

**IMPACT OF INFORMATION TECHNOLOGY IN TRADE FACILITATION ON  
SMALL AND MEDIUM-SIZED ENTERPRISES IN BANGLADESH\***

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The present paper titled **Impact of Information Technology in Trade Facilitation on Small and Medium-Sized Enterprises in Bangladesh** has been prepared under CPD-ARTNeT collaboration. The paper has been prepared by *Mr Syed Saifuddin Hossain*, Senior Research Associate, CPD, *Dr Uttam Deb*, Head of Research, CPD and *Mr Muhammad Al Amin*, Research Associate, CPD.

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# Executive Summary

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Bangladesh's integration into the global trade regime is largely attributed to the robustness of her export performance, particularly that by the export-oriented manufacturing industries. With small and medium-sized enterprises (SMEs) accounting for more than 90 per cent of the total industrial units, and having a share of 12 per cent to 40 per cent of total export earnings, any attempt to facilitate trade procedures is likely to have a significant impact on this group of businesses. Thus, the application and optimal use of information technology (IT) is regarded to be of critical importance in efforts to: (a) improve the competitiveness of industries by reducing unnecessary bureaucratic requirements and harmonising relevant processes, while (b) ensuring that the country is in compliance with international norms and practices introduced by such organisations as the World Trade Organization (WTO) and the World Customs Organization (WCO).

Bangladesh has, during the past two decades, undertaken various customs modernisation projects, including the introduction of Automated Software for Customs Data (ASYCUDA) and Direct Traders Input (DTI). However, the expected outcomes from such initiatives could not be realised as these projects failed to ensure a paperless customs clearance process. It was in this context that the Government of Bangladesh (GoB) recently undertook a project to automate the Chittagong Customs House (CCH) with technical support from a local IT firm known as Datasoft Systems Bangladesh Limited. The underlying objective of such an endeavour is to create an environment that is conducive to business for the private sector and to ensure greater revenue earnings by expediting customs clearance procedures.

There appears to be significant agreement among the traders and customs agents with regard to the expected positive impact of the automation process. It is believed that the initiative will result, for example, in the reduction in lodgement, clearance time and costs and corruption, an increase in number of clients for the customs agents, and freedom for agents and traders to work outside customs' normal working hours. It is also interesting to note that the majority of the customs agents and traders are ready to set up new offices or install new equipment (such as computers, fax machines and Internet connection) to gain access to the service automation process. The automated system at CCH is currently being used by more than 3,000 registered users, including 20-25 large-scale industries. However, until now, no export-oriented SME users have registered as they find it more convenient to use customs agents rather than handling the clearance procedures by themselves.

In view of the expected gains from customs automation and the interest of SMEs in using the system, the GoB should implement a number of proactive measures in the short to medium-term to ensure meaningful application of IT in trade facilitation. These measures include:

- (a) Establishing a single window by connecting all relevant government agencies through the automation system;
- (b) Ensuring immediate completion of all bureaucratic requirements in order to expedite the operation of the Dhaka Customs House (DCH) automation system;

- (c) Ensuring better risk management system by strengthening data mining procedures;
- (d) Introducing the concept of Authorised Economic Operator (AEO) in order to reward compliant firms and penalise non-compliant businesses;
- (e) Fostering and strengthening both customs-to-customs and custom-to-business cooperation;
- (f) Undertaking a country-level needs assessment study in order to benefit from multilateral trade negotiations;
- (g) Providing necessary budgetary and policy support to SMEs in the context of the ongoing global economic crisis; and
- (h) Closely monitoring the developments taking place in the ongoing Doha Development Round negotiations under WTO.





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# Acronyms

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ADP	Annual Development Programme
AEO	Authorised Economic Operator
APEC	Asia-Pacific Economic Cooperation
APTA	Asia-Pacific Trade Agreement
ASYCUDA	Automated System for Customs Data
AfT	Aid for Trade
ARTNeT	Asia-Pacific Research and Training Network
BAEC	Bangladesh Atomic Energy Commission
BARVIDA	Bangladesh Reconditioned Vehicles Importers and Dealers Association
BCSIR	Bangladesh Council of Scientific and Industrial Research
BEI	Bangladesh Enterprise Institute
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BKMEA	Bangladesh Knitwear Manufacturers Exporters Association
BOI	Board of Investment
BOOT	Build-Own-Operate-Transfer
BOT	Build-Operate-Transfer
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSTI	Bangladesh Standards and Testing Institution
BTMA	Bangladesh Textile Mills Association
CCCI	Chittagong Chamber of Commerce and Industry
CCES	Centre for Customs and Excise Studies
CCH	Chittagong Customs House
CFA	Clearing and Forwarding Agent
CPD	Centre for Policy Dialogue
CTG	Caretaker Government
DCCI	Dhaka Chambers of Commerce and Industry
DCH	Dhaka Customs House
DEDO	Duty Exemption and Drawback Office
DTI	Direct Trader Input
EEF	Equity and Entrepreneurship Fund
EGM	Export General Manifest
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
ESCAP	Economic and Social Commission for Asia and the Pacific
EU	European Union
FCL	Full Container Load
FGD	Focus Group Discussion
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GoB	Government of Bangladesh
ICD	Inland Container Depot
ICG	International Consultancy Group
ICT	Information and Communication Technology
IGM	Import General Manifest
IT	Information Technology
LCL	Less Container Load
LDC	Least Developed Country
L/C	Letter of Credit
MIDAS	Micro Industries Development Assistance and Service
MSME	Micro, Small and Medium-sized Enterprise

MTS	Multilateral Trading System
MoF	Ministry of Finance
NBR	National Board of Revenue
NSI	National Security Intelligence
NTB	Non-tariff Barrier
OECD	Organisation for Economic Co-operation and Development
PSI	Pre-shipment Inspection
RMG	Readymade Garments
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SME	Small and Medium-sized Enterprise
SPS	Sanitary and Phytosanitary
SRO	Statutory Regulatory Order
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States
USD	United States Dollar
WCO	World Customs Organization
WTO	World Trade Organization

## 1. INTRODUCTION

Trade facilitation is now recognised as a key driving factor in determining export competitiveness of a country. In a case such as Bangladesh, which is being increasingly integrated into the global economy through exports and imports of goods and services, it is crucial that trade is “facilitated” through appropriate measures. Bangladesh’s ability to ensure strengthened global integration of its economy depends on the efficacy of such measures.

Trade facilitation potentially covers a multitude of issues that are relevant to the smooth and efficient flow of trade. The term has been used in the context of a broad range of potential non-tariff barriers (NTBs) such as import licensing, product testing and overly-complex customs clearance procedures. Increased facilitation of trade, by way of ensuring optimal use of information technology (IT), should result in improved economic growth for countries and improved competitiveness for their industries by reducing unnecessary bureaucratic requirements and harmonising relevant process; at the same time, it should ensure that each country has the right to protect itself from unlawful trade practices.

For individual countries, the priority issues related to trade facilitation are heavily influenced by the perspective of their socioeconomic and geopolitical dimensions. For example, if a country is landlocked, the focus of trade facilitation is likely to be on the need for an efficient and effective transport mechanism that services its trade, regardless of distance and the number of borders to be crossed. Hence, trade facilitation involves more than just customs facilitation since it encompasses all elements of the international supply chain. Consequently, stakeholders generally include those government and business entities that are involved in the administration or conducting of international trade. The United Nations Conference on Trade and Development (UNCTAD), for example, has observed that in most countries trade facilitation involves the ministries of trade, transport and finance as well as the private sector. With a view to maintaining a sound balance between the operational procedures and stakeholders’ requirements, the global trading community has long been striving to move towards the concept of paperless trade. This implies a shift towards automation and the virtual abandonment of all paperwork.

The potential benefits of paperless trade include easier processing of more reliable information, a reduction of costs and delays all along the supply chain, and increased security in conducting international trade. Trade analysts across the world tend to believe that the adoption and proper use of IT could help save international trade billions of dollars per year. Unfortunately, the reality is somewhat different. Most traders and administrations are still largely dependent on paper documents. This not only slows down the flow of trade, but also imposes a huge amount of extra cost on doing business.

In view of the above, the question thus arises as to what is the relevance of various trade facilitation measures, including automation, to small and medium-sized enterprises (SMEs).<sup>1</sup> With the general concept being that the major players in a country’s external sector performance are the large-scale enterprises, the nature and extent of SME participation in

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<sup>1</sup>The definition of SMEs in Bangladesh, which is used in this paper, is the one provided by the Bangladesh Bank in May, 2008 (see, Annex Table 1).

the global trading system needs to be highlighted in order to establish a clear linkage between them and trade facilitation.

There is no denying that SMEs act as the engine of an economy and are very important to the economic and social development of a country. They create new jobs and provide products for daily needs. However, SMEs in developing and least developed countries (LDCs) face considerable barriers, both tariff and non-tariff, in operating their businesses, and they are often constrained financially and technologically. This includes inadequate and/or complex sets of policies by the respective governments. Such impediments largely contribute to the under-involvement of SMEs in international markets. This is where trade facilitation becomes prominent in creating access for SMEs to the global market.

In Bangladesh, SMEs are very important players in the economy. About 90 per cent of all industrial units in Bangladesh are SMEs, which generate some 25 per cent of the gross domestic product (GDP), employ about 31 million people, and provide 75 per cent of household income.

In view of the above, the ongoing negotiations on trade facilitation within the ambit of the Doha Development Round in the World Trade Organization (WTO) carry much importance for Bangladesh. As an LDC beset with resource constraints, Bangladesh has always had to struggle to ensure its meaningful integration into the multilateral trading system (MTS). However, ongoing efforts at various regional and international levels offer the potential for countries such as Bangladesh to reap the benefits, provided that adequate support mechanisms are put in place for industries to keep the wheels of economic development running through effective trade performance at the global level.

As stated above, trade facilitation is a diversified concept and incorporates a wide range of issues related to the regulation and conducting of international trade, including supply-chain management. This paper, however, focuses specifically on one particular aspect of trade facilitation in the context of Bangladesh, i.e. impact of IT on SMEs in trade facilitation. It is hoped that the policy recommendations offered in this paper will be useful in furthering the cause of SME internationalisation in Bangladesh.

Section 2 of this paper looks at the issues and concerns related to SME participation in the economic development of Bangladesh. Section 3 discusses the evolution in the use of IT in trade facilitation in Bangladesh. In Section 4, an overview of the Chittagong Customs House (CCH) automation procedure is presented, followed in Section 5 by an analysis of a survey that was carried out with regard to SME internationalisation in Bangladesh. Section 6 presents the conclusion and a set of policy recommendations.

### **1.1 Objective**

The overall objective of the study summarised in this paper was to consider the implications of trade facilitation measures in the context of SMEs in Bangladesh. The approach of the study is to examine the IT-related trade facilitation measures and their impacts from the viewpoint of SMEs. It looks at the current SME scenario in Bangladesh and identifies the

constraints the SME sector faces in the context of trade facilitation. Specific policy recommendations are made for mitigating the challenges faced by SMEs.

## **1.2 Methodology**

Both primary and secondary methods of data collection were used during the study. The primary method included a questionnaire-based survey of primary stakeholders in the private sector, which was conducted from 2-11 November 2008. The survey respondents included customs agents and representatives from the SME sector. In addition, interviews and focus group discussions (FGDs) were conducted to elicit wider views on the objective of the study. Information was also collected from operators of the relevant automation system with regard to access and use of IT and other measures in place, to ensure that they did not unnecessarily (directly or indirectly) discriminate against particular groups of traders (e.g. SMEs) (see Annexes 2 and 3 for the questionnaires).

The secondary data collection method focused on an extensive literature review covering, among others, relevant national-level studies and reports. Websites of relevant organisations were examined analytically. In addition, newspapers, conference proceedings, working papers and other sources of information were explored.

## **1.3 Literature Review**

A detailed literature review was conducted for the study. With regard to analysing the state of trade facilitation in Bangladesh and the cost implications for implementation of various trade facilitation measures, Bhattacharya and Hossain (2006) reported that the complex nature of documentation, the lengthy time taken in releasing and clearing goods from ports, and corruption among customs personnel were the major hurdles in operating a business in Bangladesh. The study further showed that a lack of automated customs procedures was a major impediment for the business community in the context of trading across borders. Similar concerns for the export-oriented industries, particularly SMEs, were raised by Ahmed (2002) and Hossain (1998). In addition, SMEs in Bangladesh have received disproportionately smaller amounts of support from the government in terms of policy or fiscal incentives, although there have been improvements in the sanctioning and other administrative procedures affecting development of SMEs (Hossain 1998).

The strongest barriers faced by SMEs when engaging in exporting were long perceived to be lack of finance and access to markets. However, as SMEs started becoming involved in export activities, these barriers receded in importance, and the business environment and internal capabilities emerged as stronger barriers (Lester and Terry 2008). Overcoming these barriers has become the key factor in developing the SME sector in Bangladesh, and the necessity for trade facilitation has become prominent. It is in this context that Prasad (2006) mentioned that trade facilitation initiatives had significant positive impacts on the private sector by increasing the volume of exports and imports, as well as through helping exporters find new markets. In addition, the Organisation for Economic Co-operation and Development (OECD) emphasised that improved and simplified customs procedures had a significantly positive impact on trade flows (OECD 2005a).

A global survey on “Removing Barriers to SME Access to International Markets” by OECD-APEC (Asia-Pacific Economic Cooperation) identified a range of barriers that were detrimental to access by SMEs to international markets. Based on the survey results, Lester and Terry (2008) summarised four barriers as the most serious impediments to SMEs’ access to international markets: (a) a shortage of working capital for financing exports; (b) identifying foreign business opportunities; (c) limited information related to locating/analysing markets; and (d) inability to contact potential overseas customers. These findings complement those of Duval (2007) which suggested that the focus of the multilateral trade facilitation agenda would ultimately need to be broadened to address the need of developing countries in Asia and the Pacific.

Wilson (2007) estimated that all countries could benefit from more efficient customs and administrative procedures, with the greatest benefits accruing to those countries with the least efficient customs and administrative procedures. Wilson *et al.* (2004) found a significant positive relationship between trade flow and port efficiency, customs environment, regulatory environment and service sector infrastructure. The study estimated that global trade in manufactured goods could gain as much as USD 377 billion from improvements in trade facilitation measures. Similarly, a 1 per cent reduction in trade transaction costs for goods trade would bring annual gains of about USD 40 billion on a world basis (OECD 2003). Most of these gains would benefit developing countries in relative terms. Duval (2006) also concluded that the long-term benefits of trade facilitation would exceed the perceived implementation costs for all measures considered.

Schware and Kimberley (1995) focused on worldwide experience and identification of factors that make way for trade facilitation through the successful application of IT. The study found that accessible information and communication technology (ICT) could significantly improve trade performance. However, this technology must be accompanied by simplification of documentation, reengineering of procedures, appropriate training and availability of local expertise, and a reliable and cost-effective communications infrastructure. Automation has, therefore, been considered to be making sense only if it serves as a tool to support customs management practices (OECD 2005b). Duval (2006) and ESCAP (2006) made similar recommendations when emphasising the establishment of an IT-based “single window” system and a modern risk management system for ensuring higher gains from trade facilitation. This holds particularly true in the context that trade and transport facilitation has become critically important for developing countries with a view to reaping the benefits from the opportunities of global production and changing trade patterns (UNCTAD 2005).

## **2. SMALL AND MEDIUM-SIZED ENTERPRISES IN BANGLADESH: OVERVIEW OF THE CURRENT SITUATION**

The Government of Bangladesh (GoB) established a National Taskforce on SME Development in 2003 with a mandate to draw up a realistic strategy for promoting rapid growth and vigorous competitiveness among SMEs in Bangladesh, with the objective of accelerating economic growth and reducing poverty in the country. One of the major recommendations of the taskforce was to establish an SME Foundation as a pivotal platform for the delivery of all planning, developmental financing, awareness raising, evaluation and



advocacy services in the SME sector.<sup>2</sup> Accordingly, the SME Foundation was launched in July 2007. The institution has recently become a member of the International Network for SMEs.

