Regional Policy Forum on
Trade Facilitation and SMEs in Times of Crisis
Beijing, China; 20-22 May 2009

Presentation on
Impact of Information Technology in Trade Facilitation on
SMEs in Bangladesh

Presented by
Syed Saifuddin Hossain
Senior Research Associate, CPD
Dhaka, Bangladesh
Outline of the Presentation

I.  Introduction

II.  SME Integration with Global Trade

III. Trade Facilitation in Bangladesh

IV. Chittagong Customs House Automation

V. Stakeholder Perception

VI. Concluding Remarks
I. Introduction

Relevance of various trade facilitation measures, including automation, with the Small and Medium Enterprises (SMEs) in Bangladesh:

- about 90 per cent of all industrial units in Bangladesh are SMEs
- generating about 25 per cent of the GDP
- employing about 31 million people
- providing 75 per cent of household income
II. SME Integration into Global Trade

SMEs have inherent problems and general trade facilitation measures not often cater to their particular needs.

Whilst some trade facilitation measures have indeed helped reduce time required for customs clearance at the ports, SMEs continue to suffer when they try to access the global market.

Major impediments inhibiting the development of the SME sector of the country:
- inadequate investment
- limited access to appropriate technology
- inability to access the required raw materials
- protected customs clearance
- lack of financial and infrastructural facilities
- lack of skill upgradation.

Given the SME sector scenario, designing trade facilitation measures have become an issue of heightened urgency in the Bangladesh context.
III. Trade Facilitation in Bangladesh

The process of trade liberalisation, since 1980s, was designed to make the economy more outward oriented. The agenda moved forward in three phases:

- FY1982-1986 (first phase)
- FY1987-1991 (second phase)
- FY1992 onwards (third phase)

The first two phases coincided with the advent of two Industrial Policies:

- New Industrial Policy (NIP) of 1982
- Revised Industrial Policy (RIP) of 1986

Among the three, the third phase is considered to be more forward looking than the earlier two in terms of intensity of trade liberalisation.

These reforms led to: **withdrawal of quantitative restriction**, notable opening up of trade in many restricted items, **significant rationalisation and reduction of import tariffs** and **complete liberalisation of the foreign exchange regime**.
III. Trade Facilitation in Bangladesh...cont’d

Recent achievements in Trade Facilitation

- The latest version of ASYCUDA++ at all the important Customs stations, e.g. Chittagong Custom House, Dhaka Custom House, Benapole Custom House, Inland Container Depot, Dhaka (ICD), Chittagong Export Processing Zone (EPZ) and Bond Commissionerate.

- Introduction of PSI: Physical inspection of consignments reduced from 100% in 1999 to 10% in 2002.

- Reduction in number of signatures: 25 in 1999 to 5 at present.

- Turn around time brought down to 2.4 days from 2 weeks

- Introduction of Direct Trader Input (DTI) facility in September 2003

- Establishment of Trial Centre has simplified documentation processing.
III. Trade Facilitation in Bangladesh....cont’d

Customs Stations in Bangladesh

- Out of 13 land ports Benapole port is operated by the Authority itself and other ports are earmarked to be operated by private operator on BOOT (Build-Own-Operate-Transfer) basis. At present Sonamasjid, Teknaf and Hilli land ports are under operation on BOT basis and others are yet to be started gradually.
- The three international airports in Bangladesh are Zia International Airport (ZIA) in Dhaka, Shah Amanat International Airport in Chittagong, and Osmany International Airport in Sylhet.
- The two sea ports in Bangladesh are the Chittagong Port in Chittagong and the Mongla Port in Khulna.
IV. Chittagong Customs House Automation

- Collaborative effort between govt. and private sector
- Initially automated in August 2008
- IGM and EGM launched under the first phase
- Operational inauguration on 06 October 2008
- Steps in customs clearance and taxation to come down to 05 against existing 42
- Cost of doing business to be eased by 40-50 percent
- Time for clearance will require only a few minutes instead of three to four days
- Traders do not have to be physically present for clearance
- Tk 350 crore, earlier lost in tax evasion a year to go to state coffers
- Cost of data entry for each export or import document to come down to Tk 50 from Tk 70

*Dhaka Customs House and Kamalapur Inland Container Depot are the next in line*
Stakeholder Groups in Chittagong Custom House Automation

BUSINESS GROUP
- Importer & Exporter
- Chamber of Commerce & Industry
- BGMEA, BKMEA
- BTMA, BARVIDA
- BONDS
- Off-Dock/ICD etc.

