National Task Force on Development of SMEs.

And successively, SME Advisory Panel was constituted in 2005(Annex 4). And finally, SMEF started its journey in 2007 (Miah 2008, p.4). Including this new organization, other policy steps will be discussed in the chapter 4 where implementation status of IP 2005 also will be explored as per objective of this study.

Besides these policy and institutional frameworks, there are some other initiatives from public sector which are directly or indirectly involved in the promotion of the SMEs in Bangladesh. In public sector, BB (including other financial institutions), Bangladesh Small and Cottage Industries Corporation (BSCIC), Bangladesh Standards and Testing Institutions (BSTI), National Productivity Organization (NPO), Bangladesh Institute of Management (BIM), Bangladesh Council for Science and Industrial Research (BCSIR), Export Promotion Bureau (EPB) and Department of Patent, Design and Trademarks play role in various way to develop and expand the horizons of the SME sector quantitatively and qualitatively. All of these public sector agencies with the complementary roles played by the private sector for instance, FBCCI, NASCIB, WEF etc. create an enabling environment for SME development in Bangladesh (Figure 1).

Policy Implementation: Identification of a Framework

Many policy reform failures result from lack of attention to how reform implementation is organized. Policy change often requires difficult changes in stakeholder coalitions, shift in the structures and rules of implementing agencies and new patterns of interactions. In the following paragraphs some challenges of implementing policies and causes of implementation failures have been discussed according to contemporary literature of policy implementation and have been tried to present frameworks for policy implementation.

Grindle (1980) discusses the effect of content and context on implementation on public policy in her book 'Politics and Policy Implementation in the Third World'. In other

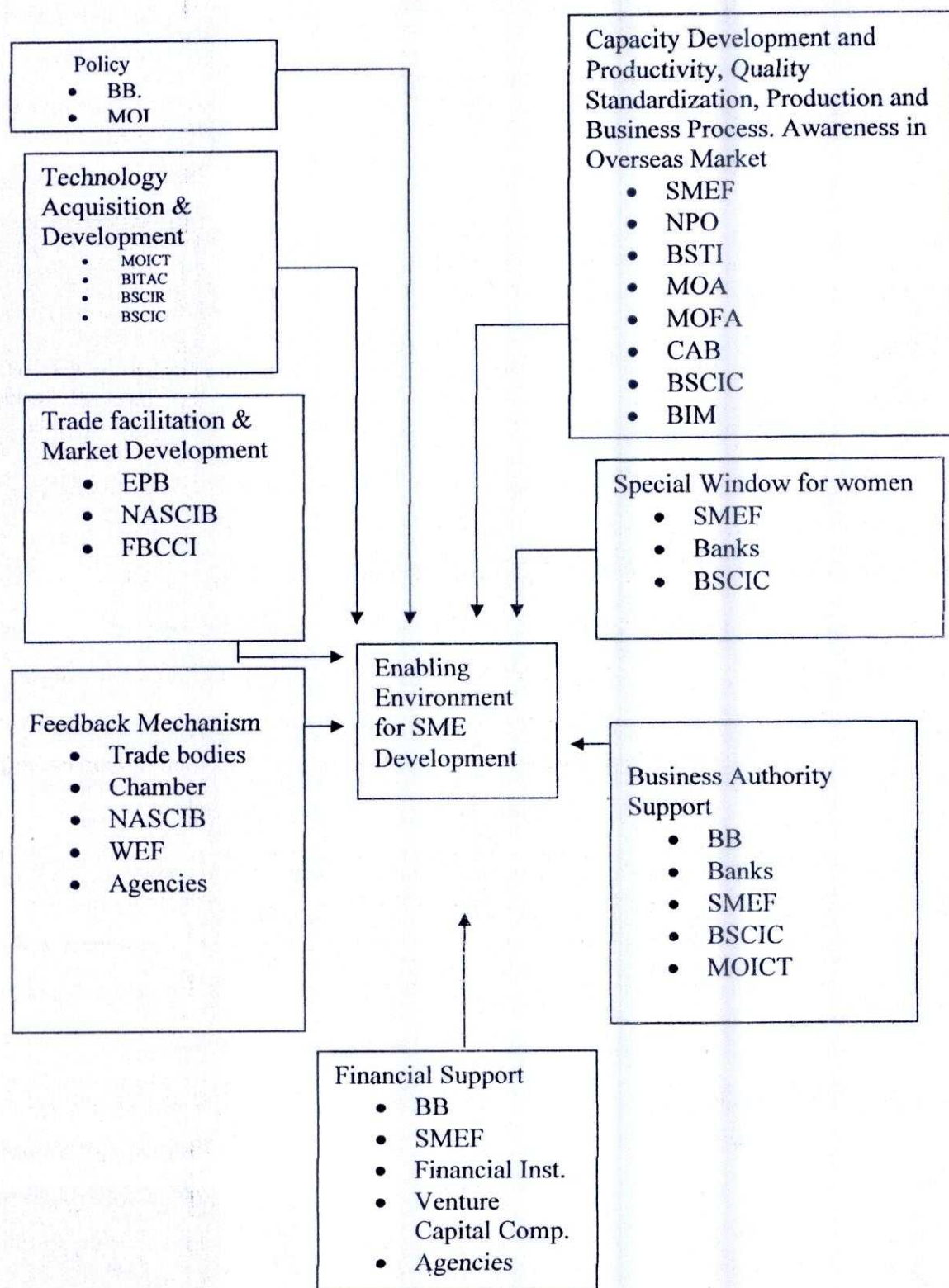
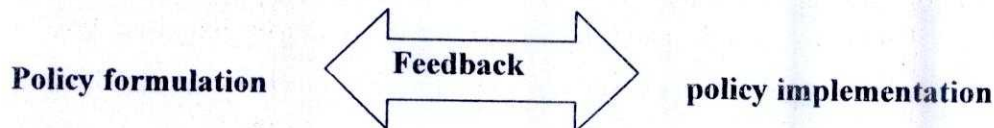


Figure-1: Creating an enabling environment for SME Development in Bangladesh
 Source: Personal observation

words, it tells how the implementation of public policy will be affected by its content and context. Implementation is described as 'policy delivery system' where specific means are designed and followed for achieving a particular end. It is a general process of administrative action. Policy implementation is a function of program implementation and is dependent upon its outcome. Thus public policies are translated into action programs for arriving at the stated goals. In other words, policy implementation involves action programs that have been designed as a means for achieving policy goals. Outcome of a specific program is taken as a measurement of success and failure of overall policy implementation.

The general process of implementation can begin only when general goals and objectives have been specified, when action programs have been designed and when funds have been allocated for the pursuit of goals. Sometimes there is a thin line of difference between policy formulation and policy implementation. In practice, feedback from implementation may lead to modifications in policy goals and directions.



The Content of Policy:

According to Grindle (1980), the content of public programs and policies is an important factor in determining the outcome of implementation initiatives.

The content of a program may provide (i) collective benefits (ii) divisible benefits. When it provides collective benefits, it may be readily implemented. On the other hand, when it provides divisible benefit it may lead to conflict and competition. And it will be difficult to implement or execute. When the policy content leads towards behavioral change, it affects its implementation process. For example: new technology in agriculture. When the programs are designed to achieve long-range objectives, they may be more difficult to implement than those whose advantages are immediately apparent.

When the site of implementation becomes more dispersed, both geographically and organizationally, the task of executing a particular program becomes more difficult. It matters in the case of implementation that who will be in charge of executing the program. It is important in the case of policy implementation whether the goals are stated clearly or ambiguously and whether political and administrative officials are in agreement or disagreement (Grindle 1980).

The Context of Policy:

The content of public programs and policies is an important factor in determining the outcome of implementation initiatives. Grindle (1980) gives a figure terming implementing as a political and administrative process (Figure 2). It is important to consider the context or environment in which the administrative action is pursued. The economic, social and political setting is important for policy implementation. Grindle (1980, pp.10-12) gives a brief list of those who might be involved in the implementation of any particular program. They are national level planners; national, regional and local politicians; economic elite groups and bureaucratic implementers at middle and lower levels. Analysis of the implementation of specific programs may imply assessing the power capabilities of the actors.

As bureaucracy plays an important role in policy implementation, it must be responsive to the needs of those they are intended to benefit in order to serve them most adequately. To be effective, the implementers must be skilled in arts of politics and must understand well the environment in which they seek to realize public policies and programs.

For implementation of program some suggest decentralization and some suggest controlling the power from centre. The studies of this text indicate that political systems that do not concentrate extensive amounts of power at the center ought not to decentralize implementation authority or responsibility if they wish to see their objectives attained. Matters of ideology, culture, political alliances and payoff, and international events are other environmental influences that may have considerable impacts on the administrative

process. Moreover, programs are not implemented in isolation from other public policies. So context has a great influence in policy implementation.

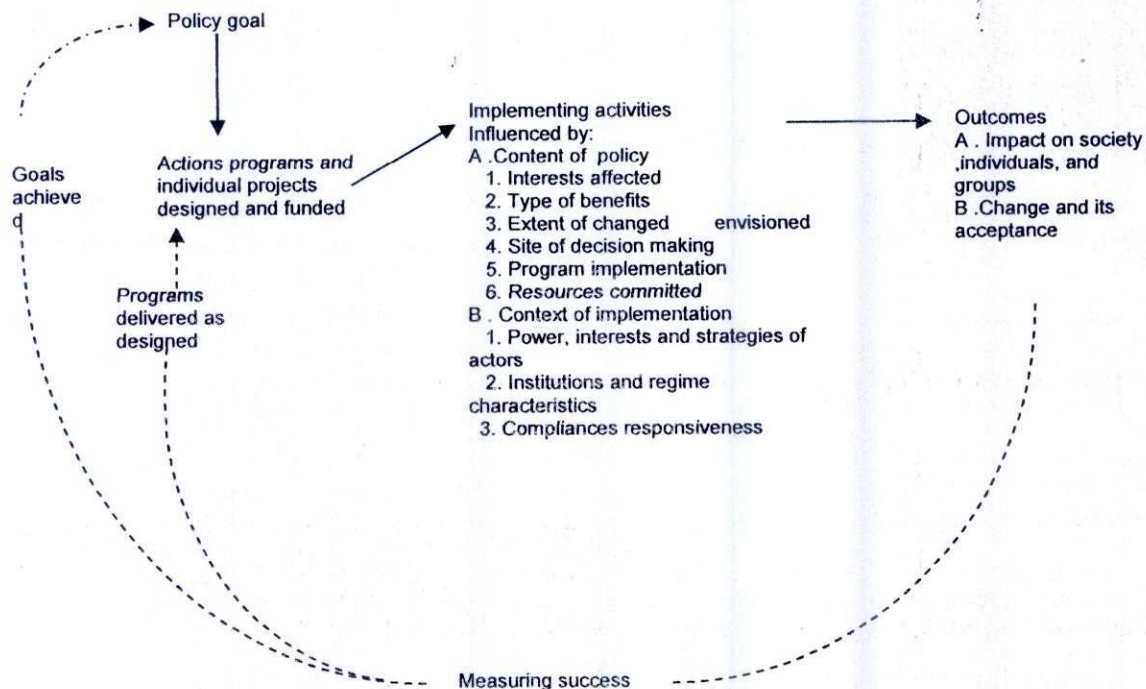


Figure 2: Implementation as a political and administrative process

Source : Grindle (1980, p.11)

In short, Grindle (1980) sums up that content and context of public policy influence the policy implementation to a great extent. In the Third World countries she showed how policy implementation is affected by the actors of the politics and by the citizens. These are as follows:

1. Politicians in the developing countries are more interested in the implementation phase of a policy process than the formulation stage.
2. A large portion of individual and collective demand making, the representation of interests, and the emergence and resolution of conflict occurs at the output stage in the third world countries.
3. Political parties may be more important as mechanisms by which elite control mass followings than as means by which interests are articulated from below to government leadership. This is particular true in regimes in which single and dominant parties direct the political stage.

4. In a context of very scarce resources, *who gets what and how much* is likely to be of central concern to the populace. Thus citizens' participation is frequently limited to policy making, there still exists a great desire among the citizens to affect the public policy because such outcomes affect them vitally and personally.
5. In attempts to acquire Governments' goods and services, individuals and groups find it especially rewarding to focus their demand making efforts on officials and agencies empowered to distribute benefits or on politicians who may have influence on individual allocations. The factions, patron-client linkages, ethnic ties, personal coalitions that often the basis of political activity are well suited to making individualized demands on the bureaucratic apparatus for the allocation of goods and services.
6. The implementation process may be the major arena in which individuals and groups are able to pursue conflicting interests and compete for access to scarce resources (Grindle 1980, pp.15-18).

The role of donors as the key player in policy formulation and implementation process in Bangladesh has been discussed by Osman (2004). According to her, donors from time to time have been consolidating their power through forming consortia, formulating plans like PRSP while their internal counterparts (bureaucrats and politicians) are not increasing their expertise to balance these external forces. Political instability has made the GOB fragile, which in turn, eroded its capacity to undertake policy initiatives and to negotiate with the donors. Thus the policy process of Bangladesh has to accommodate the donors as the key player (Osman 2004, pp.166-167).

Grindle (1980) describes policy implementation which represents a crucial juncture where decisions are made that shape the range of choices available for subsequent implementation efforts and affect the outcome of those efforts (Figure 3). These important choices involve those made in defining policies and programs; those made about the strategy for implementation; and those concerning the beneficiaries of a given

program. Figure-3 is a simple diagram of this decision points. This figure shows the critical choices in the implementation process.