Integration into the global economy and the relatively fair pace of trade liberalisation has posed some new challenges for the Bangladesh economy, particularly among SMEs. These firms face tough competition in the domestic market because of competition from imported goods. They also face difficulties in exporting because of weaknesses in attaining the high quality standards set by importing countries as well as compliance with sanitary and phytosanitary (SPS) requirements.

One of the major constraints in the context of SME development in Bangladesh is the failure of such businesses to connect with the global market. It should be noted that even the “dollar shop” market in the United States (US) is worth about USD 40 billion annually, about 60 per cent of which is currently accounted for by imports from China. Bangladesh’s failure to exploit these formidable global market opportunities underscores the weak trade facilitation measures that inhibit the growth, functioning and export potential of SMEs.

Successive governments in Bangladesh have indeed taken some trade facilitation-related measures that were expected to benefit SMEs. Studies on trade facilitation (Cai and Geddes 2003; Bhattacharya and Hossain 2006) have identified several areas where major improvements are required in this context. However, it is known that SMEs have inherent problems, and general trade facilitation measures often do not cater to their particular needs. While some trade facilitation measures have indeed helped reduce the time required for customs clearance at the ports, SMEs continue to suffer when they try to access the global market. Studies by Ahmed (2002), BEI (2004) and Moazzem (2006) identified some major impediments inhibiting the development of the SME sector in Bangladesh, including: (a) inadequate investment; (b) lack of access to appropriate technology; (c) inability to gain access to supplies of required raw materials; (d) protected customs clearance; (e) lack of financial facilitation and infrastructural facilities; and (f) lack of skills upgrading. Given the SME sector scenario, designing trade facilitation measures has become an issue of heightened urgency in the Bangladesh context.

It should be noted that Bangladesh is a member of a number of regional trade agreements (RTAs) such as the South Asian Free Trade Area (SAFTA), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), and the Asia-Pacific Trade Agreement (APTA), which provide markets for many products; however, Bangladesh SMEs have not yet been able to enter those markets to a significant degree.

## **2.1 Contribution of SMEs to the Bangladesh Economy**

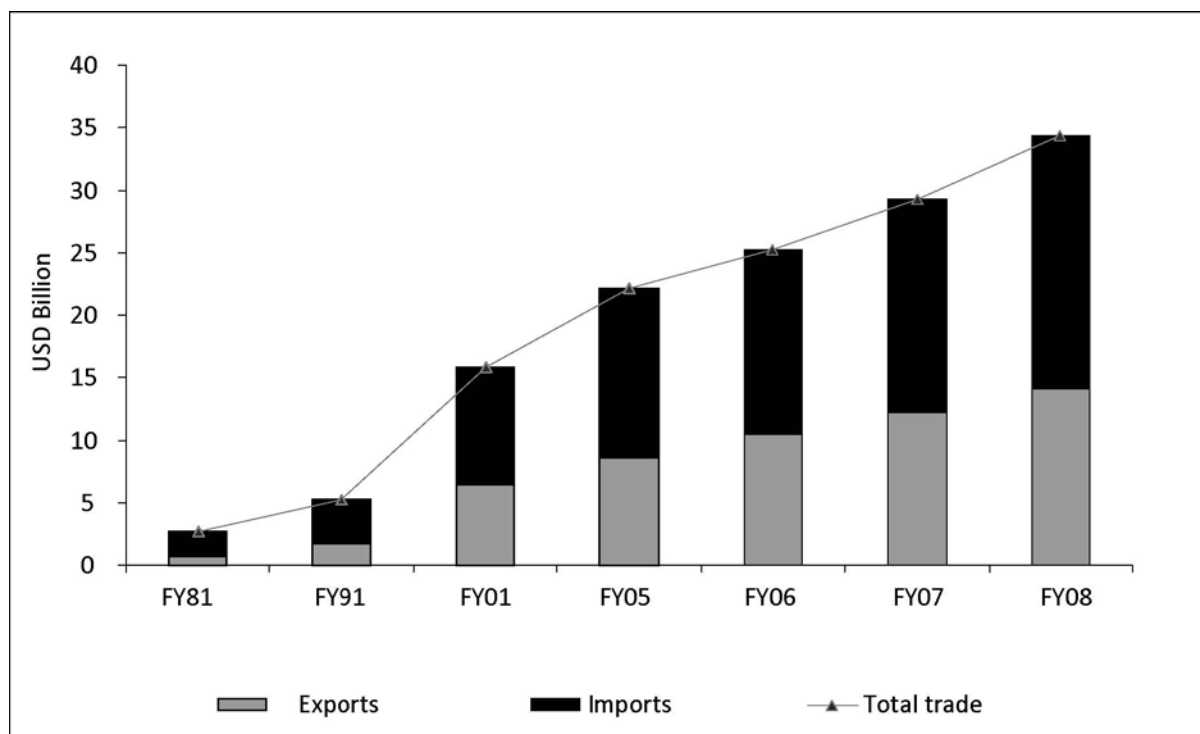
In recent years, Bangladesh has been making every possible effort, at an increasingly fast pace, to become integrated with the global economy. This has been mainly underwritten by trade reforms implemented in the recent past. Currently, the economy of Bangladesh is relatively more trade-dependent compared to its aid dependence during the 1980s. Trade-related activities contribute a substantial amount to the overall economic performance of

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<sup>2</sup>Ministry of Industries (2005).

the country. As shown in Figure 1, the value of exports from Bangladesh was more than USD 14 billion in FY2007-08, which represents a remarkable growth of 720 per cent when compared to that of FY1990-91. The corresponding growth figures for imports and total trade were 482.3 per cent and 561 per cent, respectively. This clearly shows Bangladesh's degree of openness<sup>3</sup>, which currently stands at about 43.4 per cent.

**Figure 1: Composition of Bangladesh's External Sector Performance**



Source: CPD Trade database.

Although SMEs constitute more than 90 per cent of all industrial units in Bangladesh, any viable quantitative assessment with regard to their share in the country's economy is significantly hindered by a lack of comprehensive statistical information about these industries at the national level (Ahmed, undated). However, available information shows that 3,869 new SME units were established and 94,000 new employment opportunities generated between 2002 and 2006.

With regard to the contribution by SMEs to Bangladesh's export earnings, the latest available data show that they accounted for some 11.3 per cent of total export earnings during FY2004-05 (Table 1). This figure also corroborates government statistics that indicate the SME contribution to national exports varies between 12 per cent and 40 per cent in different industries (Planning Commission 2008). Nevertheless, it must be emphasised that a comprehensive study of sectoral performance by SMEs in the Bangladesh economy, particularly in trade, is yet to be carried out.

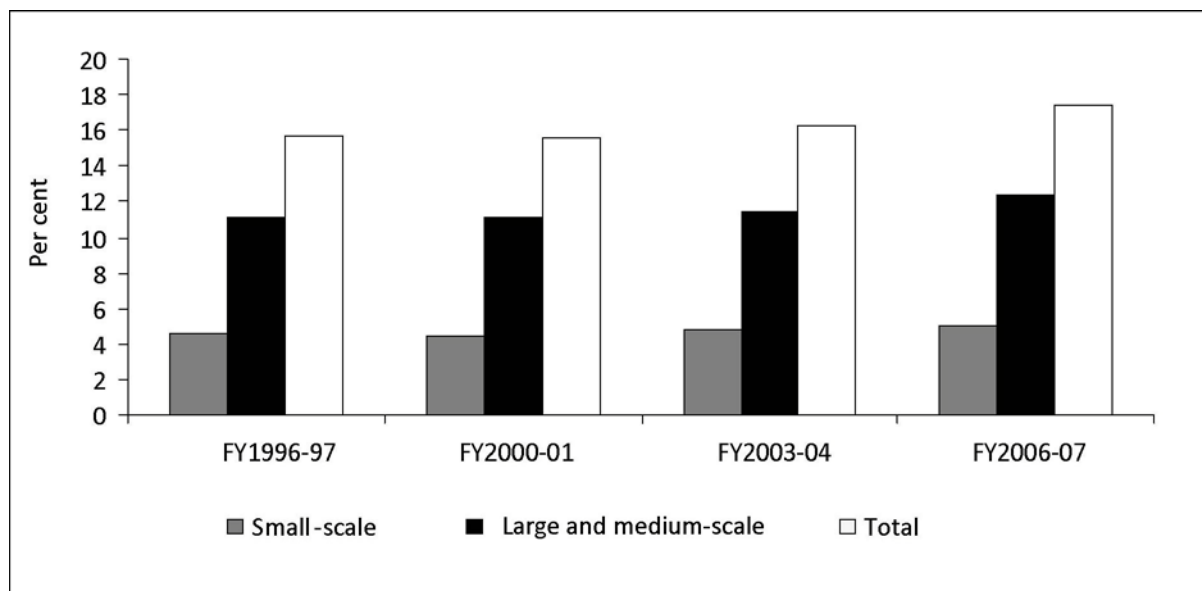
<sup>3</sup>Degree of openness = exports + imports as a percentage of GDP.

**Table 1: Share of SMEs in Export Earnings of Bangladesh: FY2004-05**

Sectoral Distribution of Enterprises	Sectoral Exports (USD Million)	Exports by SMEs (USD Million)	Share of SMEs in Sectoral Exports (%)
Woven garments	3598	450	12.5
Knitwear	2819	352	12.5
Leather	221	94	42.5
Jute goods	307	12	3.9
Fertiliser and chemical products	197	0	0.0
Footwear	88	44	50.0
Ceramic products	29	0	0.0
Engineering goods	85	20	23.5
Petroleum by-products	35	0	0.0
Handicrafts	5	5	100.0
Others	621	n.a.	n.a.
<b>Total exports</b>	<b>8652</b>	<b>977</b>	<b>11.3</b>

Source: Miah (2006).

The contribution of small-scale industries to GDP in Bangladesh has been on the rise in recent years. While it was Tk. 7,609 crore (USD 1.1 billion<sup>4</sup>) in FY1996-97, the figure in FY2006-07 stood at Tk. 14,944 crore (USD 2.2 billion). The share of small-scale industries in GDP was 4.53 per cent in FY1996-97, rising to 5.11 per cent in FY2006-07 (Figure 2).

**Figure 2: Sectoral Share to Manufacturing SMEs' GDP at Constant FY1995-96 Prices**

Source: MoF (2009).

A survey conducted by ICG/MIDAS (International Consultancy Group-Micro Industries Development Assistance and Service) in 2003-04 indicated that 51 per cent of SMEs' contribution to GDP was accounted for by small-scale enterprises that had an average

<sup>4</sup>USD 1= Tk. 69.06.

labour force size of 2-5 employees (Table 2). SMEs with 51-100 employees were at the bottom of the list in terms of contributing to GDP.

**Table 2: Contribution of MSMEs to GDP by Size of Enterprise**

Number of Workers	Percentage of Total Contribution
1	26
2-5	51
6-10	10
11-20	6
21-50	5
51-100	2
<b>Total</b>	<b>100</b>

Source: Islam *et al.* (2008).

Note: MSME: Micro, Small and Medium-sized Enterprise.

The survey further highlighted the fact that manufacturing and agriculture were the major sectors, contributing 38 per cent and 24 per cent respectively, to GDP (Table 3).

**Table 3: Contribution of MSMEs to GDP by Sector**

Sector	Percentage of Total Contribution
Manufacturing	38.0
Agriculture	24.0
Wholesale and retail trade, and repairs	23.0
Fishing	4.0
Hotels and restaurants	4.0
Real estate, renting and business activities	2.0
Construction	1.0
Transport, storage and communications	1.0
Other service activities	2.0
<b>Total</b>	<b>100.0</b>

Source: Islam *et al.* (2008).

As the above discussion indicates, the role of SMEs in the overall economic development in Bangladesh is significant. However, studies have shown that these highly potential enterprises (with an average of some 12 per cent share in export earnings) face a number of obstacles in their efforts to participate in the international trading system. A recent Centre for Policy Dialogue (CPD) study highlighted the top 10 priority areas for the private sector in Bangladesh in this regard (Box 1).

**Box 1: Top 10 Priority Areas in Trade Facilitation**

Issues
1. Reduction and simplification of documentation requirements.
2. Elimination of bribery and other corrupt practices of customs personnel.
3. Establishment of a single window for one-time submission.
4. Harmonisation/standardisation of documentation requirements, based on international standards.

(Box 1 contd.)

(Box 1 contd.)

5. Independent appeal mechanism for traders.
6. Improvements in customs inspection and control procedures.
7. Computerisation and automation of trade procedures.
8. Timely and comprehensive publication and dissemination of trade rules and regulations.
9. Completing clearance of goods before they have arrived physically in the customs territory.
10. Establishment of enquiry points and/or call centres.

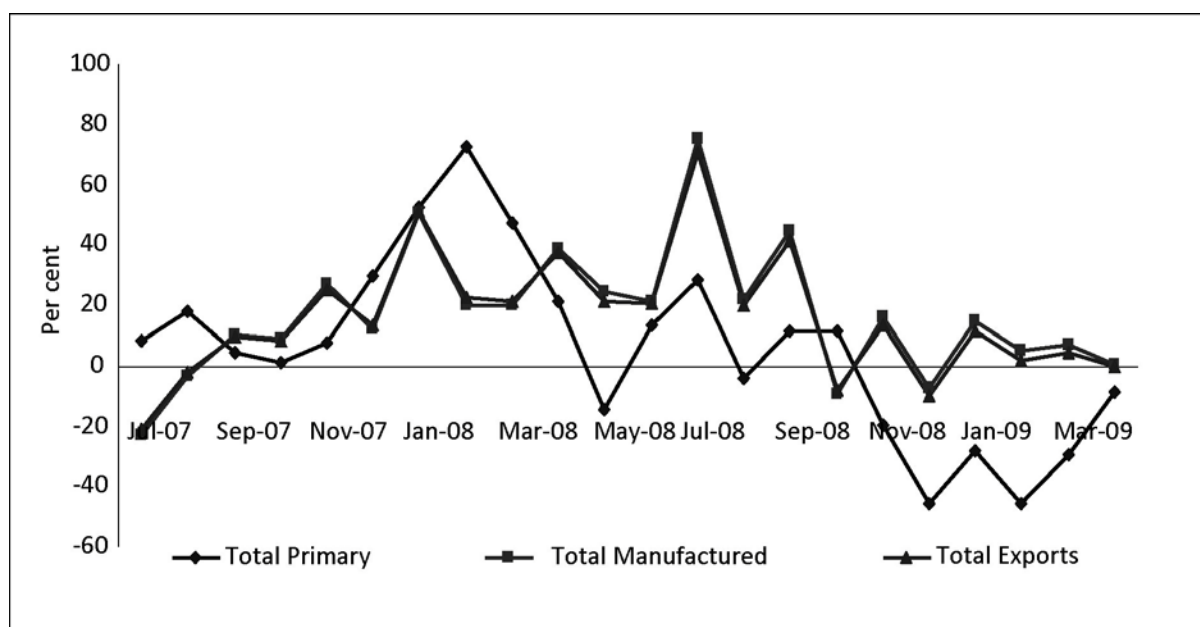
Source: Bhattacharya and Hossain (2006).

With the existing level of automation as well as future initiatives, it remains to be seen how far these concerns of the business community will be addressed by policymakers.

## 2.2 Bangladesh in International Trade: Current Concerns for SMEs

While the developed countries were the first to be affected by the ongoing global recession from the second half of 2007, the emerging and developing economies gradually started experiencing the effects from the second quarter of 2008. As for Bangladesh, the economic situation started to change since mid-2008. This is clear from a month-on-month picture of Bangladesh's export growth for FY2008-09 compared with FY2007-08 (Figure 3). Export performance in the areas of both primary and manufactured goods began to decline in July 2008. Although export growth of primary goods has started to pick up in recent months, overall export growth continued to decline during January-April, 2009.