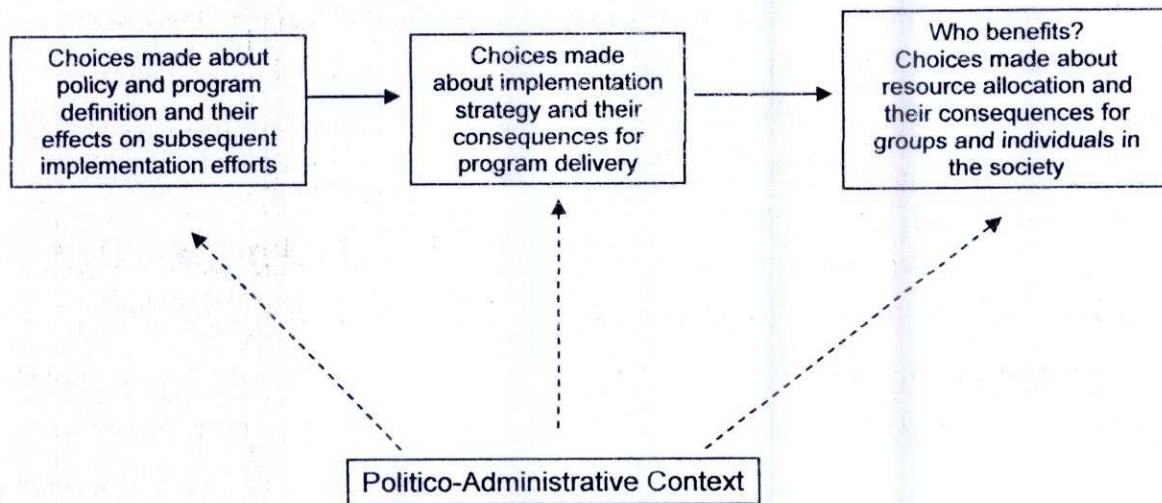


Figure:3 Critical choices in the implementation process

Source: Grindle (1980, pp. 19-21)

The Other Policy Implementation Analytical Frameworks

According to Gerston (1997) though some disagreements exist over the elements that compose implementation, certain assumption seems to have wide spread acceptance. These are as follows:

- Sufficient resources of entity to carry out the implementation tasks.
- Capability of agency to translate goals into an operational framework.
- Delivering the assigned tasks along with accountability for its actions

Crosby (1996, pp.1406-1407) states the tasks involved in policy implementation. The tasks involved in the policy implementation are as follows:

- Policy legitimating
- Constituency building
- Resource accumulation
- Organizational design and modification
- Mobilizing resources and actions

- Monitoring the impact of the policy change

Crosby(1996,pp.1407-1414) narrates that organizing the policy implementation process addresses two questions. These are (a) Who is in charge? and (b) What are the innovative organizational responses to the implementation challenges?

The decisions about who take on the implementation task is rarely obvious. Typically, significant reforms call for multiple actions by multiple organizations. If a policy reform seem to affect one particular agency more than others, however, then it is reasonably likely that organization will be assigned to the task of implementation. But the fact that a particular entity is assigned the principal role in implementation does not necessarily mean that it is equipped for the task or will be an enthusiastic collaborator. The agency chosen may not consider the policy legitimate nor support it. It may not have the requisites skills, sufficient resources or mechanism to access resources, nor the appropriate organizational structure for implementing the policy.

Policy decisions made by one minister or agency head will have significant repercussions for another, but the manager is rarely in a position to tell individual ministers or other agency heads what to do or how to restructure their organizations. Rather the manager will need to influence and persuade those organizations to along and adopt required changes that will facilitate the effectiveness of the reforms. When the cabinet is composed of multiple interests of representatives of a fragmented coalition (as is often the case in the newly democratizing developing countries) each minister likely will be highly sensitive to turf issues. Frequently, in the pursuit of political self-interest one minister will just as soon see another fail. Important skills in the management of policy change then, are facilitation and co-ordination. The task of implementing policy reform is, then, one of management of peers and peer organizations (Crosby 1996, p.1408).

Crosby(1996,pp.1407-1414) also suggested several innovative responses to the organizational challenges presented by policy implementation. These responses are as follows:

- Creating legitimacy--- creation of new arenas of decision making

- Constituency building--- approaches to mobilizing stakeholders
- Redesigning of organizations for implementation--- new configuration
- Organizing the mobilization and co-ordination of implementation
- Monitoring implementation

Gerston (1997,pp.95-118) argues that bureaucracy is the prime agency for implementation of any public policy. Bureaucracies are the necessary, if some times cumbersome, out growth of modern Government organization, bureaucracies are treated as vital component of the Government machinery for policy implementation. When people face acute crises or problems, the positive state responds through bureaucracy. As institutions and their responsibilities have become more complex, bureaucracies often are asked to formulate a policy in addition to translating a policy into concrete programs and implement those programs.

All Governments' policies are implemented with their intentions intact. It is not a 'yes' or 'no' matter but an activity that occurs in degrees. Potentially for implementation of policies varies with the type of policies carried out. According to Gerston (1997) there are three categories of policies such as (i) distributive, (ii) regulatory and (iii) redistributive. Distributive policies are designed to ensure that government decisions benefit specific clientele e.g. labor, business, agriculture etc.

Regulatory and redistributive policies are designed with a view to pass laws and delegate powers to other agencies. It gives bureaucratic agencies broad discretion to implement laws as they see fit. Regulatory policies maintain ongoing relationships, where as redistributive policy impacts are particularly vital to sizeable sectors of society who get more from government than they put in e.g. welfare programs. Although the regulatory agencies theoretically follow legislative guidelines, the independence given to them allows them to be discretionary in their work. In the redistributive policy commitments and little discretion is left to bureaucrats.

Conditions that Promote Implementation:

Gerston (1997, pp.105-110) narrates the conditions that promote implementation . The conditions are as follows:

1. Funding: Adequate financial resources are the engine of the policy implementation. It is the hallmark of the commitment. Without funding, planning, co-ordination and application all will be in vain.
2. Boilerplate provisions: some policies are formulated in such a way that their implementation depend on some other previously established conditions. These conditions (known as boilerplate provisions) represent not only legislation but also commitments to general social goals created through programs adopted at earlier point in time. The implementation of one policy, then, may be dependent upon the continued enforcement of the other laws or regulations e. g. grants in aid program requiring certain percent of minority.
3. Limited numbers of agencies: Governments are a maze of overlapping and interconnecting policy making structures. Competition for and sharing authority as well as myriad points of pressure and influence among various organizations are an intricate problem to manage. As Robbert Lineberry says, “ the larger the number of actors and agencies involved, the lower the probability of successful implementation”.
4. Political controls on the bureaucracy: Bureaucrats are the important components of the political process because they translate orders, laws and decisions into concrete application. Without political controls on the bureaucracy, implementation of the intended policy may drift away from policy objectives. Policy makers may use some measures to assure that commitments are carried out as intended like changing law to tighten the loopholes that bureaucracies use for discretionary authority, overruling the bureaucracy through parliamentary oversight, transfer responsibility for administration elsewhere, replace a recalcitrant agency head, cut the trouble maker, abolishing the agency altogether and making the legislation more detailed. D M Leipziger, and, Vinod Thomas

(1993) also recognizes the role of bureaucracy in the policy implementation phase in the East Asia.

Conditions that Obstruct Implementation:

In the literature of policy implementation failure there have been a lot of discussions about the causes and reasons of implementation failures. According to Gerston (1997) the following are the reasons behind implementation failures.

1. Bargaining once a public policy decision has been made, the need for exact application is paramount if it is to reflect credibility upon the policy and policy makers alike. Nevertheless, bureaucrats are often allowed to bargain or to negotiate as a means of smoothing out any unforeseen problems concerned with implementation. The more an implementing agency is allowed to bargain, the more likely is that the policy in question may be administered in an arbitrary way. While bargaining may make life easier for the bureaucracy, it deserves the value of policy and law.
2. Lack of funding: The absence of adequate financial resources can undermine the objectives set forth by decision makers. simply stated, inadequate funding is virtual guarantee of programmatic disaster at the point of implementation .
3. Changes in priorities: Though abrupt policy changes are not common place in American politics due to trust and well defined relationship among policy actors. Sometimes new demands or events occasionally lead policy makers to respond with new commitments. At these points in policy making process, one long public policy may be replaced by another or an existing commitment may be dropped without replacement. New directions in public values can, in fact, bring implementation of existing programs to an abrupt halt.
4. Multiple goals: As policies are subjected to many pressures, they may appear to be hybrid compilations born out of conflict. Because of the complex negotiations along the path to adoption, a new policy, therefore, may stress goals simultaneously as the price for keeping an ad hoc coalition intact.

5. Poor parliamentary oversight: Parliamentary oversight represents the process of scrutinizing the implementation of policy decisions. Parliament often takes only a cursory glance at its outcome; instead, it places such responsibilities in the hands of the bureaucracy. Lack of parliamentary oversight often hinders implementation (Gerston 1997, pp.110-118)

Bryson (2004) states that implementation must be consciously, deliberately, and strategically planned, managed, and budgeted. Further, when changes are required, successful implementation typically involves creation of a new regime to govern decisions and behavior. Elements of this new regime will include new or redesigned settings, new or revised implicit or explicit principles, norms, rules, and decision-making procedures; supportive budgets that also provide both substantive and symbolic incentives promoting the new arrangements, institutionalized or altered patterns of behavior and attitudes; and a supportive coalition of implementers, advocates, and interest groups. The new regime may also incorporate a widely shared vision of success (Bryson 2004, pp. 238-263).

According to Garson(2006, pp. 387-392) the causes of implementation failure are as follows:

- Failure to tie the plan to the agency mission
- Failure to differentiate the business plan from the agency budget
- Failure to take risk
- Poor risk management
- Failure to research best practices
- Inadequate human resource planning
- Inadequate reward structure
- Inadequate performance monitoring and evaluation

Garson (2006, pp.393-400) also lays out some internal success factors for policy implementation in a public organization. Those are as follows:

- Political support
- Stakeholder motivation

- Clarity of goal
- Support for organizational culture
- Participatory implementation
- Adequate budget and time horizon
- Phased implementation

Now the scenario of policy process in the developing countries will be looked up in the next sub-section.

Why policy process including the implementation procedures differs in case of developing countries from the developed countries

According to Horowitz (1989, pp.197-212), divergence exists between developed and developing countries in following perspectives like

- Institutions
- Participants
- Resources
- Weight of the state relative to the society
- Capacity of the state to work its will
- Configuration of issues

Horowitz (1989) explains that the developing countries, in terms of policy implementation, suffer from:

- Regime legitimacy: political regimes are fragile, party systems are too 'fluid'
- State structure is relatively powerful vis-à-vis their societies
- Imperfect capacity to make and effectuate policy
- Lack of people's participation in policy making process
- Channels for people's participation is less well established
- Much scarcer information relating to policy making process
- Foreign models are much more common.
- More frequently engaged in constitutional revision.

- Few developing states are able to marshal the resources required for the extensive welfare state programs that command the attention of Western policy makers.
- The share of resources both invested and consumed by the state is typically larger than it is in advanced industrial societies.
- Some sectors of society, some spheres of activity, some privacy matters are more or less exempt from policy concern in Western societies.
- Third world policy process often touches on matters such as religious freedom, freedom of thought that, in the West, would be regarded as dubious candidates for state intervention.
- Attitude change and certain cultural practices, little touched by policy in the West, but given large importance in case of developing countries.
- Sphere of the state intervention is not that limited in developing countries.
- Large sectors of the public in developing countries are politically inactive and inarticulate.
- Extra state organizations in developing countries lack autonomy and resources.
- In developing countries there is no single technique for mobilizing power. Various contenders resort to quite different sources of power, including the possession of armed force or the capacity for disruption.
- Situation impels political leaders in developing countries to fear for the effectiveness of their policy innovations and therefore to adopt rather heavy-handed methods of enforcement.
- Regimes in the developing world do not appear to experience a uniform pattern of pressure. So policy process also influenced by different interests of different pressure groups.
- Developing countries has less ability to marshal superior levels of knowledge and expertise

- Specialized information, systemic data collection and documentation

In short, disparate access to resources, disparate levels of economic development and disparate social patterns easily account for strong policy-framework and policy-content differences between developing and advanced industrial societies.

An assessment of the objective condition indicates that policy formulation and implementation in Bangladesh are inadequate primarily for the following reasons (World Bank 1996):

- Weak policy formulation capacity
- Weak commitment at the bureaucratic level
- Lacks responsiveness
- Policies are inconsistent
- Policies are unpredictable
- Lacks credibility

Osman (2004) identified the reasons for the existing wide implementation gap of the public policy of Bangladesh. According to her, contextual factors affecting policy implementation are:

1. Socio-cultural factors: over population, inequality, illiteracy, lack of trust
2. Economic factors: resource constraints, dependence upon donor agencies
3. Political factors : instability, unrepresentative government, weak local government organizations
4. Administrative factors : bureaucratic dominance and centralization of authority (Osman 2004, pp.259-320)

Conclusion: In this chapter, initially, the importance and significance of the SMEs in Bangladesh and global context have been discussed. Definitions of the SMEs also have been given which are used or practiced in the framework of Bangladesh government. Various meanings and definitions of the SMEs that are conventional and followed in the other countries of the world have also been described according to the contemporary literature of the SME policies. SME policy frameworks in Bangladesh have also been

explored here. In the later portion of this chapter, dynamics of the successful implementation of the policies and the reasons behind implementation failure have been tried to be identified. Some analytical frameworks of policy implementation have been presented through reviewing the relevant literature. Among those frameworks, the policy implementation model given by Grindle (1980) have been chosen to be more compatible and fit for analyzing IP 2005 of Bangladesh. Because she argues both contents and contexts of a public policy in third world countries play crucial role in the process of implementation. In the following chapter, achievement and challenges of IP 2005 will be tried to be identified. The role of the policy actors, how far the policy objectives and strategies have been put into reality, to what extent policy programs have been materialized, the state and reasons of serious implementation gap will be investigated in the next chapter also.

CHAPTER 4

ACHIEVEMENTS AND CHALLENGES OF INDUSTRIAL POLICY 2005

This chapter examines the nature and extent of implementation of the IP 2005 in an attempt to identify roles played by the actors, the contextual spillover and the reasons for the implementation challenges of the policy. Initially this chapter will discuss the policy model, policy actors, policy instruments, and policy style in regard to IP 2005. Then it will try to analyze the nature of policy implementation through examining the policy outcomes and its impact. This sub section will be followed by the illustration of the process through which the policy is implemented by the actors and organizations and or institutions concerned. This will be done in two phases. At the first phase, attempt will be made to explore the extent of the IP 2005's outcome in general, and later on, achievements of SME policy related areas will be explored. At the end of this chapter, challenges of overall IP 2005 as well as SME policy strategy will be identified as part of an effort to see the implementation gaps and the reasons behind implementation failure. In identifying failures in the policy cycle of IP 2005 models used by Grindle (1980) will be tested and an effort of coming up with an implementation framework for IP in Bangladesh will be produced in the next chapter.

A Brief Analysis of IP 2005

IP is a major public policy of Bangladesh. Public policy is whatever Governments choose to do or not to do (Dye 1981,p.1).Whether one chooses to study public policy for scientific, professional or political reasons, policy analysis refers to the explaining the causes and consequences of various policies. Though the main objective of this study is to reveal the achievements and challenges of IP 2005 of Bangladesh, to some extent, policy analysis of IP 2005 is relevant in the study. Analysis of IP 2005 is done here summarily in the following sequence.

Policy Model of IP 2005

A model is simplified representation of some aspects of the real world. Dye (1981,p.20) used eight models to examine public policy. These are; (1) institutional model (2) process model (3) group model (4) elite model (5) rational model (6) incremental model (7) theory model and (8) systems model. Dye continues that most public policies are a combination of rational planning, incrementalism, interest group activities, elite preferences, systemic forces, game playing, political processes and institutional influences. Going through each of the models, academically and theoretically IP 2005 can be mostly considered as a combination of mainly institutionalism and incrementalism. A slight tinkering and adding some policy ideas to IP 1999 has produced IP 2005. A conspicuous policy transfer has occurred in IP 2005. Unlike all the past consecutive IPs, IP 2005 contained SME policy strategy development. According to GOB (2007, p. 20) a project was taken by MOI to develop and promotion of SME sectors entitled SME Sector Development Project in 2005. This ADB funded SME Sector Development Project consists of (i) a program loan (ii) a project loan and (iii) a TA loan. Among them the program loan is designed to establish SME policy and development framework. Including SME policy is an instance of policy making incremental model i.e. tinkering occurred and a policy transfer was adjusted i.e. SME issues were already pursued in the international context.

Actors and Institutions Involved in IP 2005

Both actors and institutions play a crucial role in the policy process. Public policies are made by policy sub-systems consisting of actors dealing with a public problem. The term actor includes state and societal actors, some of whom are initially involved in the policy process while other is only marginally. Howlett and Ramesh (1995) define institutions narrowly as the structures and organizations of the state, society and the global system. According to them policy actors are divided into five categories. The categories are: (i) elected officials (ii) appointed officials (iii) interests groups (iv) research organizations and (v) mass media. Besides these five categories, in developing countries like Bangladesh, donors or developing partners also play important role in policy process.

Studying IP2005 and relevant documents and literature, following actors have been identified that are involved in the process of IP of Bangladesh:

- Cabinet: Minister for Industries and others
- Bureaucrats: Secretary and his colleagues of MOI and other ministries, Secretaries' Committee, other public agency managers and the concerned technocrats(Bhuyan 2005)
- Trades and industrial bodies: FBCCI, NASCIB,DCCI and other relevant associations.
- Research organizations: CPD, BEI, DU (GOB 2007, CPD 2005, BEI 2004)
- Media : Print and electronic media
- Developing partners: ADB (GOB 2007)

Institutions involved in the process of IP 2005 and policy strategies for the development of SMEs are as follows:

1. MOI, MOF, Ministry of Commerce, Ministry of Power, Energy and Minerals, Ministry of Textile and Jute, Ministry of Forest and Environment, Ministry of Science and ICT, Ministry of Agriculture and other relevant public agencies e.g. Bangladesh Bank, Board of investment, Privatization Commission, Tariff Commission, BSCIC, BEPZA (organization of the state)
2. CPD, BEI, DU and various associations e.g. FBCCI, DCCI, MCCI, BCI, CCCI, BGMEA, BTMA, BJMA (organization of the society)
3. ADB,UNDP ,World Bank (organization of the international society)

The relationship between actors and institutions in the process of IP is dependent on each other. Not only in policy formulation, but also in the implementation, monitoring and evaluation stages the inter-related relationship between these actors and institutions is very much crucial. A diagram showing the relationship between actors and institutions involved in IP 2005 is shown in Figure 4.

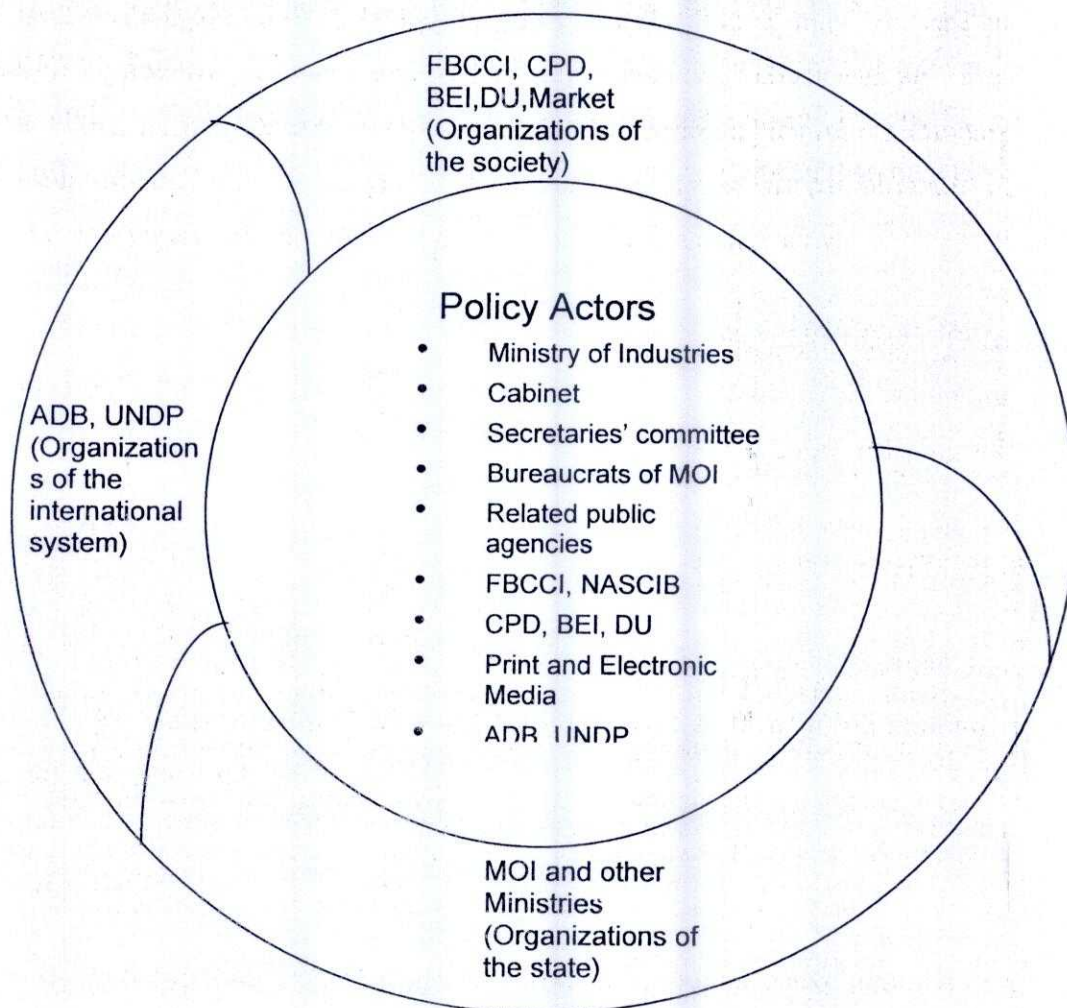


Figure: 4 The relationship between actors and institutions involved in IP 2005 (the inner circle is for actors and the outer circle is for institutions)

Source: Personal observation

Policy Instruments Needed in IP 2005

Policy instruments are called policy tools or governing instruments that government use to put policies into effect. These are the actual means or devices governments have at their disposal for implementing policies (Howlett and Ramesh 1995,p.80-100). According to them policy instruments are classified into four categories. They are (i) organization-based instruments (ii) authority-based instruments (iii) Nodality of

information. After studying IP 2005 the followings have been emerged as the policy instruments related to the policy:

1. Organization-based instruments: Ministry of Industries, other concerned ministries, BSCIC, BEPZA, BOI, BIM, NPO, TICI, BJMC, TIDC, BSTI, Bangladesh Handloom Board, Privatization Commission, National Board of Revenue, Bangladesh Bank, Securities and Exchange Commission, Jute Diversification Center, FBCCI, DCCI, MCCI, BCI, FICCI, CCCI, NASCIB, BGMEA, BTMA, BJMA, Bangladesh Employers Federation, Women Entrepreneurs Association and private entrepreneurs.
2. Authority-based instruments: Act, Policy, Ordinances, Circulars, Rules, Resolutions, Public-Private partnership, Deregulation or self regulation, Recognition, Award. For instance, Accreditation Board Act 2006, offering CIP awards etc.
3. Treasure-based instruments: Subsidy, Tax holiday, Loan, Tax rebate, Duty free import policy, Out ward remittance, In ward remittance
4. Nodality of information-based instruments: Press conference, public relations section of MOI and other ministries and corporations, free flow of information in print and electronic media.

Policy Style of IP 2005

According to Howlett and Ramesh(1995,pp.184-193) there are four types of policy styles. The pattern of policy change can be referred as policy style. The types of policy styles are: (i) reactionary (ii) consensus seeking (iii) domineering and (iv) anticipatory. Any public policy may be categorized as one of the above types or combination of two or more than two on the basis of how policy shift occurs. There may be various combinations of styles. The combinations are; i) anticipatory and consensus styles ii) reactionary and consensus styles iii) anticipatory and domineering styles iv) reactionary and domineering styles. IP2005 of Bangladesh has the styles of combination of anticipatory and consensus and also reactionary and consensus seeking styles.

Objectives of the IP2005

There are as many as 13 objectives in IP 2005. The objectives are given below:

1. One of the foremost objectives of the IP 2005 is to set up planned industries considering the real domestic demand, prospect of exporting goods abroad, and discouraging unplanned industries in the light of past experience.
2. Accept private initiatives as the main driving force of economic development and uphold the government's facilitating role in creating a favorable atmosphere in order to augment private investments in the country's industrialization, given the background of a free market economy and globalization.
3. Arrange for state-owned industrial enterprises to be sold/transferred/leased or administered in any other way by the Privatization Commission or concerned ministries in order to accelerate the privatization process.
4. Take necessary initiatives to set up industries with private entrepreneurships, and where that is feasible, establish industries on state initiative in those sectors that are considered very important and essential because of national interest, where private entrepreneurs are not forthcoming.
5. Catering the needs for local and foreign market and also for consumer satisfaction of the local products; measures to be undertaken (a) produce world class quality products, (b) diversification of goods, (c) introduce cost-effective management in the production system, (d) more value addition in the industrial sector, and (e) provide support for enhancing productivity by using continuous, appropriate and advanced technology.
6. Provide assistance to augment the industrial sector's contributions to the GDP of the national economy, meet the general demands of local consumers and earn more foreign exchange so that local industrial entrepreneurs can attain further capacity to establish industries, and industrial goods can have access to the overseas market on a competitive basis.
7. Provide inspiration for the speedy expansion of cottage industries and SMEs and for further investment in these sectors so that new employment opportunities are generated,

unemployment reduced and poverty alleviation program made in the country.

8. Prioritize the expansion and development of agro-based and agricultural processing industries, and assist in the expansion of poultry, dairy and goat-sheep industry as agricultural industries.
9. Provide women entrepreneurs with all necessary assistance in establishing industries in various sectors.
10. Increase productivity at enterprise level; produce high-value added products step by step through development and application of appropriate technology and increase of export through export diversification.
11. Provide all necessary assistance for producing environment-friendly product with the objective for creating a pollution-free environment in the industrial sector.
12. Expand the local market and establish more backward linkage industries in order to accelerate the export of high value-added garments produced in the export-oriented garment industries and other relevant industrial sub-sectors.
13. Further enrich the industrial sector with the proper utilization of the country's various natural and mineral resources (GOB 2005a)

Implementation Process of IP 2005

Implementation process of IP 2005 is horizontal in nature. No single ministry is liable to translate the policy direction into reality. More than one ministry in addition to MOI, a good number of departments and regulatory bodies in the public sector; private sectors and citizens groups are assigned to carry out and implement the policy programs and policy directives. The responsibility and duty of implementing IP 2005 lies with the organizations discussed in the sub-section of policy instruments. According to (GOB 2005a,pp.32-33) all public agencies will follow the industrial policy. IP 2005 also spells out of forming of three high level committees to implement, monitor and review of the IP 2005. According to GOB (2005a,pp.32-34) these three committees are as follows:

1. The **National Council for Industrial Development (NCID)** undertakes various development programs aiming at establishing countrywide small, medium and heavy

industries at a massive scale. The Prime Minister of the Government of the People's Republic of Bangladesh is its Chairperson and the Minister for Industries is its Vice Chairman. The Council will also comprise the following:

- (1) The Ministers for Finance, Commerce, Power and Energy, Agriculture, Textiles and Jute, Environment and Forest, Post and Telecommunication, Science and ICT, Labor and Employment, Civil Aviation and Tourism, Expatriate Welfare and Foreign Employment, Women and Children, and Fisheries and Livestock, and the Deputy Minister for Industries
- (2) Chairman, the Privatization Commission
- (3) A Member of Parliament from each of the administrative divisions
- (4) Governor, the Bangladesh Bank
- (5) Secretaries of the relevant Ministries/Divisions (Finance, Industries, Commerce, Planning, ERD, Power and Energy, Textiles and Jute, Post and Telecommunication, Science and ICT, Labor and Employment)
- (6) Members of the Industries and Energy Divisions of the Planning Commission
- (7) Executive Chairman, the BOI
- (8) Chairman, the Tariff Commission
- (9) Chairman, the BSCIC
- (10) Executive Chairman, the BEPZA
- (11) Presidents of the FBCCI, DCCI, MCCI, BCI, FICCI, CCCI, NASCIB, BGMEA, BTMA, and BJMA
- (12) President, the Bangladesh Employers' Federation
- (13) Chairperson, the Women Entrepreneurs' Association
- (14) Government nominated five distinguished industrialists.

The Council will meet once every six months, and the MOI will provide the Council with secretarial assistance.