Figure 3: Decline in Exports: July 2007 – March 2009



Source: CPD Trade database.

On the other hand, some signs of relief are visible from a quarter-on-quarter growth for FY2008-09. Total export growth figures for the first three quarters of the current fiscal year were 42.5 per cent, -1.6 per cent and 6.5 per cent respectively (Table 4). With regard to growth performance during the first 10 months of FY2008-09, compared with the same

period of FY2007-08, total exports registered a positive growth of about 12.8 per cent. This was largely made possible by the robustness in the readymade garment (RMG) sector, which continued to register positive growth throughout FY2008-09.<sup>5</sup> Nonetheless, sluggish demand in recent times in the US and European Union (EU) markets, which account for about 90 per cent of Bangladesh's apparel exports (77.3 per cent of total exports), does not augur well for Bangladesh.

**Table 4: Quarterly Export Growth of Bangladesh's Major Commodities: FY2008-09 vs FY2007-08**

Commodities	Q1	Q2	Q3	April	July-April
RMG	44.64	5.41	12.72	2.62	18.13
Non- RMG	35.71	-22.23	-14.29	-14.47	-3.76
Raw jute and jute goods	-11.49	-18.87	-25.28	-10.74	-17.74
Leather	-6.34	-50.24	-41.57	-49.98	-36.13
Frozen food	15.69	-24.31	-32.48	-26.91	-14.26
Ceramic goods	22.28	-22.65	-29.39	-17.73	-10.69
Others	62.42	-17.61	-4.33	-8.54	6.99
Total exports	42.45	-1.60	6.50	-2.30	12.76

Source: CPD Trade database.

However, other major export items such as raw jute and jute goods, leather, and frozen food had been experiencing steady fall over the second and third quarters of FY2008-09 when compared with the similar quarters of the previous fiscal year (Table 4). A similar situation prevailed from July 2008 to April 2009 when exports of all three of these major commodities suffered from significant negative growth compared with the corresponding period of FY2007-08.

As mentioned above, about 90 per cent of all industrial units in Bangladesh are SMEs. The important sectors such as RMG, raw jute and jute goods, frozen foods comprise a large number of SMEs. Therefore, any negative developments in terms of falling export growth for these sectors are likely to create more space for policymakers to adopt new strategies for helping these businesses survive in the face of the global economic turmoil.

### 2.3 Stimulus Package Announced by the Government of Bangladesh

In April 2009, the GoB announced the first stimulus package to combat the effects of the global financial crisis. The underlying objective of this stimulus package was to safeguard Bangladesh's domestic economy from the negative impacts of the global recession by maintaining robust export growth, buoyancy in revenue earnings from imports and resilience in remittance earnings. The special package, worth of Tk. 3,420 crore (USD 495.22 million, or 0.55 per cent of FY2008-09 GDP), was allocated to supporting domestic and export-oriented industries and agriculture, the generation of electricity, and the provision of social protection to workers. As part of this support, seriously affected industries such as jute goods, leather and leather products, frozen foods and shrimp have been selected for additional support (2.5 per cent in addition to existing support); sectors that are already

<sup>5</sup>The significance of the RMG sector is also paramount, given the fact that it is the single largest export revenue generator.

receiving cash incentives (such as backward linkage textiles, bicycles, light engineering products, agro-processing) will continue to get this financial support.

In addition, the government announced several types of policy support for export-oriented industries in the form of timely disbursements of cash incentives, an increase in allocations under the export development fund, the expansion of export credit to all sectors at a reduced rate (7 per cent), and rationing support for garment workers. The government also introduced a special financing scheme under investment promotion and financing facilities worth Tk. 400 crore (USD 57.9 million), an SME fund of Tk. 600 crore (USD 86.9 million), a house-building fund of Tk. 500 crore (USD 72.4 million), and an Equity and Entrepreneurship Fund (EEF) of Tk. 300 crore (USD 43.4 million).

In June 2009, under the national budget for FY2009-10, another stimulus package totaling Tk. 5,000 crore (USD 724 million) was announced.<sup>6</sup> It would appear that disbursement of this fund for FY2009-10 will be based on the guideline mentioned in the stimulus package of the last year (FY2008-09). These supports were expected to contribute towards boosting domestic industries, and keeping the business of export-oriented industries running in view of falling prices of export products. In addition, a number of projects related to small and cottage industries have been included in the annual development programme (ADP) for FY2009-10, but without any specified allocation.<sup>7</sup>

It is worth noting that while automation of trade procedures is a pre-requisite for faster and secured trade, the initial and perhaps most important task is to eliminate both domestic and external barriers affecting trade growth. Therefore, measures to ensure the positive impact of IT in trade facilitation will only achieve their objectives when the business community feels safer and encouraged by the government's trade enhancement policies.

### **3. EVOLUTION OF IT USE FOR TRADE FACILITATION IN BANGLADESH**

In recent years, the idea of trade facilitation has expanded to include the modernisation and automation of import procedures in order to make the adoption of international standards easier. It is generally understood that trade facilitation involves the reduction of transaction costs for all parties in the enforcement, regulation and administration of trade policies. Trade facilitation has been described as the "plumbing" of international trade (Hoekman *et al.* 2002) that focuses on the efficient implementation of trade rules and regulations. By nature, trade facilitation is very technical and detailed, with the underlying objective of reducing various forms of NTBs that impose significant loss of time and costs in conducting trade, including an excessive number of documents, involvement of dozens of agencies, and complexity in data reporting and processing. It is in this context that the simplification of customs procedures is of great importance for Bangladesh.

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<sup>6</sup>Budget speech by the Finance Minister on 11 June 2009.

<sup>7</sup>These projects include, among others, the establishment of a garments industrial park, the expansion of Bangladesh Small and Cottage Industries Corporation (BSCIC) industrial estates, reconstruction of two BSCIC estates, support for people affected by small and cottage industries, the development of *Benarasi Palli* (industrial plot for small cottage industries manufacturing traditional silk sarees known as *Benarasi*), a BSCIC plastics estate, a BSCIC automobile estate, the expansion of three BSCIC estates and an industrial park.

It is not only the number of documents required for export and import clearance (Table 5) that is higher in Bangladesh (28 and 32 documents, respectively), when compared with India (17 and 20) as well as other top performers such as Sweden (8 and 6) and Singapore (5 and 3), but also the overall cost that makes the whole procedure more complex. Such performance indicators clearly underscore the need for speedy measures to expedite trade facilitation initiatives in Bangladesh in order to ensure better integration into the global economy.

**Table 5: Comparative Picture of Cross-border Trading by Bangladesh**

Indicators	Duration (Days)				Cost (USD)			
	Bangladesh	India	Sweden	Singapore	Bangladesh	India	Sweden	Singapore
<b>Nature of Export Procedures</b>								
Document preparation	14	8	2	1	290	350	116	105
Customs clearance and technical control	6	2	1	1	120	120	41	31
Ports and terminal handling	5	3	1	1	420	175	190	180
Inland transportation and handling	3	4	4	2	140	300	350	140
<b>Total for all</b>	<b>28</b>	<b>17</b>	<b>8</b>	<b>5</b>	<b>970</b>	<b>945</b>	<b>697</b>	<b>456</b>
<b>Nature of Import Procedures</b>								
Documents preparation	22	8	2	1	455	390	154	88
Customs clearance and technical control	4	4	1	1	135	120	41	31
Ports and terminal handling	4	6	2	1	585	200	190	180
Inland transportation and handling	2	3	1	0	200	250	350	140
<b>Total for all</b>	<b>32</b>	<b>20</b>	<b>6</b>	<b>3</b>	<b>1 375</b>	<b>960</b>	<b>735</b>	<b>439</b>

Source: www.doingbusiness.org

It was recognition of such trade obstructive procedures that prompted the GoB to initiate various customs automation projects in the early 1990s (Table 6). The original version of ASYCUDA<sup>8</sup> was introduced in Dhaka and Chittagong between 1992 and 1996. The

<sup>8</sup>ASYCUDA (Automated System for Customs Data) is an electronic data system that allows the random selection of consignments and staff for inspection purposes, in order to cut down on the opportunity for bribes.



ASYCUDA++ project was designed to introduce the updated system at five customs stations: Kamalapur Inland Container Depot (ICD); Dhaka; Chittagong; Benapole; and Mongla (a list of all customs stations in Bangladesh is presented in the Box 2 and Annex Figure 1).

**Table 6: Major Steps towards Customs Automation in Bangladesh**

Year	Automation Measures
1992	Introduction of ASYCUDA at the Dhaka Customs House (DCH)
1996	Introduction of ASYCUDA at Chittagong Customs House (CCH)
1999	Initiation of the Customs Administration Modernization Project-1
2001	<i>ASYCUDA++ Migration Project</i> designed to interface the ASYCUDA++ software with the computer system at five Customs Houses in the country.
2003	Introduction of Direct Trader Input (DTI)
2008 (August)	Initial automation of CCH; operation of Import General Manifest (IGM) and Export General Manifest (EGM) launched
2008 (October)	CCH automated; full operation started on 6 October 2008
2008 (October)	Dhaka Chambers of Commerce and Industry (DCCI) sign a contract with DataSoft Management Services for the automation of DCH
2009 (May)	DCH automated; scheduled to begin full operation from July 2009

Source: Authors' compilation from various sources.

**Box 2: Customs stations in Bangladesh**

Of the country's 13 land ports, Benapole Port is operated by the Port Authority itself while other ports are earmarked to be operated by private operators on build-operate-transfer basis. Currently, Sonamasjid, Teknaf and Hili land ports are under operation on a BOT basis while others will be started gradually.

The three international airports in Bangladesh are: Zia International Airport in Dhaka, Shah Amanat International Airport in Chittagong, and Osmani International Airport in Sylhet.

The two seaports in Bangladesh are: Chittagong Port in Chittagong and Mongla Port in Khulna.

The system was installed by an eight-member national team from customs administration, in coordination with an international consultant, Clapp and Mayne Inc. of the US, representing UNCTAD. The system covers most foreign trade procedures, including manifests and customs declarations, accounting procedures, risk management and warehousing procedures. It serves as a database of detailed information about foreign trade transactions, which is helpful in economic analyses and planning. An UNCTAD study observed that ASYCUDA "cannot be successfully implemented without first undertaking a major reform of customs procedures." In other words, computerisation alone cannot result in more efficient customs administration.

In 1999, the Bangladesh Export Diversification Project was created with the goal of strengthening the country's economy by increasing export trade. Funding and support for the project has been provided jointly through the World Bank and the World Customs Organization (WCO). Trade facilitation initiatives in Bangladesh include WCO-sponsored experts from other customs administrations to provide technical assistance workshops; a team of international and local experts, coupled with National Board of Revenue (NBR) staff for planning, training and the drafting of legislation; and the installation of the ASYCUDA++ system by UNCTAD for electronic data control.

Under the Bangladesh Export Diversification Project, the Customs Administration Modernization Project is funded by the World Bank in support of export diversification, which includes customs reforms, trade and tariff policy reforms, and support to companies seeking to develop export products and expand markets. The project was initiated under the purview of the Ministry of Industry and funded by the International Development Authority. The project is one of the main components of the Bangladesh Export Diversification Project and simultaneously the first step of the Revenue Administration Modernization Programme.

The CCH was initially automated in August 2008 with a view to increasing revenue and checking irregularities related to exports and imports. The operation of IGM and EGM were launched under the first phase of automation as a collaborative effort between the government and the private sector. The initial assumption was that this endeavour would help the CCH check evasion of tax amounting to at least Tk. 350 crore (USD 50 million) and double the revenue earnings, which currently stand at about Tk. 11,000 crore (USD 1.6 billion). However, the operation of the automated system malfunctioned on the first day of implementation and could not immediately be put into full operation. Nevertheless, efforts by all the stakeholder groups culminated in the operational inauguration of the CCH Automation System on 6 October 2008. As a continuation of such proactive measures, DCH was partially automated in May 2009.

The next step is to introduce similar IT-enabled customs clearance procedures at the Kamalapur ICD, Dhaka as soon as possible. It should be noted that Datasoft, the automation software designing company has already set up the required equipment at ICD. However, the system is awaiting necessary bureaucratic approval before be made operational.<sup>9</sup> A detailed discussion of this automation process is presented in Section 4.

### **3.1 Customs Automation in Bangladesh Compared to International Instruments**

While significant efforts have been made by the government to facilitate trade procedures in Bangladesh, the situation is still far from achieving the standard level as perceived by the international community. Together with other measures to facilitate trade, different instruments developed by various multilateral agreements and institutions have emphasised the issue of customs automation. Although trade facilitation appears as somewhat of a new agenda within the WTO system, it is in fact not new within the context of trade negotiations or among other international organisations. For example, the United Nations (UN), its Regional Commissions and institutions as well as other specialised institutions such as WCO have been working on trade facilitation for more than half a century. Trade facilitation was very much a part of the General Agreement on Tariffs and Trade (GATT) from its inception (Wickramasinghe 2004). However, the issue gathered momentum when brought under the mandate of negotiations in the 1996 Singapore Ministerial Meeting (Bhattacharya and Hossain 2006). The following discussion highlights Bangladesh's position vis-à-vis WCO and WTO in terms of identifying issues of concern and the level of compliance in the context of trade facilitation.

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<sup>9</sup>Informal discussion with *Manjur Mahmud*, Chief Operating Officer, Datasoft Systems Bangladesh Ltd.

### **3.2 Bangladesh vis-à-vis WCO Trade Facilitation Initiatives**

The WCO Revised Kyoto Convention, often referred to as the “Blueprint for Modern Customs Administration,” underscores a wide range of measures and strategies for creating a development-friendly, secured international trading system.<sup>10</sup> Another important instrument is the WCO “SAFE Framework”.<sup>11</sup> It is a guideline based on the Revised Kyoto Convention, which was adopted by the WCO Council in June 2005, with 137 members expressing their intention to implement the Framework.