2. An **Overall Guidelines Committee** (OGC) has been proposed in the IP 2005 under the supervision of the MOI. The objective is to provide entrepreneurs with information-based advice and overall assistance in the interest of planned and proper industrialization in the country and also to provide necessary recommendations and assistance to public and private industries by coordinating with relevant Ministries and agencies so that their problems are minimized. The committee will comprise as follows:

(1) Minister, MOI	Convener
(2) Chairman, Privatization Commission	Member
(3) Principal Secretary, Prime Minister's Office	Member
(4) Governor, BB	Member
(5) Secretary, Planning Commission	Member
(6) Secretary, Finance Division, Ministry of Finance	Member
(7) Secretary, MOI	Member
(8) Secretary, Ministry of Commerce	Member
(9) Secretary, Internal Resources Division and Chairman, NBR	Member
(10) Secretary, Ministry of Agriculture	Member
(11) Secretary, Ministry of Fisheries and Livestock	Member
(12) Secretary, Ministry of Science and ICT	Member
(13) Secretary, Ministry of Textiles and Jute	Member
(14) Executive Chairman, BOI	Member
(15) Executive Chairman, BEPZA:	Member
(16) President, FBCCI	Member
(17) President, NASCIB	Member
(18) Chairperson, Women Entrepreneurs' Association:	Member
(19) Additional Secretary, Ministry of Industries	Member-Secretary

The Committee will get together at least once every three months.

3. The following **Sub-committee** will submit to the OGC a report with specific recommendations on the profitability and probable risks of industrial enterprises to be set

up and the scope and facilities of items produced in the local export market so that suitable programs can be undertaken to set up industrial enterprises:

(1) Secretary, MOI	Convener
(2) Secretary, Ministry of Commerce	Member
(3) Chairman, National Board of Revenue	Member
(4) Member (Industry), Planning Commission	Member
(5) Secretary, Ministry of Textiles and Jute	Member
(6) Executive Chairman, BOI	Member
(7) A Deputy Governor level representative from BB	Member
(8) A Member level representative from Privatization Commission	Member
(9) Chairman, BSCIC	Member
(10) President, FBCCI	Member
(11) President, BCI	Member
(12) President, BGMEA	Member
(13) President, BJMA	Member
(14) President, BTMA	Member
(15) President, NASCIB	Member
(16) Chairperson, Women Entrepreneurs' Association	Member
(19) Joint Secretary (Autonomous Bodies), MOI	Member-Secretary

If necessary, new members can be co-opted in the committee.

It is imperative that proper constitution and functioning of these committees play important and crucial role in achieving the objectives of the IP 2005. Because almost all of the policy actors and instruments have been somehow accommodated in these three committees. In the next sub-sections entitled 'Implementation Status of IP 2005' and 'State of SMEs at Present: Achievements' it will be examined whether these committees have been formed timely, properly and are functioning regularly. Parliament in general and Parliamentary Standing Committees also play roles in the course of implementation process of IP 2005. However, MOI bears the larger share of the pie of the liability of

implementation gap of IP 2005 as this Ministry has the lead role in formulating, implementing and co-coordinating the issues of IP 2005. Now in the next section, efforts will be made to identify the programs and plans under IP 2005 and their implementation status.

Programs and Plans Spelled out in IP 2005 and it's Implementation Status:

IP 2005 contains 13 objectives. To achieve the objectives 32 strategies have been selected in this regard. In the fourth chapter of IP 2005, definitions and classifications of industrial enterprises have been discussed. Chapter 5 to chapter 19 of IP 2005 discusses the policy directions. In these chapters policies have been presented in several approaches. Some policy statements are of instruction approach, some are directives approach, some are strategic approach. some of the policy statements are bearing the specific program or plan or action approach. Reviewing IP 2005 the following plans or programs of action have been identified that are supposed to be implemented by the policy actors through utilizing the policy instruments. Simultaneously, implementation status will also be drawn accordingly in table 5.

Table:5: Implementation status of the IP 2005 as of August 2008

Serial no	Plan or Program of actions of IP 2005	Policy Outcome
1	BSCIC, BEPZA, BOI, BIM, NPO, SCITI, TICI, BJMC BHB, BSB will discharge their assigned duties to achieve the policy goals.	No specific appraisal is done in this study.
2	Establishing Private EPZ	Korean Export Processing Zone (KEPZ) has been established in the private sector
3	Accreditation Board as a regulatory body will	Accreditation Board Act was

	be established.	passed in the Parliament and the Board took off in 2006.
4	Except for the reserved sector, capital will gradually be withdrawn from state-owned corporations	No progress is found.
5	Providing revenue and financial incentives as per IP 2005	NBR is implementing through SROs and budgetary process.
6	SME development and SME policy framework	Will be discussed in the next sub-section
7	Creating SEZs	An ordinance is approved in July 2008 to establish SEZ in Sylhet.
8	The month of January will be observed as the productivity month from 2006	Not yet implemented
9	A national "Excellence in Productivity and Quality" award will be given every year from 2005 on to an institution which will achieve the highest productivity records.	Not yet implemented
10	"Productivity Policy" will be drawn up which will provide help to and exert influence on developing productivity in the country.	Not yet implemented
11	In its regular broadcasts, Bangladesh Television and Radio Bangladesh will stress the importance of productivity and announce the positive results	Not yet implemented
12	A Productivity Data Bank will be established in NPO so that persons concerned can access information for necessary guidance on productivity.	Not yet implemented
13	Participation and development of women entrepreneurs in industrialization	First and second women national SME conferences

		held. Incentives declared for women entrepreneurs.
14	Employment of child labor will be stopped in industrial enterprises.	Not yet fully implemented, steps under way
15	Establishment a separate bank for women for the promotion of entrepreneurship. Co-lateral free loans will be considered for women entrepreneurs.	No women bank has been set up. Collateral free loan for women is approved principally for SMEs by BB
16	Incentives and facilities for export oriented and export linkage industries.	Being implemented by NBR and BB
17	Facilities and incentives for FDI	Being implemented by BEPZA and BOI.
18	The BOI will provide necessary assistance and facilities to boost private investment in Bangladesh.	BOI is working in this regard
19	Facilities and incentives will be provided in the EPZs	Is being implemented
20	Ensuring quality control	BSTI has been strengthened and Accreditation Board has been established
21	Management training development	BIM is working in this regard
22	Environmental pollution control	Is being gradually implemented by the concerned agency
23	In order to provide incentives to non-resident Bangladeshi (NRB) investors, 5 to 10 important non-resident Bangladeshis will be selected every year as CIP.	CIP already recognized
24	Production of diversified jute goods	Being implemented by the Ministry of Jute
25	Necessary amendments will be brought about to the Board of Investment Act 1989, Foreign	No amendment brought yet

	Investment (Development and Preservation) Act 1980 and other relevant legislation	
26	MIS will be set up in MOI	Implemented
27	Formation of NCID	Implemented
28	Arranging meeting of NCID after every six months	Not yet held
29	Formation of OGC	Implemented
30	Arranging meeting of OGC every three months	OGC meeting held 4 times up to 2006, and afterwards no meeting held
31	A new category will be added to the Independence Day Award to recognize the special contribution of entrepreneurs to the industrial sector.	Not implemented

Source: Personal observations, reports-returns of MOI and newspaper reports

Apart from these plans or programs of actions, IP 2005 contains many more policy instructions, suggestions and guidance. As those are continuous processes in policy environment. So, they are not included in the above matrix. Time and resource constraints as well as lack of secondary documents compelled the researcher to reveal the implementation status of the specific action plans only. In the next sub-section, 'state of SMEs at present: policy outcome will be explored.

State of the SMEs at Present: Achievements:

One of the major objectives of IP 2005 is to provide inspiration for the speedy expansion of cottage industries and SMEs and for further investment in these sectors so that new employment opportunities are generated, unemployment reduced and poverty alleviation program made in the country. To achieve this goal IP2005 suggests to adopt the strategy of providing special facilities as well as infrastructural support to cottage and SME

located in different parts of the country. Chapter 8 of IP 2005 contains the policy guidance and action plan for massive establishment of SMEs across the country. In aiming to bring about poverty alleviation, unemployment reduction and creating more opportunity so that national economic growth can be attained. To this end, the Government has taken an initiative to draw up a separate SME policy with a view to providing necessary guidelines and strategic assistance in respect of establishing SMEs throughout the country. The guidelines and strategy incorporated in the relevant policies will be pursued in establishing and expanding SMEs of all kinds throughout the country. Now as per objective of the study, the implementation status of the SME development policy and programs will be revealed in table 6.

Table: 6 Implementation status of SME policy strategy 2005 as of August 2008

Serial No	Plan or Program of Action in IP 2005 and PSDSME 2005	Implementation Status
1	Separate SME policy framework will be drawn up	PSDSME has been formulated
2	An SME Advisory panel shall be constituted.	SMEAP has been constituted
3	The Government shall form an SME Foundation	SMEF has been established.
4	Revenue and financial incentives will be provided to the SMEs	A separate section is inserted in annual budget of 2008 in this regard.
5	Credit distribution package and venture capital market will be created	Small Enterprise Fund has been transferred to SMEF and action taken
6	Multi-stage sample survey of SMEs will be done	Implementation is going on
7	SME web portal will be launched	Already implemented
8	Virtual SME front-office shall be established	A total of 32 SME virtual front office (Help line centers)

		have been established
9	A high performance communications backbone shall be put in place	
10	International technology exchange program will be taken	Yet to be implemented.
11	Private-Public partnership will be established for SME promotion	Steps under way
12	Women entrepreneurs will be accorded preferences, efforts to accelerate the promotion of women entrepreneurs should be strengthened	i) First and second national women SME entrepreneurs workshop held in 2006 and 2008 ii) WEF is formed iii) GAP under way iv) Collateral free SME loan for women is kicked off v) A total of 272 female entrepreneurs have been imparted 3 days long SME training
13	Capacity building and training	A total of 732 SME entrepreneurs have been imparted 3 days long SME training(Table: 7)
14	Mitigating impediments in clusters	No initiative apparently found
15	A small claims courts need to be instituted	No initiative apparently found

Source: Personal observations, reports-returns of MOI and SMEF and newspaper reports

These are the policy outcomes and policy implementation gaps or failures. In fact, the term SME started its journey in policy, institutional and economic frameworks in Bangladesh through IP 2005 and PSDSME 2005. Only a few years have elapsed since the

SME policy was formulated. Dependable and necessary secondary data and literature have not yet been created to find out the real world scenario of the state of SMEs in Bangladesh. However, it is possible to have an idea of how the policy process is progressing- which this study tries to do.

Table:7 Entrepreneurship development training imparted

Division	Total trainees	Male trainees	Female trainees
Dhaka	83	39	44
Chittagong	94	47	47
Rajshahi	79	54	25
Khulna	71	47	24
Barisal	54	47	07
Sylhet	86	62	24

Source: GOB (2007)

Achievements of IP 2005

IP 2005 is not completely a new public policy. This policy has emerged with incremental changes of the past ones. Economic trends across the globe lead the Governments in power time to time to adopt IP. However, since formulation of IP 2005, already three years have passed. In this section, achievements of IP 2005 will be explored. To boost up the economy, IP is not a single runner in the race of development. Industrial Policy, Trade Policy, Fiscal Policy, Monetary Policy and other public policies combined plays role for moving the wheel of engine of economic growth. Policy strategy of IP 2005 is important in this regard (GOB 2005a, p.8).

Contemporary literature, secondary data, personal observations and correspondence, leading national Bangla and English daily newspapers reveals the achievements of IP 2005 and it is worth noting that these achievements are the synergic effect of IP 2005

with other relevant public policies of the Government. The following achievements can be identified as the policy outcome of IP 2005.

(1) An SME policy and institutional framework has been the most important achievement of IP 2005.

(2) Accommodating women in the industrial field in the form of first and second national women SME entrepreneurship conference, women entrepreneurs forum, making provision of disbursing SME loans up to Taka 2.5 million to a single women entrepreneur at a lower interest rate without collateral is another important outcome of IP 2005. It is worthy mention that unlike previous IPs, IP 2005 bears a separate chapter entitled 'Participation and Development of Women Entrepreneurs in Industrialization.'

(3) For the first time in Bangladesh, a separate sub-section is inserted in annual fiscal budget document of the Government. Importance given to SME development in IP 2005 and PSDSME lead the Ministry of Finance to put emphasis on SME promotion (GOB 2008)

(4) BB has implemented two policy proposals related to SME development. These are: i) opening of SME service Centers in each bank. The service centers will handle SME loans to the deserving entrepreneurs including women ones. ii) The BB has asked the scheduled commercial banks to earmark 40 per cent of its SME loans to small enterprises, beside allocating 15 per cent of the total credits to female entrepreneurs (The Daily Star 2008a). The BB has also asked the commercial banks to maintain 1 per cent general provision instead of 2 per cent against unclassified loan for the SMEs (The Daily Star 2008b). The Daily Manabzamin (2008) informs that 14 commercial banks including one foreign bank have been given permission to open 100 SME centers for SME loan operation. According to the Daily Star (2008c) reveals that SMEF decided to disburse loans to the SME entrepreneurs at 10 per cent interest. Prior to this decision, 16 per cent was the interest on SME loan. The amount of this SME loan is US \$ 30 million, of which 10 per cent will go exclusively for women aspirants, 80 per cent for small entrepreneurs and the remaining 10 per cent will be reserved for utilizing in general. The GOB received US \$ 50 million grant from ADB to support the SME sector in 2005. US \$ 30 million of which has been sanctioned as SME loans. Earlier the grant was preserved in the BB. Recently the

Government handed over it to the SMEF and the fund is titled as Small Enterprise Fund (The Daily Star 2008c). Moreover, the SME loans by different banks increased at the end of March 2008 compared to the end of December 2007. the SME loans disbursed by the foreign banks rose up by 18.66 per cent, specialized banks by 4.77 per cent, private banks by 4.20 per cent, non-bank financial institutions by .59 per cent and state-owned banks by .27 per cent (The Independent 2008). These fiscal policy outcomes help the SME entrepreneurs including the women access to finance as access to finance is a major challenge for the development and promotion of SME entrepreneurship in Bangladesh. These achievements are the policy outcome of IP 2005 mainly and other policies also played synergic effects also.