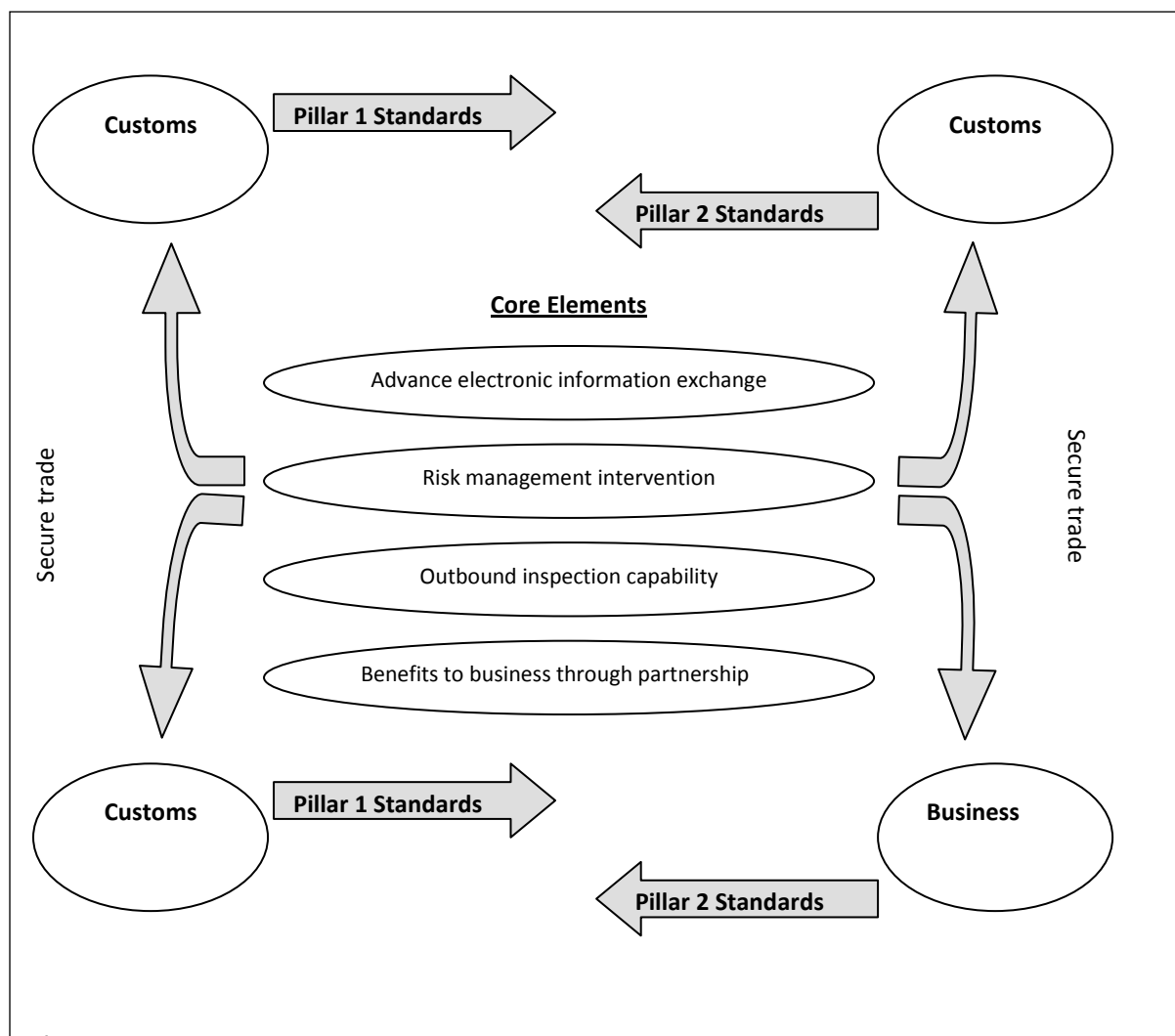
Based on the four core elements (Figure 4), the WCO Framework of Standards has designed a two-way approach to secure and facilitate global trade: (a) customs-to-customs network arrangement; and (b) customs-to-business partnership. Each of the two pillars underscores a number of standards aimed at ensuring expeditious and secured functioning of international trade. With a view to understanding the level of achievement of the Bangladesh Customs in terms of the WCO Framework of Standards, the following discussion presents a comparative analysis of the two pillars. While Table 7 focuses on the customs-to-customs aspect of the Framework, Table 8 looks at the customs-to-business pillar.

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<sup>10</sup>The Revised Kyoto Convention, in particular, emphasises such issues as: (a) transparency and predictability; (b) standardisation and simplification of goods declarations and supporting documents; (c) “Fast Track” procedures for authorised persons with good compliance records; (d) maximum use of IT; (e) minimum necessary control to ensure compliance; and (f) risk management (post-clearance audits, inspections in coordination with other border agencies and the “Single Window” concept).

<sup>11</sup>According to WCO (2007), the objectives of the SAFE Framework are: (a) establishing standards that provide supply chain security and facilitation at a global level in order to promote certainty and predictability; (b) enabling integrated supply chain management for all modes of transport; (c) enhancing the role, functions and capabilities of Bangladesh Customs to meet the challenges and opportunities of the twenty-first century; (d) strengthening cooperation between customs administrations in order to improve their capability to detect high-risk consignments; (e) strengthening customs-to-business cooperation; and (f) promoting the seamless movement of goods through secured international trade supply chains.

Figure 4: WCO Framework of Standards



Source: CCES (2007).

Table 7: Customs-to-Customs Pillar of the WCO Framework

Standards	Requirements	Bangladesh Customs
Integrated supply chain management	Customs administrations should follow the WCO integrated supply chain management system	Although a member of WCO, the procedures followed by Bangladesh Customs are well below the required level, owing largely to infrastructural and technological backwardness
Cargo inspection authority	Customs administrations should have the authority to inspect all cargos originating, exiting, transiting, or being transhipped through the country	Bangladesh Customs enjoys this authority to its full extent. Various provisions of the Bangladesh Customs Act 1969, authorise customs administrations to exercise such power

(Table 7 contd.)

(Table 7 contd.)

Standards	Requirements	Bangladesh Customs
Modern technology in inspection equipment	Such equipment is necessary for inspecting high-risk containers or cargo without disrupting the flow of legitimate trade	Bangladesh Customs lacks such modern equipment. Containers are still scanned by old equipment. However, a number of new scanners have recently been added
Risk management system	Necessary for identifying potentially high-risk shipments	<ul style="list-style-type: none"> <li>• Green channel: Imports are released with minimal documentation checks and no physical inspection of the goods</li> <li>• Yellow channel: Imports receive a full documentation check, and if necessary, can be upgraded to the red channel. At present, the majority of the shipments fall under this category</li> <li>• Red channel: Imports receive a full documentation check and physical inspection of the goods. At present, about 10-12 per cent of total imports fall under this category</li> </ul>
High-risk cargo or container	Identifying suspicious shipments	Cargo or container deemed high-risk is inspected through the red-channel procedure
Advanced electronic information	Necessary for risk assessment	Owing to IT inadequacy, Bangladesh Customs does not have the necessary electronic information for risk assessment apart from those provided by traders and agents through DTI
Targeting and communication	Standard sets of targeting and screening criteria among different customs administrations	The level of targeting and screening performed by Bangladesh Customs is a long way behind the international standard
Performance measures	Maintaining proper records of customs' performance	Maintenance of performance records is done at a substantial level in Bangladesh. However, there is still extensive paper work that needs to be replaced by adopting relevant IT software
Security assessment	Cooperation among various border agencies	Bangladesh Customs works in close cooperation with different government agencies including various ministries, police, coast guards, Bangladesh Atomic Energy Commission (BAEC), etc.
Employee integrity	Programmes should be in place to prevent lapses in employee integrity	Corruption and unethical practices among customs officials is one of the major problems with Bangladesh Customs
Outbound security inspections	Conduct such inspections upon request from the importing country	Bangladesh Customs conducts such inspections with their limited resources

Source: Authors' compilation from various sources.

**Table 8: Customs-to-Business Pillar of the WCO Framework**

Standards	Requirements	Bangladesh Customs
Partnership	Authorised economic operators (AEOs) will carry out self-assessment	Bangladesh Customs does not authorise any individual or institution with special credence to avail itself of any simplified or special procedure. All traders are treated equally. However, in some cases, traders with long-term satisfactory track records in all aspects of importing/exporting may enjoy the privilege of faster release or clearance of their goods
Security	AEOs should incorporate pre-determined security measures into their existing business practices	There is no such option. Rather, Bangladesh Customs carries out routine post-clearance audit at the premises of selected traders
Authorisation	Process to offer incentives to AEOs	No such initiatives exist.
Technology	All parties will use modern technology	Although ASYCUDA++ is available for use, its use is not optimal within Bangladesh Customs. In addition, traders only used DTI, which is also limited to registered traders. CCH was automated only recently. Currently, there are more than 3,000 registered users of the recently automated system. Apart from customs agents, this includes around 20-25 large-scale companies that operate through their own clearing houses
Communication	Regular updating of customs-business partnership	Communication between Bangladesh Customs and the trading community is at the lowest level. The customs administration seldom invites a business stakeholder for consultations or feedback on matters related to international trade
Facilitation	Cooperation between the customs administration and AEOs	No such partnership exists

Source: Authors' compilation from various sources.

### 3.3 Trade Facilitation in Bangladesh in the WTO Context

As an LDC, Bangladesh has been showing keen interest in developments in trade facilitation within the ambit of the Doha Development Round negotiations. However, Bangladesh has so far submitted only one proposal<sup>12</sup> on "Implementation Mechanism for Special and Differential Treatment, and Technical Assistance and Capacity Building Support" to WTO with regard to its needs and requirements related to trade facilitation. Nevertheless, a recent study showed that there was optimal awareness within both the public and private sectors concerning the necessity to simplify existing cumbersome customs procedures in order to facilitate trade (Bhattacharya and Hossain 2006).

One of the major findings of the above mentioned study in relation to the importance of IT in customs clearance procedures was that import/export documentation requirements were

<sup>12</sup>The proposal, TN/TF/W/142, was submitted by the Core Group of Developing Countries (Bangladesh, Botswana, Cuba, Egypt, India, Indonesia, Jamaica, Kenya, Malaysia, Mauritius, Namibia, Nepal, Nigeria, Philippines, Rwanda, Tanzania, Trinidad and Tobago, Uganda, Venezuela, Zambia and Zimbabwe).

excessive and time-consuming, and that manual processing created requirement for irregular and arbitrary payments to expedite the release of goods from customs stations. In addition, the urgent need to establish a “single window” has often been emphasised by the private sector in Bangladesh. As noted above, the private sector in Bangladesh has identified 10 priority areas (in the context of the WTO negotiations) that need urgent attention by the government. Table 9 highlights the proposals submitted to WTO by the Member countries that are of interest to Bangladesh.

**Table 9: WTO Proposals on Trade Facilitation and Priorities for Bangladesh**

Bangladesh Priorities	Reflected in WTO Members’ Proposals	
	Relevant Proposals	Major Issues Raised
Reduction and simplification of documentation requirements	<p>Symbol: (TN/TF/...) W/17, W/18, W/24, W/30, W/31, W/36, W/45, W/46, W/62, W/67, W/70, W/49, W/78, W/130/Rev.1, W/121</p> <p>Sponsors: Chile, India, Japan, Republic of Korea, Mongolia, Peru, New Zealand, Norway, Switzerland, Turkey, Hong Kong, China, Taiwan Province of China and European Community</p>	<ul style="list-style-type: none"> <li>• Non-discrimination</li> <li>• Periodic review of formalities and requirements</li> <li>• Reduction/limitation of formalities and documentation requirements</li> <li>• Use of international standards</li> <li>• Uniform customs code</li> <li>• Acceptance of commercially available information as well as copies</li> <li>• Automation</li> <li>• Single window/one-time submission</li> <li>• Elimination of pre-shipment inspection (PSI)</li> <li>• Phasing out mandatory use of customs brokers</li> </ul>
Elimination of bribery and other corrupt practices among customs personnel	<p>Symbol: (TN/TF/...) W/8, W/60</p> <p>Sponsors: Dominican Republic, Japan, Mongolia, Pakistan, Peru and Taiwan Province of China</p>	<ul style="list-style-type: none"> <li>• Establishment of a Code of Conduct</li> <li>• Computerised system to reduce/eliminate discretion</li> <li>• System of penalties</li> <li>• Technical assistance to create/build up capacities to prevent and control customs offences</li> <li>• Appointment of staff for education and training</li> <li>• Coordination and control mechanisms</li> </ul>

(Table 9 contd.)

(Table 9 contd.)

Bangladesh Priorities	Reflected in WTO Members' Proposals	
	Relevant Proposals	Major Issues Raised
Establishment of a "single window" for one-time submission	<p>Symbol: (TN/TF/...) W/17, W/ 18, W/30, W/45, W/46, W/70, W/100 and Corr.1, W/138/Rev.2</p> <p>Sponsors: Chile, Japan, Republic of Korea, Mongolia, Peru, Singapore, Taiwan Province of China, Thailand, Turkey and European Community</p>	<ul style="list-style-type: none"> <li>• Introduction of procedures for allowing one-time submission</li> <li>• Acceptance of single documentary submission</li> <li>• Single window as a clearing house for all documents and data submission</li> <li>• Establishment of single window at borders or ports with efficient computer back- up</li> <li>• Inter-agency coordination</li> </ul>
Harmonisation and standardisation of documentation requirements, based on international standards	<p>Symbol: (TN/TF/...) W/17, W/18, W/30, W/36, W/45, W/46, W/62, W/67, W/70, W/78, W/85, W/121, W/131/Rev.1</p> <p>Sponsors: Chile, European Community, India, Japan, Republic of Korea, Mongolia, New Zealand, Norway, Peru, South Africa, Switzerland, Taiwan Province of China and Turkey</p>	<ul style="list-style-type: none"> <li>• Use of international standards as a basis for documentation and data requirements</li> <li>• Development and adoption of common international trade requirements and procedures</li> </ul>
Independent appeal mechanism for traders	<p>Symbol: (TN/TF/...) W/6, W/8, W/97</p> <p>Sponsors: Costa Rica, European Community, Japan, Mongolia, New Zealand, Pakistan, Peru, Taiwan Province of China, and the separate customs territory of Penghu, Kinmen and Mastu</p>	<ul style="list-style-type: none"> <li>• Obligation to provide non-discriminatory, legal right of appeal against customs and other agency rulings and decisions</li> <li>• Development of legal and administrative appeal systems for lodging objections</li> <li>• Release of goods in the event of appeal</li> </ul>
Improved customs inspection and control procedures	<p>Symbol: (TN/TF/...) W/39</p> <p>Sponsors: Paraguay, Rwanda and Switzerland</p>	<ul style="list-style-type: none"> <li>• Avoidance of inspection and controls more than once for the same shipment unless it is completely necessary</li> <li>• Non-imposition of veterinary, medico-sanitary or phytosanitary inspection for goods in transit</li> </ul>
Computerisation and automation of trade procedures	<p>Symbol: (TN/TF/...) W/30, W/45</p> <p>Sponsors: Peru and Turkey</p>	<ul style="list-style-type: none"> <li>• Automation of customs and other agency import/export procedures</li> <li>• Introduction of automated and electronic data interchange</li> </ul>

(Table 9 contd.)



(Table 9 contd.)

Bangladesh Priorities	Reflected in WTO Members' Proposals	
	Relevant Proposals	Major Issues Raised
Timely and comprehensive publication and dissemination of trade rules and regulations	<p>Symbol: (TN/TF/...) W/6, W/7, W/8, W/13, W/26, W/30, W/32, W/40, W/45, W/70, W/78, W/89, W/96 and Add.1, W/114/Rev.1, W/115/Rev.1, W/155</p> <p>Sponsors: Argentina, Chile, China, European Community, Hong Kong, China, India, Republic of Korea, Japan, Mongolia, Norway, Pakistan, Peru, Switzerland, Taiwan Province of China, Turkey and US</p>	<ul style="list-style-type: none"> <li>• Make rules and regulations available on a non-discriminatory basis</li> <li>• Information should be widely available</li> <li>• Publication of rules and regulations in at least one of the official WTO languages</li> <li>• Ensuring dissemination of information through readily and promptly accessible official media</li> </ul>
Completing clearance of goods before they have arrived physically in the customs territory	<p>Symbol: (TN/TF/...) W/10, W/17, W/18, W/46, W/53, W/70</p> <p>Sponsors: Chile, European Community, Japan, Republic of Korea, Japan, Mongolia, Peru and Taiwan Province of China</p>	<ul style="list-style-type: none"> <li>• Enabling importers to file entries prior to arrival of goods at the port of entry</li> <li>• Introduction of procedures for accepting and examining documents prior to arrival of goods</li> <li>• Commitment by members to introduce simplified customs release and clearance procedures including pre-arrival processing</li> </ul>
Establishment of enquiry points and/or call centres	<p>Symbol: (TN/TF/...) W/6, W/7, W/10, W/26, W/30, W/45, W/70</p> <p>Sponsors: China, Chile, European Community, Japan, Mongolia, Pakistan, Peru and Taiwan Province of China</p>	<ul style="list-style-type: none"> <li>• Establishment of enquiry points providing information on all measures and information</li> <li>• Single national focal point as a centre for communication with other domestic competent authorities</li> <li>• Enquiry points with competent officers</li> </ul>

Source: WTO (2008).

The GoB has been putting various measures in place in order to comply with the provisions articulated under Articles V, VII and X of the General Agreement on Tariffs and Trade 1994, particularly in the context of using IT in facilitating trade-related procedures.<sup>13</sup> This includes regular updating of the Bangladesh Customs website where information such as that on customs-related Statutory Regulatory Orders (SROs), tariffs, Customs Acts and rules, and customs valuation are provided for the business community. In addition, the recent measures taken to automate

<sup>13</sup>Articles V, VIII and X of GATT 1994 deal with, respectively, "Matters relating to transit, fees and charges connected with importation and exportation," and "Publication and availability of information."

CCH and the DCH are critical milestones in the context of the journey towards ensuring optimal application of IT in facilitating trade. Nevertheless, there is still a long to go, since bringing the various government agencies into the automation network has yet to be achieved.

#### 4. CHITTAGONG CUSTOMS HOUSE AUTOMATION: AN OVERVIEW

Bangladesh has traditionally been dependent on its seaports for connecting to international markets. Historical trends show that more than 95 per cent of exports and around 90 per cent of imports pass through the two seaports located in Chittagong and Mongla (Annex Table 2). Of the two, Chittagong Port handles the major share of inbound and outbound vessels and cargo. Between FY2000-01 and FY2007-08, as many as 17,349 vessels were handled at Chittagong and Mongla Ports, of which 83.5 per cent were handled by Chittagong Port (Annex Table 3). In addition, it handled more than 90 per cent of the total cargo during the same period (Annex Table 4). In view of this situation, it is of no surprise that CCH was selected to be the first customs station to be brought under the automation process.

The CCH automation project launched its full-fledged operations in early October 2008 in a bid to herald a corruption and hassle-free era in export and import procedures. The Chittagong Chamber of Commerce and Industry (CCCI) sponsored the project and worked for about eight months to complete it on a build-own-operate-transfer (BOOT) basis. Primarily, the project has been designed to run for at least five years. In the meantime, new features are likely to be put in place to adapt to evolving requirements by the trading community. With a view to making this new system usable and compliant with the existing ASYCUDA++, an interface has been established between the two. The system has been overwhelmingly successful in reducing the steps involved in the customs clearance process (with regard to imports) from as many as 35 steps that existed in the pre-automation phase to just seven. Table 10 presents an overall picture of levels of automation of import clearance procedures at CCH.

**Table 10: Steps in Import Clearance at Chittagong Customs House under the Current Automation System**

Step	Actors involved	Level of Automation
1. Submission of IGM	Career	Automated
2. Filing of Bill of Entry	Importer/Customs House Authority	Automated
3. Assessment of declaration	Customs	Automated (if needed, manual option can be used in customs)
4. Notification of dues	Customs, importer, CFA*, Port	Automated
5. Payment to bank	Importer, CFA, Bank	Manual**
6. Bank notification for receipt of duty payment	Bank, customs, importer, CFA, Port	Automated
7. Delivery from port	Customs	Physical inspection followed by electronic data recording

**Source:** Based on interviews with customs officials and Datasoft representatives.

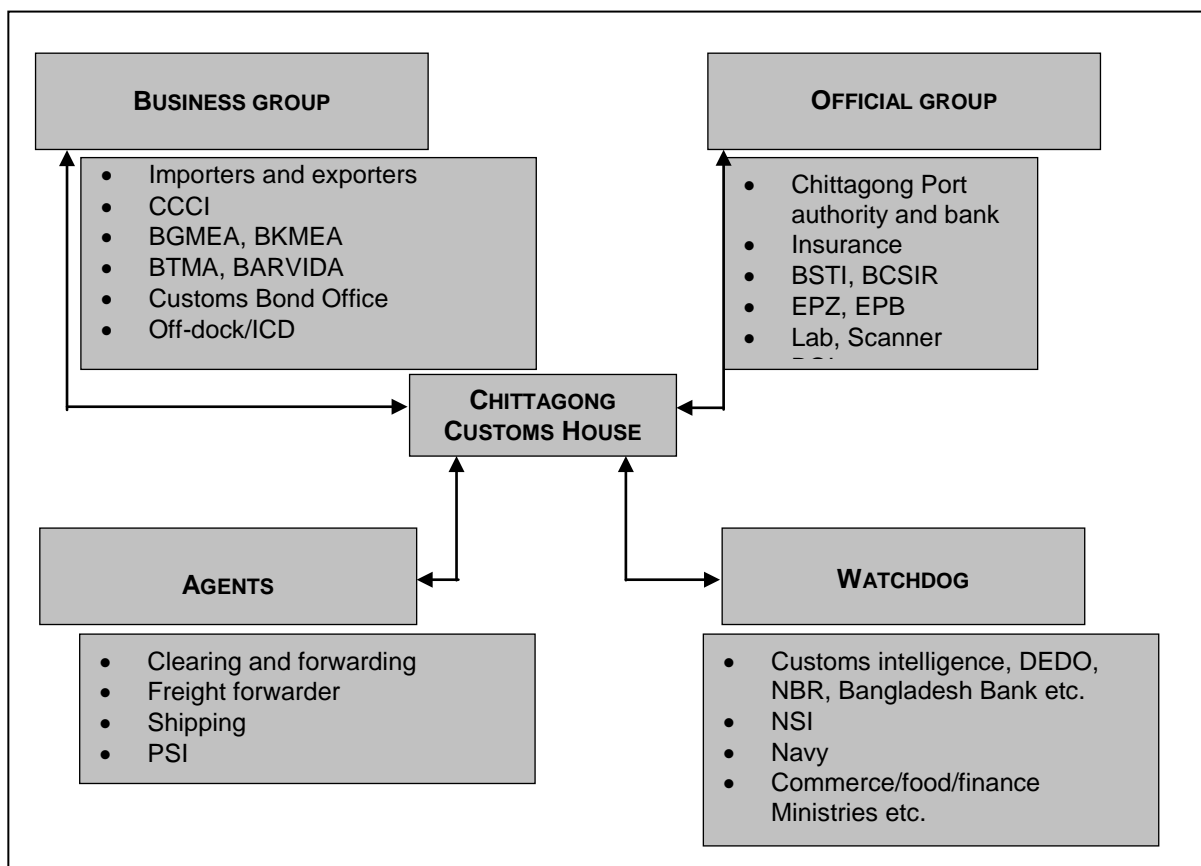
**Note:** \*CFA: Clearing and forwarding agent.

\*\*The system is ready for electronic fund transfers for duty payment. The Sonali Bank, Chittagong Customs House branch, has been equipped for this purpose. However, activation of the process is awaiting clearance (through a circular) from the Bangladesh Bank.

The overall system has been designed in such a user-friendly manner that all the relevant stakeholders are expected to be able to use it without any difficulty. An overall account of these stakeholders is presented in Figure 5.

As Figure 5 indicates, attempts are underway to ensure effective participation of the stakeholder groups in achieving the successful operation of the automation project. While the role of all the above mentioned stakeholders in the supply chain management is undoubtedly of crucial importance, such roles cannot be effectively discharged unless the system itself provides adequate supportive measures in the form of submissions of declarations, electronic payments of duties and taxes, etc. Hence, the two major operational modules (i.e. the IGM and EGM Module, and the Bill of Entry Module) have been developed to specify the role and scope of the stakeholders in customs processing (Annex Table 5).

**Figure 5: Stakeholder Groups in Chittagong Customs House Automation**



Source: DataSoft.

**Note:** BGMEA: Bangladesh Garment Manufacturers and Exporters Association; BKMEA: Bangladesh Knitwear Manufacturers Exporters Association; BTMA: Bangladesh Textile Mills Association; BARVIDA: Bangladesh Reconditioned Vehicles Importers and Dealers Association; BSTI: Bangladesh Standards and Testing Institution; BCSIR: Bangladesh Council of Scientific and Industrial Research; EPZ: Export Processing Zone; EPB: Export Promotion Bureau; BOI: Board of Investment; DEDO: Duty Exemption and Drawback Office; NSI: National Security Intelligence.

While the IGM and EGM Modules are aimed at enabling the relevant stakeholders to specify the arrival/departure information of consignments, it is followed by the application of the Bill of Entry Module that allows CFAs as well as traders to lodge declarations and clear goods from the ports. An account of the linkages among the different groups under the CCH automation project is presented in Annex Tables 5 and 6 and Annex Figure 2.

In view of the above, the initiative to automate CCH has attracted a diverse range of reactions from different segments of the stakeholder groups. The following discussion considers the major findings from the stakeholder perception survey, carried out by the CPD, regarding the impact of IT on trade facilitation.

## **5. IMPACT OF IT IN TRADE FACILITATION ON INTERNATIONALISATION OF SMEs IN BANGLADESH**

A robust private sector is the key to attracting the private investment, entrepreneurship and technological innovation needed for sustainable economic growth. The extent of the SME contribution to the overall economic development of Bangladesh, the current state of automation of customs procedures and a detailed case study of Chittagong Customs House automation have been discussed in the previous sections. With a view to understanding the impact of the automation initiatives, 40 traders and 40 customs agents were interviewed. At the time of the survey, all the traders were engaged in exporting, and in most cases, importing.

Before looking at the survey findings, it should be noted that the automated system at CCH is currently being utilised by more than 3,000 registered users<sup>14</sup> in different stakeholder groups (Figure 5). This includes about 20-25 industries that are using the system through their own clearing houses. However, all these firms belong to the large-scale group. Available information reveals that there are no registered export-oriented SMEs in the system. Historically, SMEs have found it more convenient to use customs agents rather than handling the clearance procedures by themselves. This is due, in particular, to two factors: (a) a lack of expertise in dealing with customs, and (b) a lack of adequate resources to be devoted to such additional tasks. Although the large-scale industries appear to be in a better position than the SMEs in terms of benefiting from automation, it should be recognised that such discrimination is due to traders' institutional capacity, and not to any weakness of the system. Nevertheless, as soon as agents lodge the documents on behalf of importers or exporters, the latter are able to view the status of the application online, simply by using the file number. It is not mandatory to be a registered user for this purpose.

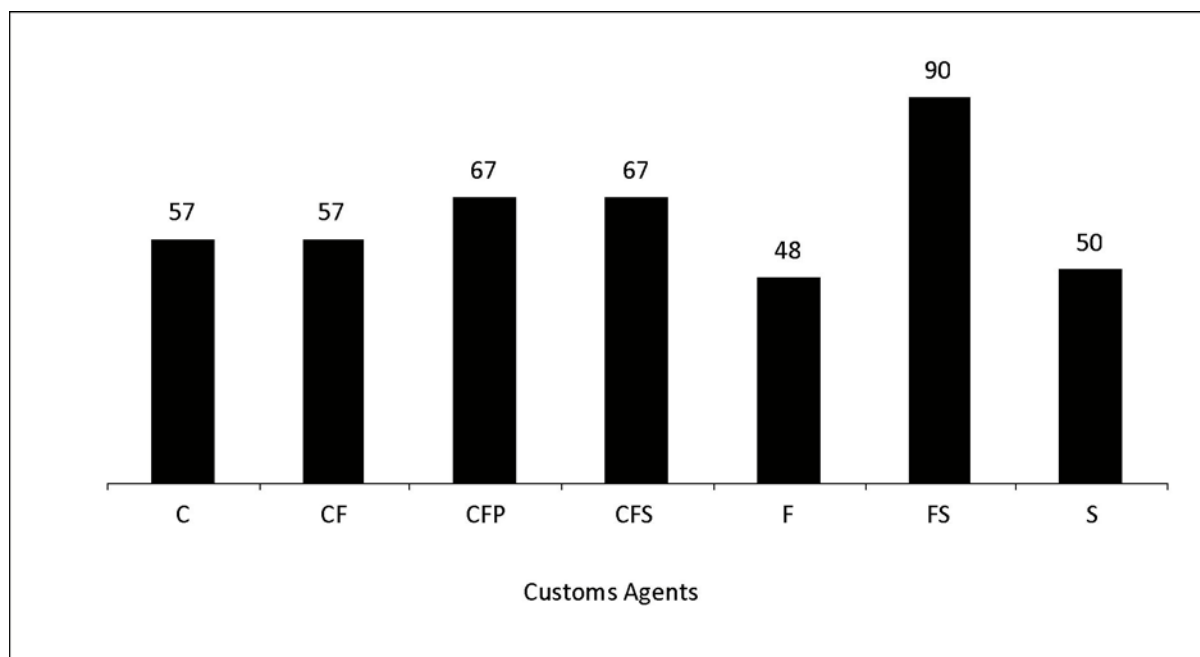
### **5.1 Respondents' Profile**

As mentioned above, a total of 40 industries were covered under the survey. This included 35 RMG manufacturers, 3 pharmaceutical firms and 2 frozen food traders. Besides, another survey was conducted on equal number of customs agents. These agents served a total of 661 clients out of which 386 (accounting for about 58 per cent) belonged to the SME group (Figure 6).

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<sup>14</sup> Informal discussion with *Manjur Mahmud*, Chief Operating Officer, DataSoft Systems Bangladesh Ltd.

Figure 6: SMEs as a Percentage of Total Clients



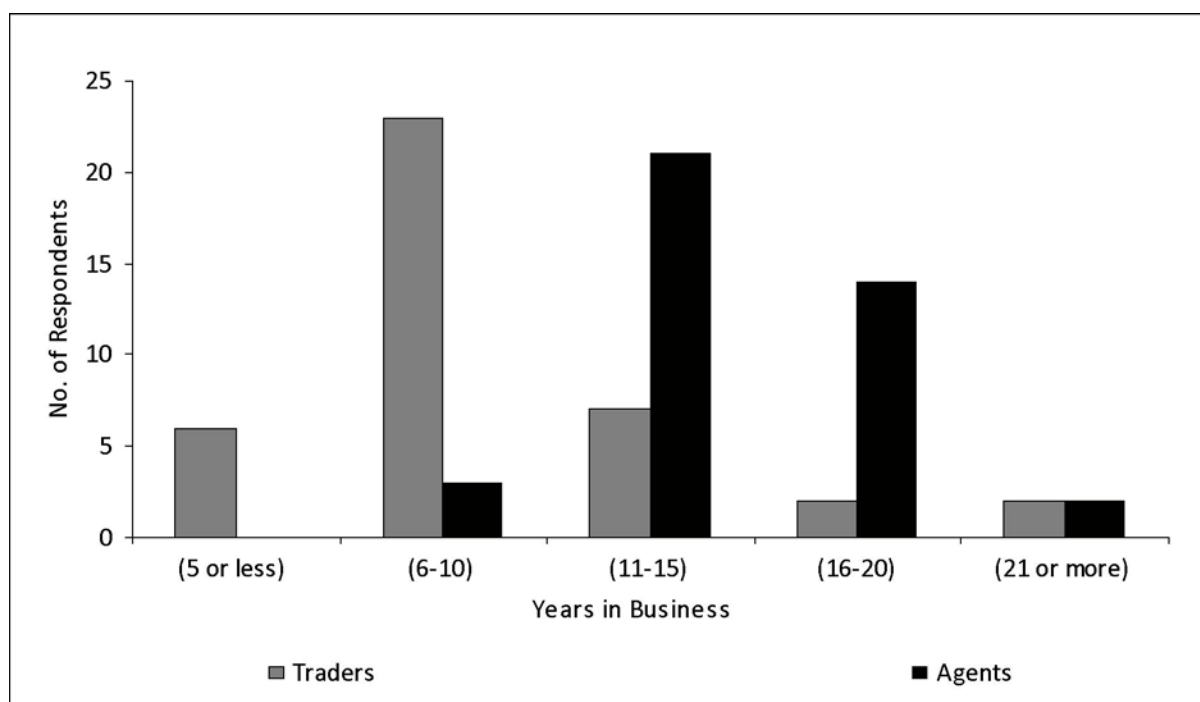
**Source:** CPD-ARTNeT (Asia-Pacific Research and Training Network on Trade) Perception Survey, 2008.

**Note:** C: Clearing and forwarding agents; F: Freight forwarders; P: Packers and consolidators; S: Shipping agents.

Almost all the export-oriented firms, including SMEs, avail themselves of the services of customs agents for export and import clearance.<sup>15</sup> This is true for these enterprises irrespective of their nature of business (e.g. RMG, frozen foods, leather, and jute and jute goods) or geographical location (whether in Chittagong, Dhaka or Khulna). Therefore, the importance of trade facilitation measures cannot be denied in the internationalisation of these SMEs.