(5) According to Khan (2008), FDI in EPZs grow almost 100 per cent to US\$ 302 million in financial year of 2008 against the amount of US\$ 152 million in the previous fiscal. Bangladesh Export Processing Zone Authority (BEPZA) attained 17.73 per cent growth in export earnings during 2007-2008 fiscal. BEPZA earned US\$ 2.43 billion in 2007-2008 fiscal against the export earning of US\$ 2.06 billion in the immediate past fiscal. The EPZs have been able to employ over 1700 new workers during the fiscal with total employment in EPZs rising to .218 million against the amount of .18 million in the fiscal of 2003-2004. BEPZA has played pivotal role for poverty alleviation with job creation of 7300 Bangladeshis in the last four years. BEPZA has sanctioned 481 industrial units in different EPZs of the country up to March 2008. Among those 303 units were sanctioned till 2004 and the rest of the 178 units have been sanctioned during the last four years (Rahman 2008). IP 2005 and the previous IPs gave attention and policy support through various policy instruments to EPZs to attract FDI. As a result the performance of EPZs is satisfactory and enthusiastic. Thus policy initiative in favor of FDI in EPZs helped them play significant role for socio-economic development of the country.

(6) IPs have given foundation for building consensus among the major political parties of Bangladesh. It has to accommodate the arc-rival political parties for a long period of time. Confrontational politics among the major political parties hindered the economic and political progress of the country. But a conspicuous consensus has been taken place in formulating IPs. Theoretical consensus has been established in formulation of the IPs.

This issue of having consensus in the area of IP was also recognized in IP 1999 (GOB 1999, p.1). Such consensus is required for ensuring enabling environment for implementing the policy in aiming to accelerate the pace of growth.

Challenges of IP 2005 in General

A country's development prospects are influenced by three sets of factors: endowments, policies and institutions. Endowments are: human resources, natural resources etc. Bangladesh is rich in population but its human capital is not rich in productivity. Bangladesh has got few natural resources. So Bangladesh has to build up human resources blended with proper and timely policy that will lead to emerge strong institutions. Like New Industrial Economies (NIEs), Bangladesh has huge human resource. A policy framework and its guided and monitored implementation by the policy instruments (yet to be capacitated and productive) will give stability and affluence for Bangladesh. East Asia's successes occurred due to policies for macroeconomic stability, human resource investments and outward orientation. According to Salahuddin (2008) the driving forces of success of Vietnam is that Vietnam replicated the Chinese growth model. He suggests that Bangladesh has to replicate the 'Chindia' model with a Vietnamese twist: export-led manufacturing growth of China with the democratic political system of India at a scale similar to Vietnam. For outward export led manufacturing growth, strong and proper and timely policies that support creation of human capital is one of the prime need. Keeping these in mind, IP 2005 has been studied and its achievement has been explored. Now, challenges regarding content and context of IP 2005 will be tried to be identified.

Over Emphasis on Privatization Process

IP 2005 has given over emphasis on privatization process. The word private or privatization or free market economy has been used throughout the policy as many as thirty one times. Knowingly or unknowingly the entrepreneurs and policy key actors used this ideological term repeatedly. Privatization or free market economy is not an economic

slogan only. Rather this is an ideological movement initiated by Washington Consensus. To counter socialism, neo-liberalism- a politico-economic ideology emerged during Raegan- Thatcher period. Stiglitz (2008) criticizes this new liberalism ideology. He terms new liberalism as market fundamentalism. According to him, neo-liberalism was born from this market fundamentalism. Rizvi (2008,p.25-29) also criticizes privatization process. According to him privatization cannot solve the problems of public enterprises. Rather government should create enabling environments so as the SOEs can and must compete with the market. He argues that efficiency comes from competition not from privatization. He continues, "...Today, there is considerable opinion in the UK that the railways may have to be brought back under government ownership to regain the status. This further shows the government's need to regulate the service provision and ensure that citizens are not being short changed"(Rizvi 2008,p. 29)

According to Siddiq (2008), during the period of 1975 to 2007, 74 large SOEs were made privatized or lay-off. Among them 54 SOEs were totally sold out. After selling these SOEs Government got only Taka 7070 million. Siddiq argues that selling bricks, woods, soil and scraps of these SOEs would amount to several thousand crore Taka. Siddiq raises accusation against the officials of the World Bank or IMF for destroying the SOEs of Bangladesh as those officials come from a neighboring country. However Siddiq could not provide any specific empirical proof in support to this accusation. Thus it can be concluded that privatization is not a panacea to face the inefficiency problem of the public sector. So, too much strategic or ideological bias towards privatization is emerged one of the major challenges of the IP 2005.

Implementation, Monitoring and Reviewing Mechanism of the Policy is Weak

Implementation, monitoring and reviewing mechanism of the policy process is not clearly stated in the policy documents. The role, scope, area of responsibility of the NCID has not been stated clearly. No accountability measures have been incorporated in IP 2005 regarding implementation, monitoring and reviewing the policy process. A vague responsibility of 'undertaking various development programs aiming at establishing countrywide small, medium and heavy industries at massive scale' is assigned to NCID

only. The council will meet once at every six months. Duration of gap between the two meetings is much longer. It is relevant to cite the example of National SME Development Council of Malaysia. This is the highest institutional framework for SME policy implementation chaired by the Prime Minister of Malaysia. Regular meetings are held with the agencies, ministries, banks and financial institutions that provide support for SMEs and a reporting mechanism for monitoring outcome of the activities and providing feed back have been established. This is among the measures taken to enhance transparency and accountability among policy implementers (UNDP 2007). In contrast, NCID in Bangladesh has no formal mechanism to ensure monitoring, transparency and accountability. Industrialization is an important economic activity for attaining the desired growth of economic development of the country. So more importance and attention deserve to be given to this policy implementation process from the highest seat of the Government. The OGC has not also been given the responsibility of implementation, monitoring and reviewing IP 2005. Rather this committee has been assigned to provide necessary recommendations and to coordinating among the public agencies so that problems of private-public industries are minimized. Then a question normally arises who is in charge of implementing, monitoring and reviewing of IP 2005. Same comment is fit for the sub-committee as spelled out in IP 2005. It is revealed that these three committees have no specific charter in regard to implement, monitor and review of the policy. Thus content of IP 2005 suffers from a serious loophole in the area of implementation procedure.

Inconsistency in the Objectives and Strategies of IP 2005

Objective of an IP is the element that defines and evaluates the future way of action to achieve the expected outcome. Harmony and consistency among various objectives transmits the actual message and notion of the IP to all stakeholders regarding the targeted outcome of the policy. Through this manner all stakeholders can understand and can execute their desired role to address those objectives. Overlapping, vague expression, lack of priority defining, conflict among objectives creates the inconsistency within an IP. Similarly inconsistency can be created within the strategies defined in an IP. On the other

hand inconsistency can be taken place between objectives and strategies due having lack of coordination and supplementary manner between these two elements.

Thirteen objectives are defined in the IP 2005 which are mentioned in chapter two and denoted as 2.1 to 2.13. On the other hand thirty two strategies are defined in chapter three and denoted as 3.1 to 3.32. Some level and sorts of inconsistency exists within some of these objectives and strategies. These are mentioned and analyzed below:

- 2.8 Prioritize the expansion and development of agro-based and agricultural processing industries, and assist in the expansion of poultry, dairy and goat-sheep industry as agricultural industries.
- 3.8 Consider the readymade garment and textile industries as a priority sector in view of their special contributions to the country's export trade.

According to the objective clause 2.8 agro-based industries is the priority for industrialization and industrial progress. On the other hand according to the policy strategy clause 3.8 readymade garments and textile is the priority sector. So it is not clearly mentioned which sector is the first priority sector in industrial policy. Moreover the nature of these two sectors is not same. Therefore there is a chance that the investors and other stakeholders may be misguided due to this confusion. Agro-based industries are small industries where as garments and textiles are basically medium and large industries. Therefore another inconsistency develops whether IP of Bangladesh promotes small industries more.

- 2.12 Expand the local market and establish more backward linkage industries in order to accelerate the export of high value-added garments produced in the export-oriented garment industries and other relevant industrial sub-sectors.
- 3.7 Assist backward linkage industries on a priority basis. The objective is to diversify and produce goods of world standard and value added items so that they help to diversify our exports.
- 3.11 Strengthen and ensure efficiency in import substitution industries so that the gradually increasing demand for goods in the local market can be met.

According to objective clause 2.12 and policy strategy clause 3.7 it is evident that IP 2005 of Bangladesh is an export-oriented IP. Motive of this policy is to promote export to earn foreign currency. Volume of export can be increased day by day if cost-effectiveness, product diversification and quality of the product. Competition is the tool that ensures cost-effectiveness, product diversification and quality of the product can be

ensured. Export-oriented approach put the local industries in competition with foreign industries. Therefore all firms try to be competitive to enhance the market share.

According to the policy strategy clause 3.11 IP 2005 has biasness towards import substitution approach. In this approach import substitute industries get protection and priority. Theoretically competition is not promoted in this approach which is an inconsistency to the approach mentioned in objective clause 2.12 and policy strategy clause 3.7. Therefore there is a chance that investors may be misguided.

Again, let the following clauses of IP 2005 may be considered.

- 2.8 Prioritize the expansion and development of agro-based and agricultural processing industries, and assist in the expansion of poultry, dairy and goat-sheep industry as agricultural industries.
- 3.3 Provide financial, technical, technological and infrastructural facilities in order to inspire setting up and developing agro-based industries.
- 3.4 Take steps to preserve and market agro-based goods hygienically by processing in frozen, pasteurized, canned or dry form so that goods produced in the country are preserved and marketed in compliance with modern standards in order to ensure that they can be made available in the local market or exported throughout the year.
- 3.22 Consider highly developed technology-based seed breeding, production and development, and agricultural goods processing activities as industries. At the same time, take strong steps regarding the diverse use of jute.
- 2.6 Provide assistance to augment the industrial sector's contributions to the GDP of the national economy, meet the general demands of local consumers and earn more foreign exchange so that local industrial entrepreneurs can attain further capacity to establish industries, and industrial goods can have access to the overseas market on a competitive basis.

By introducing objective clause 2.8 and policy strategy clauses 3.3, 3.4, 3.22 agriculture sector and agro based industries are promoted and prioritized. But the basic goal of an IP is not ensure that manufacturing sector is contributing more in the GDP which is mentioned in the objective clause 2.6. Theoretically it is proved that in agriculture sector the rate of return is lower than that in the manufacturing sector. So it is a misleading approach to promote agricultural sector through IP. Moreover the success of an IP is to ensure that resources are appropriately shifting from agriculture sector to industrial sector. But this notion is not clearly adopted in the in IP 2005.

IP in any country is based generally on the comparative advantage, the factor of production which is abundant and cheap, of that country. But if the IP 2005 is analyzed it is found that all sorts of industries (small, medium, large, agro, non-agro, cottage, heavy, etc.) are supposed to be promoted as thrust sector. Here the issue comparative advantage is not considered at all which is the major inconsistency and weakness of this policy. As Bangladesh has abundant supply of cheap labor so it is a comparative advantage. Therefore this IP should consider those industries which are labor intensive and which have comparative advantage. When agro-based industries remain labor intensive then it has low productivity and less cost-effectiveness. If agro-based industries are mechanized then it become productive and cost-effective but not labor intensive. Thus some in-built pitfalls are found in IP 2005. However, selecting thrust sectors always do not necessarily require having comparative advantage.

Challenges in Export Orientation and Attracting FDI

Leipziger & Thomas (1993) say whether there were successes, they were based on export development. NIEs did not merely provide protection for local industry, but provided support of many kinds to help achieve export competitiveness, a public policy should exist there that emphasizes government's role in supporting investments, particularly in infrastructure and labor skills, international marketing and technology acquisition. IP 2005 set export oriented industrialization as one of the major objectives of the policy. Prioritizing export-oriented industries and providing all-out government assistance in respect of this will be ensured. To enhance export orientation, as Bangladesh shows low performance in savings and investment, it requires massive inflow of FDI. To attract FDI

Table 8: Trend of FDI inflow of Bangladesh

Year	No. of units	Investments; US \$ (mil)	Employment
2003-2004	124	457.981	29818
2004-2005	118	868.987	29974
2005-2006	135	3353.499	46226
2006-2007	182	1460.723	69246
2007-2008	130	625.045	45296

Source: BOI report on 13/08/2008

two public sector investment promotion agencies are working in Bangladesh. They are BEPZA and BOI. The performance of BEPZA has already discussed in the previous section entitled 'Achievements of IP 2005'. But the main investment promotion agency BOI does not produce success story. In accordance with the Board of Investment Act 1989, the BOI will provide necessary assistance and facilities to boost private investment in Bangladesh. The Board, formed under the leadership of the Prime Minister, with Ministers and Secretaries representing relevant ministries, will take necessary decisions in order to help establish new industries and provide assistance to already established industries (GOB 2005). Ali (2008) says only twenty meetings of governing body were held in 19 years proves that the board failed to realise the importance of BOI in the economic development of Bangladesh. Year wise joint-venture or 100 percent FDI proposals registered with BOI during the period of last five years shows a down ward trend (Table 8). Due to political instability, weakness of policy and institutional framework, lack of strategic planning, odd location of the office of the BOI are the major causes of the negative performance of this investment agency. Unless this investment promotion agency is not strengthened with creation of enabling environment the inflow of FDI will not be accelerated and thus export-orientation will not happen in the economy of Bangladesh. It is worth note that to attract FDI in a large scale is not important for making the economy of a developing country export-oriented but it is essential for bringing latest technology into the country. And this vital for global competitiveness (Bhuyan 2005,p.22).

Challenges in Poverty Alleviation

Poverty alleviation through establishment and supporting to the SMEs was one of the major objectives of IP 2005. But after a period of three years of formulating policies, the latest report provided by different domestic and international organizations show that poverty situation of Bangladesh has been deteriorated. CPD says that during last three years a total of 8 per cent of the population of Bangladesh has been added to the caravan of the poor. According to BB, population below poverty line increased from 40 per cent to 43 per cent. Unnayan Samunnay, a third sector research organization reveals that

number of population below poverty line increases with 4 per cent amounting to total number of poor 45.86 per cent (Kazal 2008). However, introducing IP 2005 and efforts for SME policy implementation did not produce any positive outcome in terms of poverty alleviation. So this negative pace of poverty reduction still remains a threat to IP and SME policy of Bangladesh.

Challenges of IP 2005 in SME Policy and Institutional Framework

Before publication of IP 2005, the term SME was quite alien to the policy arena of Bangladesh. With the active involvement in SME Sector Development Project, IP 2005 put emphasis on placing a SME policy framework. Accordingly, PSDSME was formulated in late 2005. And this PSDSME keeps provision of establishing an SME Foundation. The existence of SMEF is a policy outcome of IP 2005. The constitution of the board of directors shows that this SME policy implementing institutional framework is a blending of Public-Private sectors. The chairman of the board has been nominated from outside the Government structure. It is recognized that SME plays an important role in achieving economic growth. In the existing policy and institutional framework in Bangladesh, a private person is heading the SMEF. In Malaysia, the SME institutional framework is headed and guided by the Prime Minister of the Government. The Malaysian Government set up a National SME Development Council chaired by the P.M. of Malaysia (UNDP 2007). In ROK, the President, who is also head of the Government, directly heads the Presidential Commission on Small and Medium Enterprises (COTI 2007). But in Bangladesh, SME policy could not involve the highest executive of the Government. And keeping the chief executive of the state apart from the institutional framework, the present SME institutional framework may be considered as a weaker institution.

Besides these, SME policy and existing institutional framework of Bangladesh do not have any provision of being inclusive in any international and regional SME organizations or associations. Establishing partnership and cooperation with the global SME actors and players will provide bringing in new technology, knowledge spill-over,

expertise, and improved management and implementation strategies. As for instance, the first ASEM Ministerial meeting was held in Beijing on 30-31 October, 2007. Ministers and representatives from 45 ASEM member countries including India, Pakistan, Thailand and Vietnam under the theme 'Drive the Future with Innovation; Promote Development through Co-operation'. this conference achieved outcomes as several policy consensus. Irony of fact, Bangladesh could not attend this international SME forum (NDRC, 2007).

Challenges in Productivity Enhancement

Nee (1996) places two characteristics of economic growth. The first, growth is the transformation of an economy as its per capita income rises. The second characteristic of economic growth is the high rate of productivity increase as an economy develops. The productivity is measured by the value added per worker. Nee demonstrated that there is a dynamic productivity-economic transformation relationship (Figure: 5) which should be strengthened and the human capital investment in supporting to exports strengthen the productivity-economic transformation linkage. So, it is clear that increasing productivity is a must for attaining faster growth. But the implementation status shows a frustrated outcome of productivity related policy programs of IP 2005. And this lower productivity performance throws a big challenge to the outcome of IP 2005.

This chapter tried to present a brief analysis of IP 2005. It also laid down the implementation process of IP 2005. Implementation status of IP 2005 has been explored by revisiting the secondary sources of data and from personal observations. Achievements and challenges of IP 2005 and the SME policy area have been drawn up from the contemporary literature, report-return and documents of the relevant ministries and the departments and the printing media. In the following chapter, an effort for analyzing the factors of the achievements and the challenges of IP 2005 and the SME policy will be made in aiming to come up with an implementation framework.

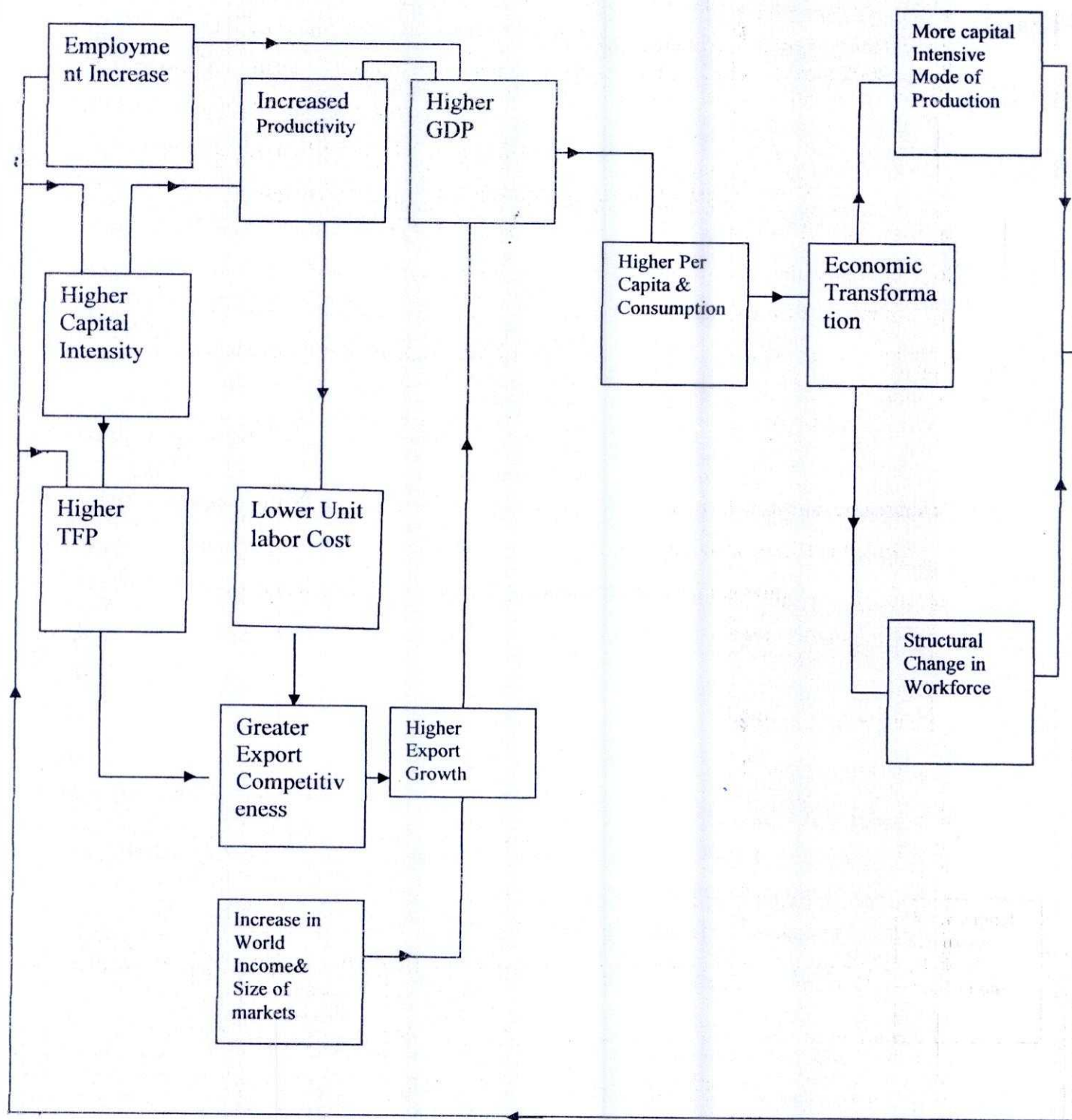


Figure 5: Productivity-Economic Transformation Linkage

Source: Nee (1996)

CHAPTER 5

FINDINGS AND ANALYSIS

In the previous chapter, achievements and challenges of IP 2005 have been found out from the secondary sources of data and personal observations. In this chapter, success stories of IP 2005 and the implementation gaps of the policy process of IP 2005 will be shown. Factors behind the successful implementation of some of the policy programs of IP 2005 and causes of major policy failure will be analyzed. Efforts will be done to fit these factors and causes with the theoretical frame works discussed in the third chapter.

Success Stories

As indicated in Table 5 and Table 6 of the previous chapter the following success stories have been found as the policy outcomes of IP 2005. Those outcomes are listed below.

- (1) Private EPZ named KEPZ has got policy and institutional framework.
- (2) Accreditation Board for harmonizing standardization process is set started.
- (3) Steps for establishing SEZ is under way.
- (4) WEF has been formed, first and second national women SME conference were held. Financial incentives for woman SME entrepreneurs have been ensured.
- (5) Offering CIP award to NRB entrepreneurs have been started from 2008.
- (6) Formation of NCID and OGC has been done.
- (7) PSDSME has been formulated.
- (8) SMEF has been established and started functioning.
- (9) Revenue and financial incentives have been included in fiscal budget from 2008.
- (10) SME web portal has been launched.
- (11) Virtual SME front office has been established.
- (12) Capacity building in SME entrepreneurship is going on (Table 7).

Implementation Gaps in the Process of IP 2005

According to the matrix presented in the preceding chapter (page 81-84), some of the implementation failures can be identified as follows:

1. The month of January still has not been declared as a month of productivity.
2. A national 'Excellence in Productivity and Quality' is yet to launch.
3. The productivity development program has not yet been declared and accepted as national movement.
4. A productivity 'Data Bank' has not been established yet.
5. Regular broadcast through radio and television on the importance of productivity is yet to start.
6. A women bank has not yet been initiated.
7. 'Independence Day Award' recognizing the special contribution of entrepreneurs to the industrial sector is yet to put into effect
8. No meeting of NCID has been held till August 2008 since the formulation of IP 2005.
9. Meeting of OGC was held only four times till 2006 and after that time no meeting has been held till August 2008.
10. No sub-committee meeting was held after formulation of IP 2005.

Analysis

Let the implementation success stories of IP 2005 be analyzed. These success stories are linked with 'who gets what' theme. For instance, Accreditation Board has been established within a year of formulating IP 2005. Bureaucrats who are the aspirants of holding the posts and seekers of others facilities showed much interest and paid effort for policy implementation. In addition to this, active role of parliament has also prompted to enact the provision of establishing this Accreditation Board.

Another fact has been revealed in this study and that is donor-funded policy programs are almost implemented within stipulated time. According to Table 6 (see chapter 4)

implementation status of SME policy looks satisfactory. No serious implementation gap occurred here. The most probable dynamics behind these successes is that continuous monitoring and pressure from donor side. It is worth noting that the SME policy programs were put into implemented under ADB funded SMESDP (Miah 2007). This factor played strong role in this case. Besides, required resources were allocated and timely disbursed. Active monitoring and regular oversight activities from the part of donor are usually not seen in the public sector and in public policy process. The other success factors of policy implementation of IP 2005 found in this study are shown in the figure 6.

Findings reveal that implementation failure has occurred seriously in the productivity area of IP 2005. Mere rhetoric policy programs are not sufficient. Important is whether the programs are translated into reality. IP 2005 does not explicit the mechanism of implementation accountability. Absence of accountability and monitoring mechanisms produces such big implementation gaps in productivity related policy areas. Implementing productivity related programs has been influenced by the content of policy as shown by Grindle (1980). According to her, type of benefits and 'who gets what' are important dynamics for policy implementation. Productivity movement does not provide any immediate tangible benefit or any cash or kind allocation. Rather, productivity movement results the far reaching effect in accelerating national growth. As no instant benefit arises here, so policy actors and institutions did not show much interest to put the productivity related plans spelled out in the IP 2005 into reality.

Same is the reason for not materializing the plan of setting up a woman bank. Benefit seekers perhaps found no interest here. Probable investors in the banking sector are mainly male entrepreneurs. Available female large-scale entrepreneurs are yet to emerge in Bangladesh. As the woman bank will deal only with the woman aspirants, so due to lack of direct benefit, male investors are reluctant to make invest in this end. This type of reason of implementation failure is also supported by Grindle (1980). Here type of benefit influenced the implementation gap. Moreover, lack of initiative of the Government also is liable for not launching a woman bank in the country.

Constituting and functioning of the three committees (NCID, Overall Guidelines Committee and Sub-committee) were not regularly and properly implemented. NCID did not sit for a single time since the IP 2005 had been formulated. Overall Guidelines Committee sat only four times during the democratic regime till October 2006. And after ward no meeting of this committee was held up to August 2008. Sub-committee still did not sit in any meeting. According to Grindle (1980) political context has a great influence in policy implementation. The context of politics of Bangladesh from October 2006 onwards was full of uncertainty and instability. So these contextual environment does not allow the system in constituting the committees timely and holding the meetings regularly. Moreover, bureaucracy must bear the responsibility as they are the main role players in implementation process. They are the program implementers and as Grindle says that implementation process is influenced by program implementers. Efficiency, interest, skill of bureaucracy would work properly when political oversight will be there. As the political system was disrupted and normalcy was absent from late 2006, the bureaucratic inertia was aggravated. Moreover, 'wait and see' motive hindered the implementation process of IP 2005. Lack of willingness and absent of initiative lead the implementers to the stage of implementation gap specially in the area of productivity related policy programs.

Gerston (1997) opines lack of funding as a cause of implementation failure. But in this study, it is not clearly proved. Let the implementation gaps shown in the preceding section be considered. There are ten implementation failures found in this study. Among them, only one is related to some extent funding issue. Establishing a woman bank requires resources. Hence, this study explores that lack of funding is a minor excuse in public policy implementation process. As here it is found that among ten failures, only one implementation gap has a linkage with resource allocation.