One of the key objectives of the survey was to include as many experienced traders and customs agents as possible in order to create a representative data set. It was encouraging to see that about 58 per cent of the traders covered by the survey had been involved in international trade for 6-10 years (Figure 7). Another 27.5 per cent were found to have been in the business for 11-22 years. As for the customs agents, about 53 per cent had been providing trade-related services to the various export-oriented industries in Bangladesh for 11-15 years while another 40 per cent had been engaged in the service for 16-22 years.

<sup>15</sup> Some large-scale industries deal with customs procedures directly through their own clearing houses.

**Figure 7: Length of Experience of the Respondent Traders and Agents**

Source: CPD-ARTNeT Perception Survey, 2008.

## 5.2 Adapting to Electronic Lodgment

The introduction of DTI in 2003 was intended to make customs data processing less cumbersome through electronic lodgment of declarations. However, it became evident within a very short period that this process was not providing any significant benefits to the stakeholders (Bhattacharya and Hossain 2006). This finding was corroborated by the fact that an overwhelming majority of the respondents (70 per cent of SMEs and 80 per cent of agents) mentioned that DTI did not adequately serve their purpose for documentation lodgment and customs procedures. However, all the trader respondents and about half of the agents agreed that DTI had contributed towards increasing the number of declaration lodgments compared with the pre-DTI era. This also underscored the fact that customs agents were able to serve more clients after the introduction of DTI. Nevertheless, there was wide agreement between the two respondent groups regarding the problems they faced in using the DTI system (Table 11).

One of the major transitions from DTI dependency to CCH automation was that all the registered customs agents were assigned individual user IDs and passwords. In order to obtain an ID and password, agents and businesses need to apply to DataSoft, the software company responsible for the implementation and overall technical management of the automation system.

**Table 11: Problems with DTI Lodgment**

Reasons	Percentage of Respondents	
	Traders	Agents
Absence of a 24-hour service	100.0	100.0
Absence of ID or password	100.0	100.0
Customs valuation	90.0	95.0
Unskilled customs staff	87.5	98.0
Lack of good governance, transparency and responsibility	87.5	85.0
Need for agents to visit the customs house physically	84.5	100.0
Non-availability of IGM and EGM	80.5	100.0
Misuse of time	78.0	97.5
Manual noting system	76.0	86.0
Speed money/bribes	62.0	92.5
Inadequately trained DTI operators	45.5	86.0

Source: CPD-ARTNeT Perception Survey, 2008.

In view of the above-mentioned shortcomings, DataSoft is perceived as providing encouraging technical support to traders and agents for the processing of customs documents. The survey, which was conducted within two months of the launch of the CCH automation project, found that the target stakeholders (customs agents) were already benefiting from the initiative to some degree. While there was some criticism, particularly with regard to unexpected technical errors, the majority of the respondents welcomed the initiative, which currently has more than 3,000 registered users. The reasons given by the respondents for the preference of the current automation over DTI are outlined in Table 12.

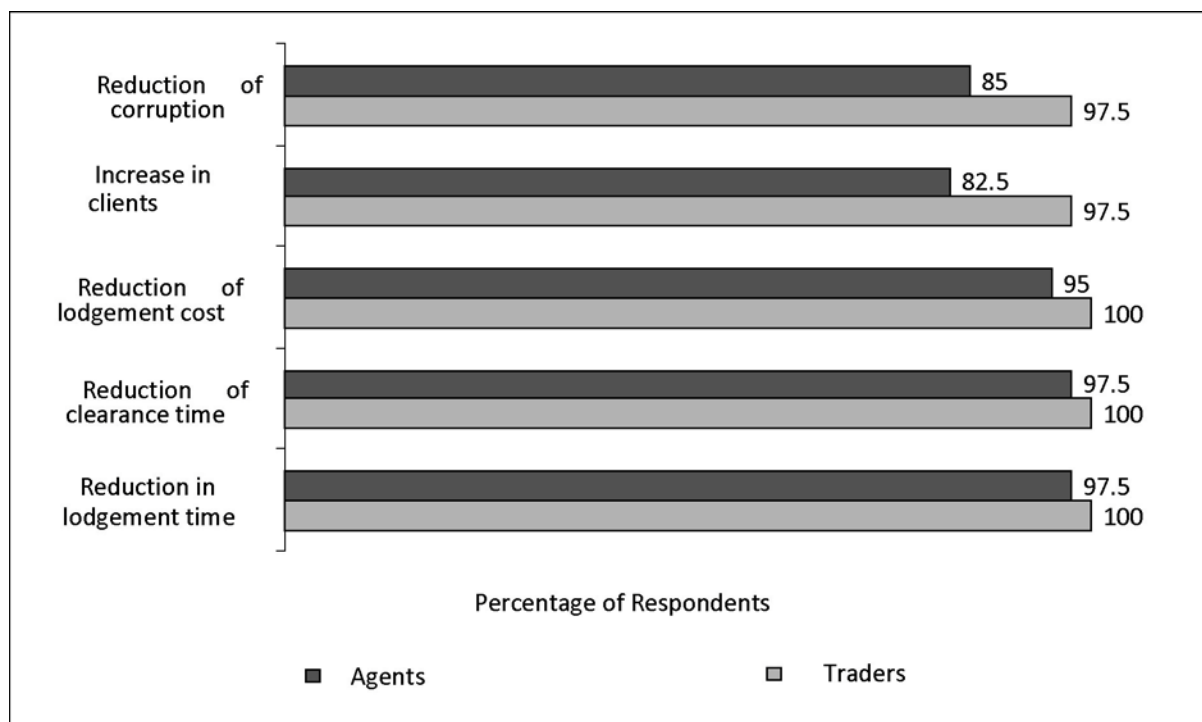
**Table 12: Reasons for Preferring Current System of Electronic Data Submission**

Reasons	Percentage of Respondents	
	Traders	Agents
ID and password provided for individual agents	100.0	100.0
Electronic access to IGM and EGM	100.0	100.0
Opportunity to end corruption	100.0	75.5
Less complicity	97.0	94.5
Faster service	93.0	90.5
Lower scope of manipulation	90.5	86.0
24-hour service	88.0	94.5
Limited scope for bribery	80.5	85.0
Improved transparency and accountability	80.0	100.0
Trained professionals for overall management of the system	76.5	85.0
Faster inspection	74.5	65.5
Adequate training and technical support to traders and agents	66.0	90.0
Less opportunity for bargaining	60.5	60.5

Source: CPD-ARTNeT Perception Survey, 2008.

The respondents were asked to underscore some benefits that they thought would result from the current automation process. Figure 8 provides a graphic presentation of the responses received.

**Figure 8: Perceived Benefits of Customs Automation for SMEs**



Source: CPD-ARTNeT Perception Survey, 2008.

In addition to the above benefits, the majority (more than 95 per cent) of respondents from the trading community as well as customs agents anticipated that effective implementation of the automation system would add the following benefits:

- (a) Ability to provide quicker service to clients;
- (b) Freedom to work outside the normal customs working hours;
- (c) Reduced travel, queues and delays at customs;
- (d) Easy access to declaration data from the system.

In view of all the administrative and procedural complexities, it is encouraging that almost all the SME traders and agents were of similar opinion when expressing their concerns about the benefits from automation. Nevertheless, the extent of satisfaction among the stakeholder groups concerning the level of automation varied with regard to some aspects. A large number of the respondents were of the view that there was still a great deal of work to be done to obtain the expected benefits from customs automation. A list of such measures is presented in Table 13.



**Table 13: Measures Required for Development of Automation in Trade Facilitation**

Measures Required	Percentage of Respondents	
	Traders	Agents
Trade-related infrastructure development in the ports and other government institutions	100.0	100.0
Online availability of all trade-related policies and regulations	85.5	80.0
Training manpower to create a skilled working group	62.5	42.5
Permanent deployment of the Army at Chittagong port	75.0	12.5
Connectivity with the banks concerned as well as other trade-related organisations	57.5	25.0
Change the attitude of customs personnel	35.0	27.5
Introducing a one-stop service	27.5	20.0
Improved relationship among customs brokers	25.0	17.5
Modernisation of port facilities	25.0	10.0
Privatisation of the Chittagong Port	20.0	12.5
Continuous power supply	15.0	40.0
National valuation data for customs assessment procedure	15.0	20.0
High-speed Internet	12.5	32.5
Politics involving Chittagong Port should stop	12.5	10.0
Easier valuation system	5.0	15.0
Port expansion	5.0	15.0
Employing a strong and effective monitoring cell	5.0	12.5

Source: CPD-ARTNeT Perception Survey, 2008.

The list given in the Table 14 is an indication that both the trading community and the customs agents are still faced with a diverse range of administrative, procedural, infrastructural and policy-related bottlenecks. The lack of skilled manpower in customs processing has been highlighted, particularly in the case of customs inspectors and superintendents. Available information reveals that there has not been any appointment of customs inspectors during the past two and a half decades. This clearly creates pressure on the existing group of inspectors who, on many occasions, find it difficult to cope with the technological advancements in customs procedures.

Another critical factor in ensuring proper functioning of the automation process is the provision of a secured and uninterrupted power supply. This is coupled with the need for proper infrastructure and technology for high-speed Internet connections for data processing and dissemination. Establishment of a monitoring cell, although emphasised at a lower level, deserves adequate and consistent attention from the regulatory authorities to ensure compliance management.

Apart from highlighting the need for infrastructural development at the ports and other related government institutions, another key finding from the survey was that the majority of the respondent SMEs (75 per cent) felt that members of the Armed Forces should remain deployed in the port area to stop corruption and ensure faster clearance procedures. On the other hand, only 12.5 per cent of the customs agents shared this view. This is explained by the fact that the majority of the respondent customs agents did not address this issue. It should be noted that soon after the caretaker government (CTG) came to power in early

2007, it undertook large-scale measures to eliminate corruption, particularly in the public sector. As part of this drive, the Armed Forces were deployed at Chittagong Port.

As part of a recently completed study by the CPD (Rahman *et al.* 2009), a perception survey was conducted to elicit information from the business community with regard to identifying constraints affecting their businesses. The survey findings are summarised in Table 14.

**Table 14: Constraints Affecting Business**

Constraints	Degree of Severity				AWF*	Rank
	High	Moderate	Low	Total		
Trade-related infrastructure	17 (53.1)	11 (34.4)	4 (12.5)	32 (100.0)	2.41	1
Building productive capacity	15 (44.1)	14 (41.2)	5 (14.7)	34 (100.0)	2.29	2
Trade development	15 (44.1)	12 (35.3)	7 (20.6)	34 (100.0)	2.24	3
Trade policy and regulations	15 (44.1)	11 (32.4)	8 (23.5)	34 (100.0)	2.21	4
Trade-related adjustment	9 (29.0)	20 (64.5)	2 (6.5)	31 (100.0)	2.23	5

**Source:** Rahman *et al.* (2009).

**Note:** \*AWF = Average Weighted Frequency.  
Figures in parentheses are percentages.

Based on the information provided in Tables 13 and 14, it can be seen that common concern exists among the traders and customs agents with regard to facilitating trade by properly addressing the existing constraints. The five broad categories, developed by OECD as the five pillars for assessing the needs for Aid for Trade (AfT), encompass all sectors of trade facilitation; these range from infrastructural development and capacity building, through adopting state-of-the-art technology, to diversifying trade and ensuring easy access to trade-related policies and regulations. The government needs to come up with pragmatic policy initiatives in this context.

When asked whether or not the newly introduced customs automation system would have an impact on SMEs, all the trader respondents were overwhelmingly positive (however, as noted above, it is still the customs agents and only a few large-scale industries that use the system). A similar reaction was expressed by about 70 per cent of the customs agents while the remaining 30 per cent were uncertain of the possible outcome. A list of the possible impacts is presented in Table 15.

**Table 15: Impact of Automation on SMEs' Trade Performance**

Reasons	Percentage of Agents
Greater integration into international trade	70.0
Faster document processing for exports	63.5
Improved goodwill and business reputation	60.0
Business expansion	55.0
Reduced production time	45.5
Possibility of emergence of stronger backward linkage industries	45.5
Frequent import of raw materials	42.0

Source: CPD-ARTNeT Perception Survey, 2008.

With regard to adjusting to the new IT environment, respondents were also asked whether or not they would be willing to set up the necessary infrastructure/equipment (dedicated room or floor space, computers, Internet connection, etc.) for effective use of the automation system. Some 93 per cent of the customs agents and 100 per cent of the SME respondents indicated a positive viewpoint. The rest were uncertain as to whether or not they would be willing to make such an investment.

In addition, as many as 94 per cent of the respondents reported availability of at least one computer with Internet connection as well as fax machines in their offices. This is a positive attitude towards adapting to technological upgrading in documentation lodgment. In view of these findings, it appears that the SMEs have a strong will to utilise business-supportive initiatives to ensure enhanced access to the global market.

## 6. CONCLUSION AND POLICY RECOMMENDATIONS

The GoB has been revisiting its industrial policies with the objective of making them business-friendly for SMEs. However, effective measures focusing on expediting and ensuring the proper integration of SMEs into the multilateral trading system still appear to be far from adequate. The survey revealed that the private sector representatives were quite concerned about this situation; they strongly emphasised the need to effectively utilise the existing automation system while making every effort to develop the system in view of the requirements of the business community.

However, it needs to be recognised that while businesses are facing a large number of administrative, regulatory, legislative and policy-related bottlenecks, the lack of available resources sometimes makes it challenging for the government to address such private sector concerns in a timely manner. Moreover, uncertainty over a successful completion of the Doha Round negotiations in WTO also poses strategic challenges for the government in terms of policy formulation.

Taking into consideration the preceding discussion, a set of policy recommendations is detailed below.

## **Establishing a Single Window**

While the automation of CCH is considered to be a positive milestone in ensuring implementation of IT in trade facilitation, it is evident that the whole process is limited in application, in the sense that it has yet to be developed into a single window initiative linking all government agencies (e.g. various ministries, quality testing institutes, etc.). However, in an era of paperless trade, this has to be overcome. To that end, the current form of automation needs to be upgraded to the level of establishing a single window. This can then be expanded to creating a regional single window within the South Asian Association for Regional Cooperation (SAARC). The APEC Asia-Pacific Economic Cooperation) Single Window initiative can be a reference point in this regard.

In addition, more productive use of IT must be made in order to increase the efficiency, effectiveness and transparency of revenue collections by expediting customs clearance procedures. Such a measure will be a step forward towards effective utilisation of the automated system. Furthermore, this will enhance transparency and help eliminate corruption among customs officials.

## **Expediting the Automation Process by Eliminating Bureaucratic Obstacles**

The government should implement immediate measures to complete all bureaucratic formalities in order to ensure timely operation of the automation project at the DCH. In addition, the Bangladesh Bank should not delay issuing the required official circular to expedite the process of electronic fund transfers by importers and exporters to pay their customs duty directly from their accounts.

## **Ensuring Better Risk Management Procedures**

A state-of-the-art automation system needs to be put in place to ensure customs “data mining.” This is critical not only in terms of simplifying document lodgement, but also to ensure effective risk management procedures including: (a) screening shipments against pre-determined risk criteria based on documents lodged; (b) identifying the nature and level of risk, and prioritising accordingly; and (c) resolving the risk. Although the green, yellow and red channel concepts are in operation, they are mainly implemented on the basis of self-determination by the customs officials. The customs database needs to be designed in such way that it maintains historic data on importers and exporters, which will eventually help to determine the level of risk based on the compliance record of the traders.

## **Introducing the Concept of Authorised Economic Operator**

AEO or “authorised trader” refers to businesses that are sufficiently well-known and trusted by the customs authorities for them to be exempted from ordinary controls, and subject to much lighter or flexible procedures and requirements. Such businesses are frequent and reliable traders, with good compliance records of accurate declarations and timely payments. Bangladesh should formulate a set of criteria to determine traders’ eligibility as AEOs. The underlying objective of the initiative would be to enable importers and exporters to benefit from expedited clearance and increased security for shipments entering or

leaving the region. Such benefits could also include the option of periodic payment of duty for compliant traders. The AEO programme was officially launched in Europe on 1 January 2008. As mentioned above, the “SAFE Framework” developed by WCO, details the conditions and requirements for AEOs.