On the basis of direct discussions and personal communication with the relevant actors, and also on the basis of personal observation implementation failure (no. 1) revealed in this study happened due to lack of initiative of the concerned bureaucrats of the Ministry

and the agency. The pin-point reason is that no direct benefit might be obtained in this case. Implementation failures (no.8 to 10) have been caused by political instability

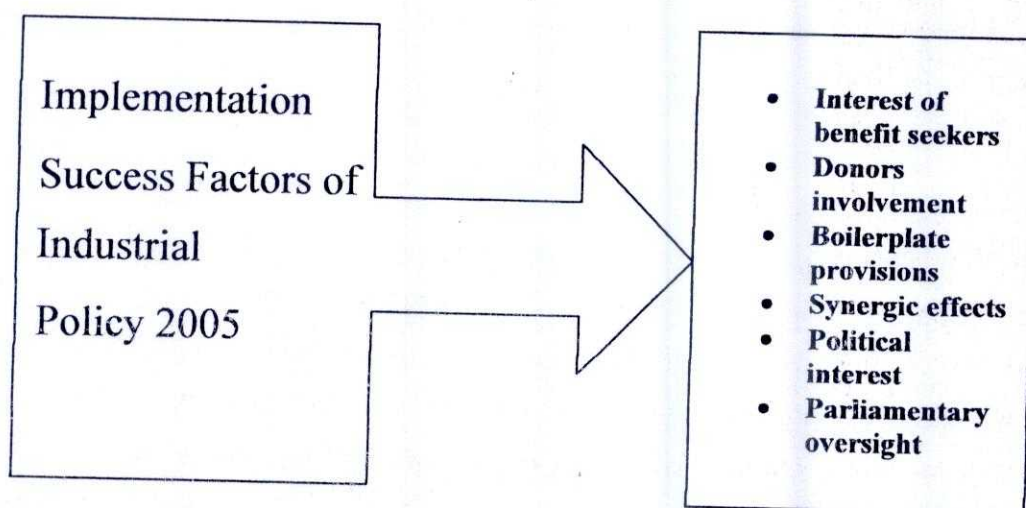


Figure:6 A diagram showing implementation success factors

Source: Personal observations

and failures (no. 1 to 5) have been caused by lack of efficiency and lack of self-starting attitude of the bureaucrats. So, it has been found in this study that five among ten failures occurred due to lack of initiative in bureaucracy as there is no direct and immediate benefit and or incentive is available in these policy programs. The rest three failures are caused due to lack of political stability.

Finally, the following inferences can be drawn from the above stated discussions and findings.

1. A total of 50 per cent implementation failures in the process of IP 2005 were triggered by the lack of interests and initiatives of the concerned bureaucrats and agency managers.
2. More 40 per cent implementation failures occurred due to political instability.

3. The rest 10 per cent policy failures happened due to lack of funding or resource constraints.

These reasons of implementation failure in the policy process of IP 2005 that have been found in this study are shown in Figure 7.

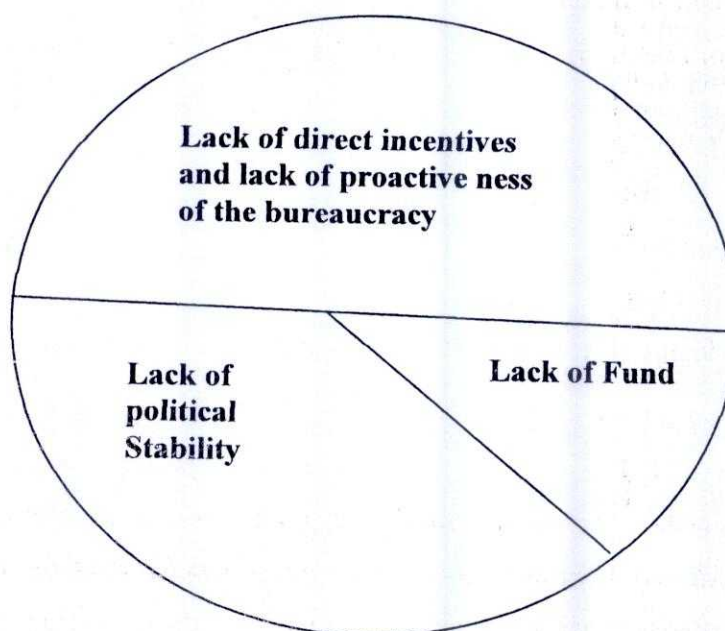


Figure: 7 Reasons behind the implementation failures in the policy process of IP 2005.

Source: Findings of this study

In this chapter, public policy implementation success and implementation failure factors have been tried to be explored. These factors of success and gap are showing almost similarity as stated by Grindle (1980). In addition to her theories, one new dimension has been identified through this study. And this is 'donor involvement'. In the developing country like Bangladesh, successful policy implementation has a strong and positive relationship between public policy process and the foreign donor agencies and or development partners. It has also become clear that fund shortage is a minor excuse in implementing public policy in the developing countries like Bangladesh. According to these findings, proper policy recommendations will be laid down in the succeeding chapter.

CHAPTER 6

CONCLUSION AND RECOMMENDATIONS

Conclusion

Bangladesh, after long 37 years of its gaining independence in 1971, is relentlessly making effort to transform its socio-economic conditions to keep pace with national and global trends of politics and economies. Adopting its first IP in 1973, it had formulated nine IPs in the successive years. Till the IP 1999, the GOB had put emphasis on privatization, attracting FDI, expanding EPZs and establishing small and cottage industries across the country. It is worth mentioning that the major political parties of the land maintained consensus in the field of IP (GOB 1999, p.1), so political ideology was not a barrier.

The latest IP of the GOB is IP 2005 which was formulated in the same year. This IP 2005 has taken a new course of policy proposals. In the mean time, the country has shifted its planning process from five year planning mode to poverty reduction strategy style. Reduction of poverty became the main area of focus of nearly all public policies of Bangladesh. In this continuation, IP 2005 has declared promotion of SMEs as one of the major focal points of the IP which aims at reducing the poverty level and creating employment opportunity. Role of women in industrialization, enhancing productivity of the industrial sector have also gained ground in this latest policy document.

Mere formulation of policy to reduce poverty of the country through industrialization is not enough to make the country a poverty free . Proper implementation of the public policy process is very important in regard of obtaining outcome of a public policy. Various analytical frameworks are found in the policy implementation literature. In this research, analytical framework given by Grindle (1980) has been utilized to examine the implementation of IP 2005. In this context, secondary data including personal

observations of the researcher have been widely utilized to explore the implementation successes and failures of IP 2005. Achievements and challenges of IP 2005 have also been traced according the objectives of the study.

The findings of this research reveals that a total of 50 per cent implementation failures in the process of IP 2005 have occurred due to inefficiency and inertia of the bureaucracy. And 40 per cent implementation failures happened due to political instability triggered by the political events which took place at the end of 2006 and onwards. Only one-tenth of the total implementation failures of IP 2005 is linked with funding problems. Though the public policy process is considered as a political process, finding of this study suggests that the role of the permanent bureaucracy is crucial in the process of policy implementation. Another reason that has also been identified through this study is involvement of the development partners play a successful role in materializing the public policy process in Bangladesh. Policy plans related to SME promotion have reached a state of reality because of the direct involvement of ADB with the MOI.

Apart from the case of implementation failures, some achievements have been detected as the outcome of IP 2005. Among these success stories, establishing of private EPZ, Accreditation Board, SME policy framework, SMEF, offering CIP award to NRB entrepreneurs, launching of SME web portal are the important ones. Formulating timely policies and its required adjustments along with its efficient and proper implementation enriched the economies of ROK, China and Malaysia. Hence, policy process of industrialization can contribute in running the wheels of economy of Bangladesh in the right and desired direction if proper policy implementation can be ensured.

However, some challenges are there. Among these challenges, some are in-built in the policy. Over emphasis on privatization process, weak mechanism of implementation and monitoring, inconsistencies of the objectives and strategies of IP 2005 are the major content challenges of IP 2005. Contextual challenges of IP 2005 are: downward flow of FDI to Bangladesh, increasing poverty rate due to global and national socio-economic events, lack of interest of bureaucrats and agency managers in implementing the policy

plans related to productivity etc. are note worthy. These challenges of the content of IP 2005 are mainly associated with the reasons of lack of mastery over policy formulation and lack of required understanding of the policy actors, especially of the bureaucrats. The remaining contextual challenges are not related with the expertise of the bureaucrats, the important policy actors. But the challenges related to context are closely linked with the political instability of the country.

Therefore, in the following section, some recommendations have been given to address the causes of implementation failures and to cope with the challenges revealed in this study. These recommendations may be considered by the policy actors involved in the public policies of the GOB.

Recommendations

The challenges identified in this study can be overcome by considering the following recommendations. The recommendations hereinafter have been laid down carefully by going through the causes of policy failures and the challenges.

1. Effective mechanisms of monitoring and evaluation of the policy implementation should be incorporated in the industrial policy of the Government. Clear-cut responsibilities i.e. 'who is to do what', time line and accountability approach must be indicated in the policy documents. NCID should be given specific charters regarding monitoring, supervising and inspiring role with a view to obtain maximum number of implementation successes. Likewise, OGC also be made pro-active and self-starter to achieve the desired goal. In this regard, minister in charge of MOI along with its secretary should be made liable to NCID for executing the policy strategies and policy directives.
2. To overcome the inconsistencies in the objectives and strategies the policy entrepreneurs and policy actors must acquire mastery and authority over the process of public policy formulation. Before revising the existing IP 2005, the Government must

arrange skill development program for the policy actors especially the concerned members of the bureaucracy at home and abroad.

3. Ideological bias towards privatization process should be revisited. Rather, to make the SOEs viable and liable, emphasis should be put on creating competition between SOEs and private sector. In aiming to save and strengthen the existing SOEs, IP should address the issue of adopting strategic management, setting bottom line for the SOEs management, giving more autonomy to them. Congenial atmosphere will have to be created for having competition between SOEs and the private sector. Here, the Government should play the role of steering instead of rowing.

4. With a view to enhance productivity in the manufacturing and service sector, policy plans related to productivity improvement must be executed. Accelerating the productivity level is a must for an economy to get onto track of industrialization. In this regard the existing productivity promoting agency of MOI, NPO - a small department - must be upgraded to a full-fledged department and should be manned with senior, qualified and reliable bureaucrats and efficient managers from the private sector.

5. To make the economy of Bangladesh an export-led one, inflow of FDI must show upward trend. For this, political stability is a pre-requisite for massive foreign investment. Political stability is one of the major attributes of the countries like China, India and Vietnam. This is why foreign investors chose those countries as their destination. Stable, democratic and peaceful governance will definitely attract more FDI. So the major political parties must reach a consensus of ensuring political stability as a pre-condition to grease the engine of growth of Bangladesh. Moreover, the investment promotion agency of the country, BOI must be made more effective, attractive and competitive through dynamic leadership and energetic promoters and through establishing an individual, convenient and attractive physical infrastructure.

6. SME policy and institutional framework should be given more importance at the national level. Like ROK and Malaysia, a high level national SME development council

or a central body should be constituted which will be headed by the chief executive of the Government. This high level SME body shall convene its meeting at least once in every three months. The charter of duties of this proposed high level committee will be focused on promoting SMEs and to monitoring the activity of SMEF, BEPZA and BSCIC. Efforts should also be made to include the regional and international SME fora for establishing partnerships and networks for cooperation with the global SME actors.

Finally, good governance will have to be ensured at all level of governance. Transparency, accountability, decentralization, partnership between public-private-citizens, rule of law, respect for the opposition, continuous parliamentary oversight etc. must be enforced to execute the policy guidance, policy proposals, policy plans in a view to achieve the growth rate as projected in IP 2005. Bureaucrats, in this regard, will have to play the role of implementers as well as the role of value adders. Traditional mind set of bureaucracy must be changed and strategic management, technology-oriented leadership, entrepreneurial attitude should be incorporated in the boundary of duties and responsibilities of the public managers who are also active and important policy actors in the public policy process of Bangladesh.

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Annex I

Thrust Sectors

1. Agro-based and agro-processing industry
2. Textiles industry
3. Jute goods and jute-mixed goods
4. Readymade garment industry
5. Computer software and ICT goods
6. Electronics
7. Light engineering including automobiles
8. Pharmaceutical goods
9. Leather and leather products
10. Ceramics
11. High fashion value added RMG
12. Artificial flower production
13. Frozen food
14. Integrated shrimp cultivation
15. Flower cultivation
16. Infrastructure
17. Jewellery and diamond cutting and polishing
18. Oil and gas
19. Silkworm and silk industry
20. Stuffed toys
21. Tourism industry
22. Basic chemicals/raw materials used in industries
23. Dye and chemicals used in textiles industry
24. Optical frame
25. Furniture
26. Luggage fashion-based goods
27. Cosmetics and toiletries
28. CR coil
29. Handicrafts
30. Stationery goods
31. Herbal medicines
32. Commercial plantation
33. Horticulture

Annex 2

In recent times, the boundaries of the industrial manufacturing sector have been stretched to cover the transport (?) sector nationally important activities that include many service sectors. For instance, agro-based and agro-processing industry; fishing, fish processing and marketing; horticulture, flower cultivation and marketing; food crops and oilseeds processing; and post-harvest processing of jute have been brought within the industrial sector. Similarly, tourism industry, hotel management, telecommunication, computer software and programming under ICT, e-commerce, digital network and alliance are all considered service industries in the context of today's competitive world. Likewise, transport and communication, construction, housing, furniture, forest industry, and cinema and DVD for entertainment are also considered industries. Meanwhile, in the industrially developed world, the printing presses, ginning and baling, construction business, photography, laboratory, warehouse, cold storage and container services are currently being considered service industries. Given this background, the list of service industries has been drawn up as follows in the present Industrial Policy of Bangladesh:

Service industries

1. Hospitals and clinics
2. IT-based activities
3. Agro-based activities such as fishing, fish preservation and marketing
4. Telecommunication
5. Transport and communication
6. Forestry and furniture
7. Construction industry and housing
8. Construction business
9. Entertainment
10. Photography
11. Hotel and tourism
12. Warehouse and container service
13. Printing and packaging
14. Ginning and baling
15. Laboratory
16. Cold storage
17. Horticulture, flower cultivation and flower marketing
18. Food crop and oilseed processing
19. Knowledge society with high quality merit and efficiency

Annex 3

গণপ্রজাতন্ত্রী বাংলাদেশ সরকার
শিল্প মন্ত্রণালয়
স্বশাসিত সংস্থা-৪ শাখা
শিল্প ভবন, ৯১ মতিঝিল বাণিজ্যিক এলাকা, ঢাকা

শিম/সস-৪/বিসিক(১১)/২০০৩/২২৩

তারিখ : ৫ নভেম্বর ২০০৩

প্রজ্ঞাপন

বিষয় : ক্ষুদ্র ও মাঝারী শিল্প (SME) উন্নয়নের লক্ষ্যে জাতীয় টার্কফোর্স গঠন।

দেশব্যাপী মাঝারী ও ক্ষুদ্র শিল্প (SME) স্থাপনের লক্ষ্যে অগ্রাধিকারভিত্তিতে কর্মকৌশল ও কর্মপরিকল্পনা প্রণয়ন, বিদ্যমান SME সমূহের জরীপ সম্পাদন, খাত বাছাই ইত্যাদি দায়িত্ব সম্পাদনের জন্য সরকারী সংস্থা ও বেসরকারী প্রতিষ্ঠানের প্রতিনিধি সমন্বয়ে সরকার নিম্নরূপে একটি জাতীয় টার্কফোর্স গঠন করিলেন :

প্রতিনিধি (সরকারী সংস্থা/খাত)

(১)	মুখ্যসচিব, প্রধানমন্ত্রীর কার্যালয়	-	আহবায়ক
(২)	সচিব, অর্থ বিভাগ, অর্থ মন্ত্রণালয়	-	সদস্য
(৩)	সচিব, শিল্প মন্ত্রণালয়	-	সদস্য
(৪)	নির্বাহী চেয়ারম্যান, বিনিয়োগ বোর্ড	-	সদস্য
(৫)	চেয়ারম্যান, ট্যারিফ কমিশন	-	সদস্য
(৬)	চেয়ারম্যান, বাংলাদেশ ক্ষুদ্র ও কুটির শিল্প কর্পোরেশন	-	সদস্য
(৭)	ভাইস চেয়ারম্যান, রপ্তানী উন্নয়ন ব্যুরো	-	সদস্য
(৮)	যুগ্ম-সচিব (স্বশাসিত সংস্থা), শিল্প মন্ত্রণালয়	-	সদস্য-সচিব

প্রতিনিধি (বেসরকারী প্রতিষ্ঠান)

(৯)	জনাব আবদুল ময়ীদ চৌধুরী, সভাপতি, ফেডারেশন অব এনজিও'স ইন বাংলাদেশ	-	সদস্য
(১০)	জনাব খালেদ শামস, ডিএমডি, গ্রামীন ব্যাংক	-	সদস্য
(১১)	জনাব ফারুক সোবহান, চেয়ারম্যান, বিইআই	-	সদস্য
(১২)	জনাব ইউসুফ আবদুল্লাহ হারুন, (সাবেক সভাপতি, এফবিসিসিআই) ভাইস চেয়ারম্যান, সার্ক চেম্বার অব কমার্স এন্ড ইন্ডাস্ট্রি	-	সদস্য
(১৩)	প্রফেসর মমতাজ উদ্দিন আহমেদ, প্রাক্তন সদস্য, পরিকল্পনা কমিশন	-	সদস্য
(১৪)	প্রফেসর ডঃ কে এম রাক্বানী, পদার্থ বিদ্যা বিভাগ, ঢাকা বিশ্ববিদ্যালয়	-	সদস্য
(১৫)	ডঃ নঈম চৌধুরী, চেয়ারম্যান, গ্রামীণ সফটওয়্যার	-	সদস্য
(১৬)	অধ্যাপক ফরিদ উদ্দিন আহমেদ, অর্থনীতি বিভাগ, ঢাকা বিশ্ববিদ্যালয়	-	সদস্য
(১৭)	জনাব মোয়াজ্জেম হোসেন, সম্পাদক, দৈনিক ফিন্যান্সিয়াল এক্সপ্রেস	-	সদস্য
(১৮)	সভাপতি, জাতীয় ক্ষুদ্র ও কুটির শিল্প সমিতি, বাংলাদেশ (নাসিব)	-	সদস্য
(১৯)	বেগম নাসরিন আউয়াল মিস্ট্রী, সভাপতি, Women Entrepreneurs Association of Bangladesh	-	সদস্য

প্রয়োজনে এ কমিটি আরো সদস্য co-opt করিতে পারিবে।

২। উক্ত টার্কফোর্সের কার্যপরিধি (Terms of Reference) নিম্নরূপ হইবে :

- দ্রুত অর্থনৈতিক প্রবৃদ্ধি অর্জনের অন্যতম পদক্ষেপ হিসেবে দেশব্যাপী ক্ষুদ্র ও মাঝারী শিল্প প্রতিষ্ঠান (SME) স্থাপনের লক্ষ্যে যুগোপযোগী ও বাস্তবসম্মত কর্মকৌশল প্রণয়ন;
- উপরে বর্ণিত কর্মকৌশল প্রণয়নের পূর্বে দেশব্যাপী বিদ্যমান ক্ষুদ্র ও মাঝারী শিল্প প্রতিষ্ঠানের জরীপ কার্য সম্পাদন ও সর্বশেষ তথ্যসম্বলিত প্রতিবেদন প্রণয়ন;
- জরীপের ফলাফল ও প্রাপ্ত তথ্যের ভিত্তিতে দেশে অভ্যন্তরীণ চাহিদা, বহির্বিদেশে রপ্তানী বাজারের সম্ভাব্যতা ও বিদ্যমান বেকারত্বের পরিপ্রেক্ষিতে দ্রুত কর্মসংস্থান সৃষ্টির লক্ষ্যে ক্ষুদ্র ও মাঝারী শিল্প খাত বাছাই, অর্থায়ন ইত্যাদি বিষয়ে কর্মকৌশল প্রণয়ন ও বাস্তব রূপদানে সহায়তা করা;
- গৃহীত কর্মকৌশলের আলোকে SME উন্নয়নের জন্য স্বল্প, মধ্য ও দীর্ঘমেয়াদী কর্মপরিকল্পনা প্রণয়ন;
- সভা, সেমিনার, গোলটেবিল বৈঠক, কর্মশালা ইত্যাদির মাধ্যমে SME সর্বাঙ্গীণ উদ্যোক্তা ও প্রতিষ্ঠানসমূহকে উত্বুদ্ধকরণ;
- সরকার কর্তৃক প্রদত্ত অন্যান্য কার্যাবলী;

৩। ইহা ছাড়া SME স্থাপনের কাজ ত্বরান্বিত করা ও সমন্বয় সাধনের জন্য শিল্প মন্ত্রণালয়ে একটি SME Cell গঠন করা হইবে। উক্ত সেল জাতীয় টার্কফোর্সকে সার্বিক সহায়তা প্রদান করিবে।

রট্টেপতির আদেশক্রমে,

(ডঃ মোহাম্মদ আইয়ুব মিয়া)
যুগ্ম-সচিব (সস)

নিয়ন্ত্রক

মুদ্রণ, লেখসামগ্রী, ফরম ও প্রকাশনা অধিদপ্তর
তেজগাঁও, ঢাকা।

গণপ্রজাতন্ত্রী বাংলাদেশ সরকার
শিল্প মন্ত্রণালয়
এসএমই সেল
শিল্প ভবন, মতিঝিল বাণিজ্যিক এলাকা, ঢাকা।

নং- শিম/এসএমই/২৫/২০০৫/৮৮(খ)

তারিখঃ ২০-৬-২০০৫

প্রজ্ঞাপন

বাংলাদেশে ক্ষুদ্র ও মাঝারী শিল্প (এসএমই) এর যথাযথ বিকাশ ও উন্নয়নের মাধ্যমে দারিদ্র্য বিমোচন, অধিক কর্মসংস্থান সৃষ্টি এবং সুষ্ঠু শিল্পায়নের গতি ত্বরান্বিত করে টেকসই অর্থনৈতিক প্রবৃদ্ধি অর্জনের লক্ষ্যে সরকারী সংস্থা ও বেসরকারী প্রতিষ্ঠানের প্রতিনিধি এবং বিশেষজ্ঞ সমন্বয়ে গঠিত এসএমই এডভাইজারী প্যানেল (SME Advisory Panel) সরকার নিম্নরূপে গঠন করলেন :

০১।	জনাব আবদুল মুয়ীদ চৌধুরী, চেয়ারম্যান, ফেডারেশন অব এনজিওস এবং নির্বাহী পরিচালক, ব্র্যাক	-	চেয়ারম্যান
০২।	জনাব ফারুক সোবহান, প্রেসিডেন্ট, বাংলাদেশ এন্টারপ্রাইজ ইনস্টিটিউট (বিইআই)	-	সদস্য
০৩।	জনাব মোহাম্মদ এ (রুমী) আলী, ডেপুটি গভর্নর, বাংলাদেশ ব্যাংক	-	সদস্য
০৪।	চেয়ারম্যান, বাংলাদেশ ক্ষুদ্র ও কুটির শিল্প করপোরেশন (বিসিক)	-	সদস্য
০৫।	মহাপরিচালক, বাংলাদেশ স্ট্যান্ডার্ড এন্ড টেস্টিং ইনস্টিটিউট (বিএসটিআই)	-	সদস্য
০৬।	চেয়ারম্যান, বাংলাদেশ বিজ্ঞান ও শিল্প গবেষণা পরিষদ (বিসিএসআইআর)	-	সদস্য
০৭।	যুগ্ম সচিব (স্বশাসিত সংস্থা), শিল্প মন্ত্রণালয়	-	সদস্য-সচিব
০৮।	অধ্যাপক আনোয়ারুল আজিম, ভাইস চ্যান্সেলর, ঢাকা প্রযুক্তি ও প্রকৌশল বিশ্ববিদ্যালয়, গাজীপুর	-	সদস্য
০৯।	অধ্যাপক ড. মমতাজউদ্দিন আহমেদ, অর্থনীতি বিভাগ, ঢাকা বিশ্ববিদ্যালয়	-	সদস্য
১০।	অধ্যাপিকা মাসুদা এম. রশীদ চৌধুরী, সমাজ বিজ্ঞান বিভাগ, ঢাকা বিশ্ববিদ্যালয়	-	সদস্য
১১।	ব্যবস্থাপনা পরিচালক, বাংলাদেশ স্মল ইন্ডাস্ট্রি এন্ড কমার্স ব্যাংক লিঃ (বেসিক ব্যাংক) প্রধান কার্যালয়, ঢাকা	-	সদস্য
১২।	ডঃ নঈম চৌধুরী, কনসালট্যান্ট ও সাবেক ব্যবস্থাপনা পরিচালক, গ্রামীণ সফটওয়্যার, ঢাকা	-	সদস্য
১৩।	জনাব মোঃ সাইফুল ইসলাম, প্রেসিডেন্ট, ঢাকা চেম্বার অব কমার্স এন্ড ইন্ডাস্ট্রিজ (ডিসিসিআই)	-	সদস্য
১৪।	জনাব আবুল কাশেম আহমেদ, পরিচালক, দি ফেডারেশন অফ বাংলাদেশ চেম্বার অফ কমার্স অ্যান্ড ইন্ডাস্ট্রি (এফবিসিসিআই)	-	সদস্য
১৫।	জনাব মোঃ শহিদুল ইসলাম, সিনিয়র ভাইস প্রেসিডেন্ট, বাংলাদেশ গার্মেন্টস ম্যানুফেকচারার্স এন্ড এক্সপোর্টার্স এসোসিয়েশন (বিজেএমইএ)	-	সদস্য
১৬।	মিসেস পারভীন মাহমুদ, উপ-ব্যবস্থাপনা পরিচালক, পল্লী কর্মসহায়ক ফাউন্ডেশন (পিকেএসএফ)	-	সদস্য

০২। এডভাইজারী প্যানেলের কার্যপরিধি (Terms of Reference)

- দারিদ্র্য বিমোচন কৌশলপত্রের সাথে সংগতি রেখে বাংলাদেশে এসএমই শিল্পের সুষ্ঠু বিকাশে সরকারকে প্রয়োজনীয় পরামর্শ প্রদান ;
- এসএমই নীতিমালা, কর্মপরিকল্পনা প্রণয়ন ও বাস্তবায়ন কৌশল নির্ধারণের সুপারিশ প্রদান ;
- এসএমই উন্নয়নে প্রাতিষ্ঠানিক কাঠামো প্রতিষ্ঠা ও শক্তিশালীকরণ এবং কার্যকর প্রশাসনিক দক্ষতার উন্নয়নে পরামর্শ প্রদান ;
- বাংলাদেশে এসএমই বিকাশের সমস্যা ও সম্ভাবনা নিক্ষেপে সরকারকে নিয়মিতভাবে পরামর্শ প্রদান ।
- এসএমই সংক্রান্ত সমন্বিত তথ্যভান্ডার (Data Bank) প্রতিষ্ঠা এবং এ লক্ষ্যে এসএমইএর উপর দেশব্যাপী জরীপ কার্যক্রম পরিচালনার বিষয়ে পরামর্শ প্রদান ;
- এসএমই উন্নয়নে সহায়তাকারী প্রতিষ্ঠানসমূহের কার্যক্রমে গতিশীলতা আনয়নে প্রয়োজনীয় পরামর্শ প্রদান ;
- স্থানীয় পর্যায়ে এসএমইসমূহের দক্ষতা উন্নয়নে প্রশিক্ষণ পরিকল্পনা প্রণয়নে সহায়তা প্রদান ;
- মহিলা শিল্পোদ্যোগীদের প্রশিক্ষণ প্রদান এবং Gender Action Plan বাস্তবায়নে সহায়তা প্রদান ;
- এসএমই ডাটাবেইজ, ওয়েবসাইট এবং হেল্পলাইন আউটরীচ সেন্টার প্রতিষ্ঠার কার্যক্রম সুষ্ঠু বাস্তবায়নের কৌশল নির্ধারণ ;
- বাস্তবায়নকারী সংস্থাগুলোর সক্ষমতা উন্নয়ন, নীতির প্রভাব, পর্যবেক্ষণ এবং এসএমই বিষয়ে ক্ষুদ্র উদ্যোগ তহবিলের (এসইএফ) আওতায় প্রদত্ত ঋণের সুফল পর্যবেক্ষণ ইত্যাদি কৌশল নির্ধারণ ; ও
- এসএমই নীতিমালা বাস্তবায়নের লক্ষ্যে এসএমই ফাউন্ডেশন প্রতিষ্ঠার বিষয়ে সহায়তা প্রদান ।

০৩। এডভাইজারী প্যানেল ন্যূনতম প্রতি তিন মাস অন্তর সভায় মিলিত হয়ে কর্মপরিধির আলোকে এসএমই উন্নয়নে সুচিন্তিত মতামত ও সুপারিশ শিল্প মন্ত্রণালয়ে দাখিল করবে।

০৪। এডভাইজারী প্যানেলকে এসএমই সেল প্রয়োজনীয় সাচিবিক সহায়তা প্রদান করবে।

রাষ্ট্রপতির আদেশক্রমে

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