### **Fostering Customs-to-Customs Cooperation**

Harmonisation of customs procedures with international standards largely depends on the degree of cooperation among the customs authorities in various countries. Bangladesh, in strategic partnership with its regional neighbours, will need to put in place a mechanism to ensure proper and adequate exchange of information with customs authorities of other countries. A policy should also be developed on introducing periodic training programmes whereby the customs authority in one country, individually or jointly with another customs administration, will train officials of customs and other border agencies from member countries of the SAARC and BIMSTEC on the latest relevant developments, both within and outside the regional blocs. Such measures are crucial not only to ensuring supply chain security, but also for faster clearance of goods at the ports.

### **Ensuring Customs-to-Business Cooperation**

With a view to ensuring effective utilisation of the automated system, the government needs to set up the necessary infrastructure as well as train customs officials and representatives of the private sector (including SME representatives, shipping agents and freight forwarders). This is very important, not only to ensure informed compliance on the part of the business community, but also to strengthen their relationship with the customs authorities. A sound and effective customs-to-business consultation mechanism should also be developed to ensure adequate participation by all relevant stakeholders.

### **Strengthening Business-to-Business Relationships**

The launch of the SME Foundation in mid-2007 has earned the government appreciation from all segments of the business community. One of the landmark programmes of the Foundation was the establishment of 32 helpline centres for SMEs to use the Internet and receive training on the use of IT. In addition, the Foundation should ensure that new members with the potential to perform better in international markets receive guidance and assistance from the more experienced “international SMEs” (Lester and Terry 2008) with regard to identifying and clarifying the problems faced on the international front.

### **Identifying Needs and Priorities**

The previous sections of this paper have raised a number of critical issues that need immediate attention from policymakers. Taking these issues into account, the government should carry out a needs assessment study, taking advantage of the needs assessment tool developed by OECD, with particular focus on the concerns of the SMEs in relation to trade facilitation. Priorities will then have to be set for resource allocation.

### **Providing Stimulus Packages for Business Sectors**

In view of the current recessionary phase in the developed world and the various stimulus packages offered by Bangladesh's competitors, the government needs to become proactive by designing and offering trade enhancing stimulus packages to help SMEs deal with the fierce competition in its major international markets. Close monitoring of the developments taking place at the international and domestic levels is required. One way of doing this is for the government to set up sector-specific monitoring cells comprising relevant ministries, business bodies and trade analysts. Although a number of measures have been proposed under the national budget for FY2009-10 – some of which have already been implemented – for safeguarding the domestic economy from negative impacts of the global economic crisis, more allocations are required for SMEs and more sectors need to be covered.

In addition, the government must seriously take into account the importance of IT application in trade facilitation. This will help SMEs to act as a thrust sector for balanced and sustainable industrial development in the country, by enabling them to face the challenges of the free market economy and globalisation. Ensuring trade facilitation through the proper application of IT will play a significant role in attaining this objective.

### **Ensuring Effective Participation in WTO Negotiations**

Bangladesh needs to closely monitor the developments taking place in the ongoing WTO Doha Development Round negotiations. The submission of a needs-based proposal to the Negotiating Group on Trade Facilitation is also required on an urgent basis. To this end, careful scrutiny of the ongoing WTO negotiations regarding trade facilitation, and the examination of how these negotiations could help Bangladesh by reviewing the proposals and their possible implications, should be carried out at the national level.

It is hoped that effective implementation of the above recommendations will play a positive role in ensuring meaningful participation by SMEs in Bangladesh's external sector performance.

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**ANNEXES****Annex 1. Data Tables and Figures****Annex Table 1: Definition of SMEs in Bangladesh**

Source	Small Enterprise	Medium-sized Enterprise
Industrial Policy, 1991	<ul style="list-style-type: none"> <li>Manufacturing and services activities with a fixed total investment not exceeding Tk. 3 crore (USD 430,500) (excluding cost of land, establishment, and transport cost of assets, tax and duty).</li> <li>No distinction was made between small and medium-sized enterprises.</li> </ul>	
Industrial Policy, 1999	<ul style="list-style-type: none"> <li>Enterprises employing fewer than 50 workers and/or with a fixed capital investment of less than Tk. 10 crore (USD 1.45 million).</li> </ul>	<ul style="list-style-type: none"> <li>Enterprises employing 50-99 workers and with a fixed capital investment between Tk. 10 crore (USD 1.45 million) and Tk. 30 crore (USD 4.35 million).</li> </ul>
Industrial Policy, 2005	<ul style="list-style-type: none"> <li>Manufacturing sector: Industries having fixed assets below Tk. 1.5 crore (USD 218,000).</li> <li>Non-manufacturing sector: Enterprises employing less than 25 labourers.</li> </ul>	<ul style="list-style-type: none"> <li>Manufacturing sector: Industries having fixed assets between Tk. 1.5 crore (USD 218,000) and Tk. 10 crore (USD 1.45 million).</li> <li>Non-manufacturing sector: Enterprises employing 25-100 labourers.</li> </ul>
Bangladesh Bank, 2008	<ul style="list-style-type: none"> <li>Services: Total fixed assets (TFA), Tk. 50,000 (USD 725) to Tk. 50 lakh (USD 72,500) (excluding land and building). Less than 25 employees.</li> <li>Trading: TFA: Tk. 50,000 (USD 720) to Tk. 50 lakh (USD 72,500) (excluding land and building). Less than 25 employees.</li> <li>Manufacturing: TFA: Tk. 50,000 (USD 720) to Tk. 1.5 crore (USD 218,000) (excluding land and building). Less than 50 employees.</li> </ul>	<ul style="list-style-type: none"> <li>Services: TFA: Tk. 50 lakh (USD 72,500) to Tk. 10 crore (USD 1.45 million) (excluding land and buildings). Less than 50 employees.</li> <li>Trading: TFA: Tk. 50 lakh (USD 72,500) to Tk. 10 crore (USD 1.45 million) (excluding land and building). Less than 50 employees.</li> <li>Manufacturing: TFA: Tk. 1.5 crore (USD 218,000) to Tk. 20 crore (USD 2.9 million) (excluding land and building). Less than 150 employees.</li> </ul>

Source: Adapted from Islam *et al.* (2008).

**Annex Table 2: Exports and Imports by Sea, Air and Land: FY1996-97 – FY2007-08**

Year	Exports				Imports			
	Total (USD Million)	Sea (%)	Air (%)	Land (%)	Total (USD Million)	Sea (%)	Air (%)	Land (%)
FY1996-97	4017.7	98.7	1.3	*	6795.9	74.7	10.1	15.2
FY1997-98	5046.4	97.6	2.4	*	7015.3	85.0	5.1	10.0
FY1998-99	5110.7	98.6	1.4	*	7095.7	83.9	4.3	11.8
FY1999-00	4917.8	98.3	1.7	*	7394.6	84.5	11.2	4.3
FY2000-01	5679.7	90.9	9.1	*	8097.6	86.0	8.5	5.5
FY2001-02	5260.6	92.6	7.4	*	9027.4	92.9	7.0	0.1
FY2002-03	5835.7	90.8	9.2	*	8742.7	85.4	7.7	6.9
FY2003-04	7416.0	99.2	0.8	*	10695.0	98.8	*	1.2
FY2004-05	8679.4	100.0	*	*	12542.0	99.1	*	0.9
FY2005-06	10315.3	100.0	*	*	14346.2	99.5	*	0.5
FY2006-07	12318.0	99.0	*	1.0	16205.5	99.5	*	0.5
FY2007-08	14372.2	82.1	15.5	2.4	21818.1	80.8	12.2	7.1

Source: BBS (2009).

Note: \*Data not reported.

**Annex Table 3: Vessels Handled at Chittagong and Mongla Ports**

Year	Both Ports		Chittagong Port		Mongla Port	
	Number of Vessels	Number of Days*	Number of Vessels	Number of Days	Number of Vessels	Number of Days
FY1992-93	1437	7.76	1058	5.10	379	15.17
FY1993-94	1376	4.87	1070	4.42	306	6.45
FY1994-95	1553	5.66	1172	4.88	381	8.04
FY1995-96	1652	5.93	1286	5.13	366	8.72
FY1996-97	1694	5.46	1326	4.69	368	8.25
FY1997-98	1599	16.46	1257	7.11	342	9.35
FY1998-99	1810	14.3	1425	6.49	385	7.81
FY1999-00	1778	12.87	1439	5.90	339	6.97
FY2000-01	1930	11.3	1615	6.15	315	5.74
FY2001-02	1823	9.91	1557	5.10	266	4.81
FY2002-03	1974	8.61	1683	4.76	291	3.85
FY2003-04	2194	8.56	1748	4.24	446	4.32
FY2004-05	2438	8.3	1983	4.57	455	3.73
FY2005-06	2682	9.55	1906	4.93	776	4.62
FY2006-07	2106	10.31	1913	6.38	193	3.93
FY2007-08	2202	10.07	2074	5.07	128	5.00

Source: BBS (2009).

Note: \* Weighted average.

**Annex Table 4: Cargo Handled at Chittagong and Mongla Ports**

('000 MT)

Year	Total for Both Ports	Chittagong Port			Mongla Port		
		Total	Exports	Imports	Total	Exports	Imports
FY1995-96	13028	10189	1451	8738	2839	396	2443
FY1996-97	13192	10498	1435	9063	2694	520	2174
FY1997-98	11253	8386	692	7694	2867	528	2339
FY1998-99	13835	10514	650	9864	3321	369	2952
FY1999-00	14336	11326	551	10775	3010	310	2700
FY2000-01	14961	12254	578	11676	2707	305	2402
FY2001-02	15673	13420	585	12835	2253	306	1947
FY2002-03	17034	15274	679	14595	1760	351	1409
FY2003-04	16600	15105	547	14558	1495	317	1178
FY2004-05	18530	17053	580	16473	1477	222	1255
FY2005-06	19401	17917	583	17334	1484	269	1215
FY2006-07	19076	18159	510	17649	917	253	664
FY2007-08	19028	18301	454	17847	727	209	518

Source: BBS (2009).

**Annex Table 5: Role of Stakeholders in IGM and EGM Modules**

Stakeholder	Different Roles	Tasks
Shipping agents	As feeder vessel declaring agent (SAF)	<ul style="list-style-type: none"> <li>▪ Declare the vessel name and the voyage, and apply for rotation number online to CCH</li> <li>▪ Once the shipping agent receives all the manifest from all the parties such as shipping agents (main line operator with boxes), freight forwarders, etc., any short/excess goods found after comparison with his own record will be recorded as remarks. SAF will also submit documents such as: <ul style="list-style-type: none"> <li>- Letter of authorisation</li> <li>- Arrival report duly signed by master</li> <li>- Retention cargo certificate</li> <li>- Inward certificate from the shipping master</li> <li>- Load line certificate</li> <li>- Certificate that the ship is not carrying any dangerous cargo</li> <li>- Last port clearance</li> <li>- Stores list</li> <li>- List of arms and ammunition and explosives</li> </ul> </li> </ul>
Shipping agents	As main line operator (MLO) with boxes	<ul style="list-style-type: none"> <li>▪ Submit their manifest data electronically via the Internet. The file upload application software can be used to upload the IGM data through Excel file</li> <li>▪ Assign a freight forwarder as a consignee or notify</li> </ul>
Freight forwarders		<ul style="list-style-type: none"> <li>▪ Sign in and submit their respective manifests</li> <li>▪ Assign a CFA or ultimate importer</li> </ul>
Clearing and forwarding agents		<ul style="list-style-type: none"> <li>▪ See the manifest and: <ul style="list-style-type: none"> <li>- Submit cross-match information</li> <li>- Update cross-match information</li> <li>- View dispute list</li> <li>- Assign themselves as a CFA</li> </ul> </li> <li>▪ If otherwise, the matter will be treated in accordance with the customs law</li> </ul>
Chittagong Port Authority		<ul style="list-style-type: none"> <li>▪ Input vessel arrival and departure times and dates into the system</li> <li>▪ Can view IGM information and able to input discharge, delivery and elicit information of particular IGM and its container for full container load (FCL) and less container load (LCL)</li> </ul>
Off Docks/ ICD		<ul style="list-style-type: none"> <li>▪ Can view IGM information and be able to input discharge, delivery and elicit information about particular IGM and its container for FCL</li> </ul>
Customs House		<ul style="list-style-type: none"> <li>▪ Create a role base user/org. list with access permission</li> <li>▪ Assign an auto rotation number (General/Supplementary); IGM/EGM and CCH respective desks will update the rotation-related records in their books</li> <li>▪ Submit dispute</li> </ul>

*(Annex Table 5 contd.)*

(Annex Table 5 contd.)

Stakeholder	Different Roles	Tasks
		<ul style="list-style-type: none"> <li>▪ View incoming amendments</li> <li>▪ Check and approve amendment requests</li> <li>▪ Give final approval of amendment request</li> <li>▪ Generate a report of each up-to-date IGM</li> <li>▪ Generate dynamic reports combining line + Bill of Lading (B/L) no. which items they handle for which IGM, for which shipping agent and MLO/freight forwarder, and which CFA</li> <li>▪ IGM operation status update such as: bill of entry not yet posted; bill of entry posted but not yet accessed; accessed but not paid; paid but not delivered</li> <li>▪ Once all the related manifest data have been received by CCH and after verification with other documents such as Bill of Entry (BE), the bank document will issue the findings by noting on the respective manifest. The stakeholders will be able to see the notes once they sign in to the system</li> <li>▪ Customs should be able to view the task list of CFAs for the importers they are representing</li> <li>▪ All requests from MLO for amendment have to be processed</li> <li>▪ Revolving account management to realise various deducting amendments from various MLOs/freight forwarders</li> </ul>
Navy		<ul style="list-style-type: none"> <li>▪ For dangerous goods and hazardous cargo, after the manifest is declared on the control panel, Navy users (assigned personnel) will inspect the cargo description and make their marks/comments/action on it for further action</li> </ul>
Bank and financial institutions		<ul style="list-style-type: none"> <li>▪ Assist in opening of revolving accounts for the immediate stakeholders</li> <li>▪ Define the mechanism to debit/credit via intra-bank and inter-bank</li> <li>▪ Letter of credit (L/C) and L/C authorisation information</li> <li>▪ Amendment</li> </ul>

Source: DataSoft.

**Annex Table 6: Role of Stakeholders in Bill of Entry Module**

Stakeholder	Tasks
Clearing and forwarding agents	<ul style="list-style-type: none"> <li>▪ Review the manifests</li> <li>▪ Create working list and Bill of Entry</li> <li>▪ Update Bill of Entry</li> <li>▪ Check whether or not the number of packages, invoice value, items, etc. are correct</li> <li>▪ Final submission of Bill of Entry</li> <li>▪ Detail of Response Message (DRM) process status check</li> <li>▪ Declaration status check</li> <li>▪ Add additional information (add/edit)</li> <li>▪ Report (view)</li> </ul>

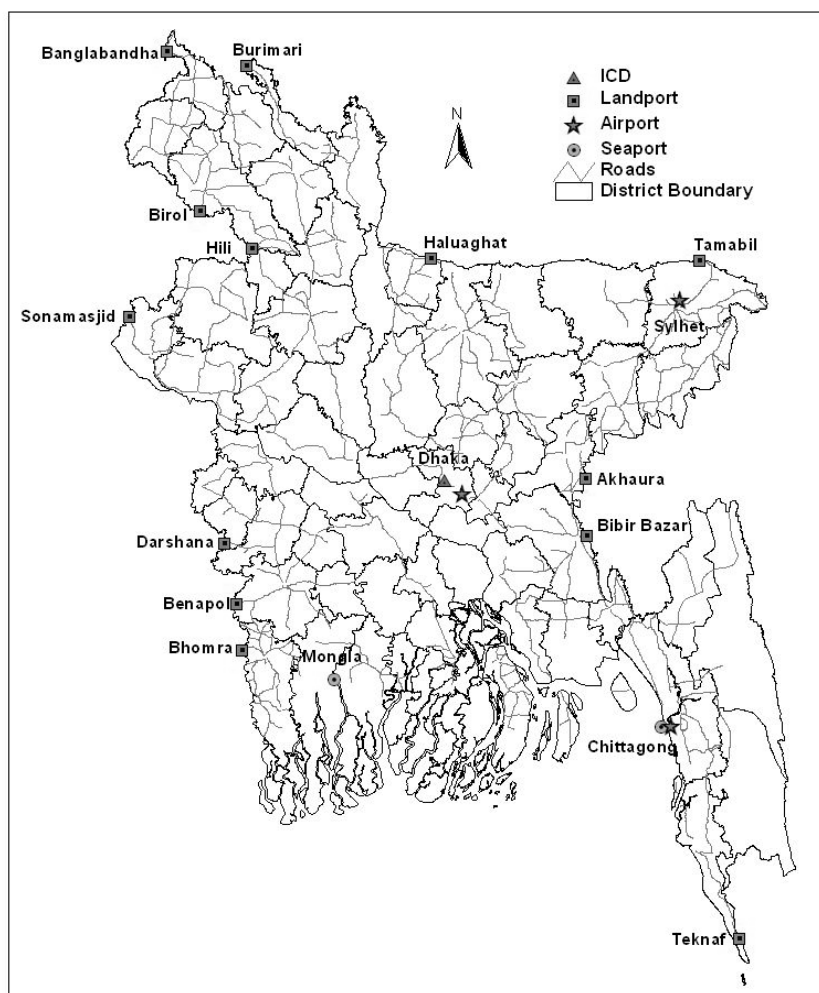
(Annex Table 6 contd.)

(Annex Table 6 contd.)

Stakeholder	Tasks
Traders (importers, exporters, etc.)	<ul style="list-style-type: none"> <li>▪ Traders/CFAs will be able to see the manifests and;                             <ul style="list-style-type: none"> <li>- Create working list</li> <li>- Bill of Entry</li> <li>- Update Bill of Entry</li> <li>- Check whether or not the number of packages, invoice value, items etc. are correct</li> </ul> </li> <li>▪ Final submission of Bill of Entry</li> <li>▪ Detail of Response Message (DRM) process status check</li> <li>▪ Declaration status check</li> <li>▪ Add additional information (add/edit) and report (view)</li> </ul>
Custom House	<ul style="list-style-type: none"> <li>▪ View Bill of Entry submitted by the organisations</li> <li>▪ Bill of Entry submission process status: completed/in process</li> <li>▪ After successful submission of Bill of Entry, the remaining processes should be completed through ASYCUDA++</li> </ul>

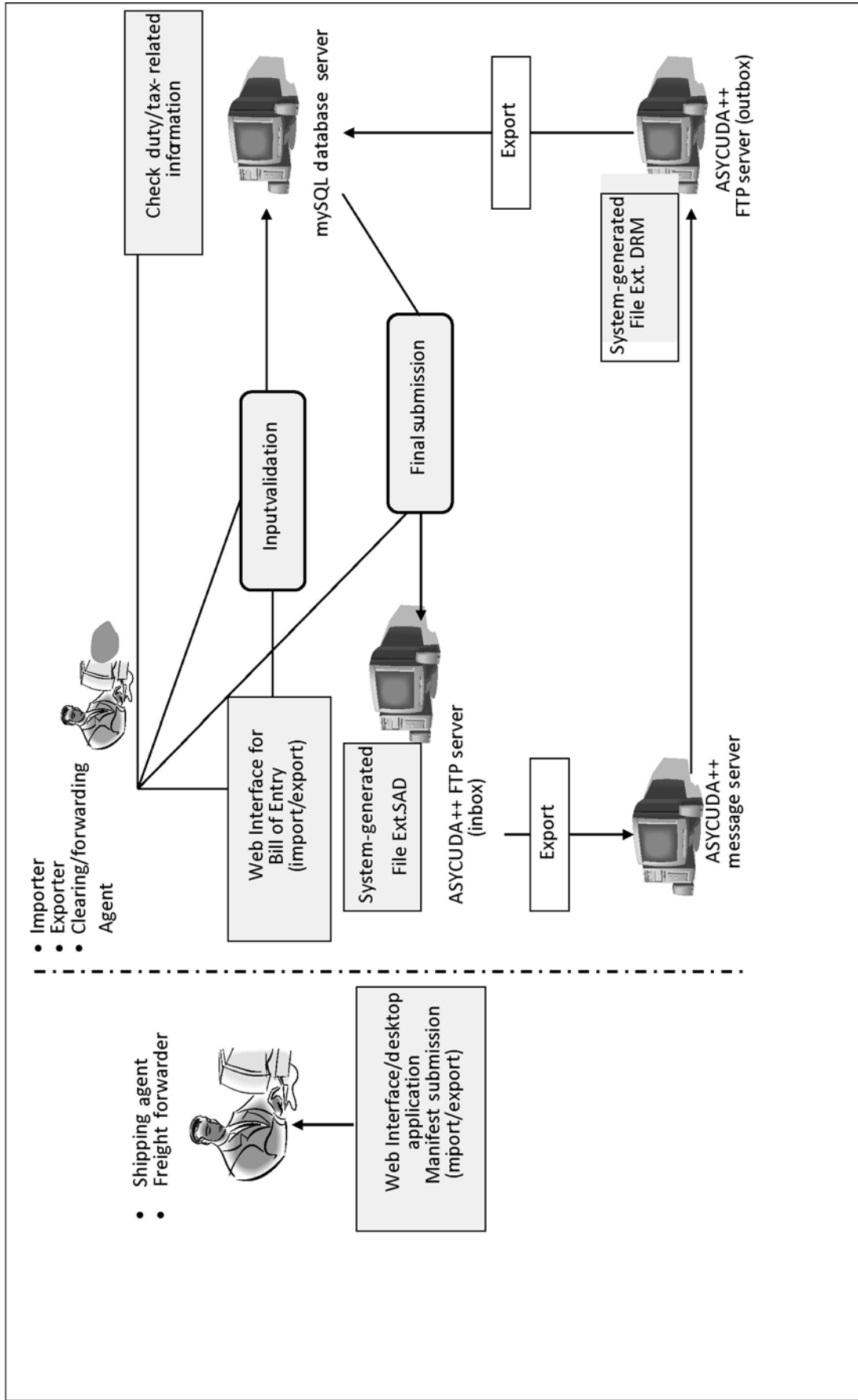
Source: DataSoft.

**Annex Figure 1: Location of Ports (Air, Land and Sea) in Bangladesh**



Source: Authors' creation based on information from various government sources.

Annex Figure 2: Work Flow: Bill of Entry, Import/Export



Source: Datasoft.

## Annex 2. Questionnaire: Stakeholder Perception Survey (for Traders)

The Centre for Policy Dialogue (CPD), a leading civil society think-tank and research organisation in Bangladesh, is undertaking this study in collaboration with the Asia-Pacific Research and Training Network on Trade (ARTNeT) of United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). It aims to study how information technology in trade facilitation has had an impact on small and medium-sized enterprises (SMEs) in Bangladesh. The study will especially focus on the automation of the customs declarations process, and as a crucial stakeholder your feedback on the following would be greatly beneficial.

The Centre for Policy Dialogue assures you that company details and individual responses will be kept strictly confidential and will not be made public or shared with any other party. The information will be used for research purposes only.

### A. Identification of respondent

Name of the respondent and position: \_\_\_\_\_

\_\_\_\_\_

Name of company: \_\_\_\_\_

Main business activity: \_\_\_\_\_

Address: \_\_\_\_\_

Telephone No.: \_\_\_\_\_ E-mail: \_\_\_\_\_

Date of response: \_\_\_\_\_

### B. Company details

1. What is the company involved in? (Please tick)

Imports only     Exports only     Imports and exports

2. Annual export turnover: \_\_\_\_\_

3. Name of the authority your company is registered with: \_\_\_\_\_

4. When was the company set up? \_\_\_\_\_

5. Number of employees: \_\_\_\_\_

6. Capital (excluding land and buildings): \_\_\_\_\_

7. How would you categorise yourself in the industry:

Large-scale     Medium-scale     Small-scale



**C. Cargo declaration process**

1. How often do you lodge Customs Declarations? (*please select one*)

Daily     Weekly     Monthly     As per client's requirement

2. Number of Declarations lodged daily/weekly/monthly

Daily                       Weekly                       Monthly

3. How do you lodge the Declarations? (*Tick more than one if relevant*)

(a) Manually

(b) Electronically (using computer in your office)

(c) Using DTI (Direct Trader Input)

(d) Combination of "a" and "c"

4. If the above answer is "d", what is the approximate percentage of declaration using each method (as a percentage of the total declaration you lodge)?

(a) Manually: \_\_\_\_\_ %    (b) DTI: \_\_\_\_\_ %

5. Currently which method do you prefer to use the most?

(a)  Manual                      (b)  DTI

Please state the reason:

---

---

**D. Adapting to electronic lodgment**

1. Does your company have its own IT system for import/export transactions?

Yes (*go to question 2*)                       No (*go to question 3*)

2. Does the system include:

(a) Computer with Internet connectivity

(b) Software that computes taxes due

(c) System that allows clients to send the import/export information electronically

(d) Others (please specify)

\_\_\_\_\_

3. When did you first start lodging declarations using DTI? \_\_\_\_\_
4. Has the number of declaration lodgments increased since the introduction of DTI?
- Yes                       No

State the reason: \_\_\_\_\_

5. Total number of signatures required throughout the whole process of customs clearance: \_\_\_\_\_
6. Does DTI adequately serve your purpose for document lodgment and customs clearance?
- Yes     No

7. What are the problems that you currently face in lodging declarations manually/DTI?

- (i)
- (ii)
- (iii)
- (iv)
- (v)
- (vi)

8. How satisfied are you with the existing level of automation (namely DTI)?

- Highly satisfied                       Moderately satisfied                       Not at all satisfied

**E. Benefits and costs of customs automation**

1. What changes do you expect by lodging declarations electronically (from your premises), compared to current manual/DTI facility?

1.1 Significant reduction in average **lodgment time**: Yes                       No

1.2 Significant reduction in average **clearance time**:  Yes                       No

1.3 Significant reduction in average **lodgment cost**:  Yes  No

1.4 Increase in number of clients:  Yes  No

1.5 Reduction in corruption among customs:  Yes  No

2. In what other ways do you think you will benefit from electronic lodgment?

Can provide quicker service to clients

Freedom to work outside the normal customs working hours

Reduced traveling, delays and queues at customs

Easy access to own declaration data from the system

Other (please specify): \_\_\_\_\_

3. If Bangladesh Customs goes for full automation, will you be ready to invest in setting up the necessary infrastructure/equipment at your premises?

Yes

No

Do not know

4. Do you think that automation will have an impact on your small and medium-sized (SME) clients?

Yes

No

Do not know

If yes/no, state the reason:

\_\_\_\_\_  
\_\_\_\_\_

5. What more do you think needs to be done to develop automation in trade facilitation in Bangladesh?

a. \_\_\_\_\_

b. \_\_\_\_\_

c. \_\_\_\_\_

d. \_\_\_\_\_

e. \_\_\_\_\_

### Annex 3. Questionnaire: Stakeholder Perception Survey (for Agents)

The Centre for Policy Dialogue (CPD), a leading civil society think-tank and research organisation in Bangladesh, is undertaking this study in collaboration with the Asia-Pacific Research and Training Network on Trade (ARTNeT) of United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). It aims to study how information technology in trade facilitation will have an impact on small and medium-sized enterprises (SMEs). The study will focus especially on the automation of the customs declarations process, and as a crucial stakeholder your feedback on the following would be greatly beneficial.

The company details and individual responses will be strictly confidential and will not be made public or shared with any other party.

#### A. Identification of respondent and company profile

Name of the respondent and position: \_\_\_\_\_

\_\_\_\_\_

Name of company: \_\_\_\_\_

Address: \_\_\_\_\_

Telephone No.: \_\_\_\_\_ E-mail: \_\_\_\_\_

Main business activity:  C&F Agent  Freight Forwarder

Shipping Agent  Packers and consolidators

Other (specify): \_\_\_\_\_

Services that you offer to clients: \_\_\_\_\_

\_\_\_\_\_

Business coverage:  Land  Air  Sea

Number of years in business: \_\_\_\_\_

Number of employees: \_\_\_\_\_

Number of clients: \_\_\_\_\_

Number of SME clients: \_\_\_\_\_

Date of response: \_\_\_\_\_

**B. Cargo declaration process**

1. How often do you lodge Customs Declarations? (*please pick one*)

Daily     Weekly     Monthly     As per client's requirement

2. Number of Declarations lodged daily/weekly/monthly

Daily                       Weekly                       Monthly

3. How do you lodge the Declarations? (*Tick more than one if relevant*)

- (a) Manually
- (b) Electronically (using computer in your office)
- (c) Using DTI (Direct Trader Input)
- (d) Combination of "a" and "c"

4. If the above answer is "d" what is the approximate percentage of declaration using each method (as a percentage of total declarations you lodge)?

(a) Manually: \_\_\_\_\_ %    (b) DTI: \_\_\_\_\_ %

5. Currently, which method do you prefer to use the most?

(a)  Manual                      (b)  DTI

Please state the reason:

---

---

**C. Experience with electronic lodgment**

3. Does your company have its own IT system for import/export transactions?

Yes (*go to question 2*)                       No (*go to question 3*)

4. Does the system include:

- (a) Computer with Internet connectivity
- (b) Software that computes taxes due
- (c) System that allows clients to send the import/export information electronically

(d) Others (please specify)

\_\_\_\_\_

3. When did you first start lodging declarations using DTI? \_\_\_\_\_

4. Has the number of declaration lodgments increased since the introduction of DTI?

Yes

No

State the reason: \_\_\_\_\_

5. Total number of signatures required throughout the whole process of customs clearance: \_\_\_\_\_

6. Does DTI adequately serve your purpose for document lodgment and customs clearance?

Yes  No

7. What are the problems that you currently face in lodging declarations manually/DTI?

(i)

(ii)

(iii)

(iv)

(v)

(vi)

8. How satisfied are you with the existing level of automation (namely DTI)?

Highly satisfied  Moderately satisfied  Not at all satisfied

**D. Benefits and costs of customs automation**

1. What changes do you expect by lodging declarations electronically (from your premise), compared to current manual/DTI facility?

1.1 Significant reduction in average *lodgment time*:  Yes  No

- 1.2 Significant reduction in average **clearance time**:  Yes  No
- 1.3 Significant reduction in average **lodgment cost**:  Yes  No
- 1.4 Increase in number of clients:  Yes  No
- 1.5 Reduction in corruption among customs:  Yes  No

2. In what other ways do you think you will be benefited from electronic lodgment?

- Can provide quicker service to clients
- Freedom to work outside customs normal working hours
- Reduced traveling, delays and queues at customs
- Easy access to own declaration data from the system
- Other (please specify): \_\_\_\_\_

3. If Bangladesh Customs goes for full automation, will you be ready to invest in setting up the necessary infrastructure/equipment at your premises?

- Yes  No  Do not know

4. Do you think that automation will have an impact on your small and medium-sized (SME) clients?

- Yes  No  Do not know

If yes/no, state the reason:

\_\_\_\_\_

\_\_\_\_\_

5. What more do you think needs to be done to develop automation in trade facilitation in Bangladesh?

- a. \_\_\_\_\_
- b. \_\_\_\_\_
- c. \_\_\_\_\_
- d. \_\_\_\_\_
- e. \_\_\_\_\_