OFFICIAL GROUP
- CPA & Bank
- Insurance
- BSTI, BCSIR
- EPZ, EPB
- Lab, Scanner
- BOI etc.

AGENTS
- C&F
- Freight Forwarder
- Shipping
- PSI etc.

WATCHDOG
- Customs Intelligence, DEDO, NBR, BB etc.
- NSI
- Navy
- Commerce/Food/Finance Ministry etc.
IV. Chittagong Customs House Automation…cont’d
V. Stakeholder Perception

SMEs as Percentage of Total Clients

<table>
<thead>
<tr>
<th>Customs Agents</th>
<th>SMEs as % of total clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>57</td>
</tr>
<tr>
<td>CF</td>
<td>57</td>
</tr>
<tr>
<td>CFP</td>
<td>67</td>
</tr>
<tr>
<td>CFS</td>
<td>67</td>
</tr>
<tr>
<td>F</td>
<td>48</td>
</tr>
<tr>
<td>FS</td>
<td>90</td>
</tr>
<tr>
<td>S</td>
<td>50</td>
</tr>
</tbody>
</table>

Note:
C = C&F Agents, F = Freight Forwarders, P = Packers and Consolidators, S = Shipping Agents
V. Stakeholder Perception...cont’d

Problems with Manual/DTI Lodgment

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

V. Stakeholder Perception... *cont’d*

Reasons for Preferring Current System of Electronic Data Submission

<table>
<thead>
<tr>
<th>Reasons</th>
<th>% of Traders</th>
<th>% of Agents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunity to end corruption</td>
<td>100.0</td>
<td>75.5</td>
</tr>
<tr>
<td>Limited scope for bribery</td>
<td>80.5</td>
<td>85.0</td>
</tr>
<tr>
<td>Faster service</td>
<td>93.0</td>
<td>90.5</td>
</tr>
<tr>
<td>Less opportunity for bargaining</td>
<td>60.5</td>
<td>60.5</td>
</tr>
<tr>
<td>Improved transparency and accountability</td>
<td>80.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Lower scope of manipulation</td>
<td>90.5</td>
<td>86.0</td>
</tr>
<tr>
<td>Less complicacy</td>
<td>97.0</td>
<td>94.5</td>
</tr>
<tr>
<td>Faster inspection</td>
<td>74.5</td>
<td>65.5</td>
</tr>
<tr>
<td>Access to IGM and EGM electronically</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>ID and password for individual agents</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Trained professionals for overall management of the system</td>
<td>76.5</td>
<td>85.0</td>
</tr>
<tr>
<td>24 hour service</td>
<td>88.0</td>
<td>94.5</td>
</tr>
<tr>
<td>Adequate training and technical support to traders and agents</td>
<td>66.0</td>
<td>90.0</td>
</tr>
</tbody>
</table>

*Source: CPD-ARTNet Perception survey (2008)*
V. Stakeholder Perception...

Perceived Benefits of Customs Automation for SMEs

- Reduction in corruption
- Increase in number of clients
- Reduction in lodgement cost
- Reduction in clearance time
- Reduction in lodgement time

**Percentage of respondents**

- **Agents**
  - Reduction in corruption: 85%
  - Increase in number of clients: 82.5%
  - Reduction in lodgement cost: 95%
  - Reduction in clearance time: 97.5%
  - Reduction in lodgement time: 97.5%

- **Traders**
  - Reduction in corruption: 97.5%
  - Increase in number of clients: 97.5%
  - Reduction in lodgement cost: 100%
  - Reduction in clearance time: 100%
  - Reduction in lodgement time: 100%

**Source:** CPD-ARTNet Perception Survey (2008)

**Other benefits**
- Ability to 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
V. Stakeholder Perception...cont’d

Impact of the newly introduced customs automation system on the SMEs

- Positive response from 100 per cent trader respondents
- 70 per cent of the customs agents were positive while the rest were still uncertain of the possible outcome

Impact of Automation on SMEs’ Trade Performance

<table>
<thead>
<tr>
<th>Impact of IT in TF on SMEs</th>
<th>% of Agents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business expansion</td>
<td>55.0</td>
</tr>
<tr>
<td>Frequent import of raw materials</td>
<td>42.0</td>
</tr>
<tr>
<td>Reduced production time</td>
<td>45.5</td>
</tr>
<tr>
<td>Faster document processing for exports</td>
<td>63.5</td>
</tr>
<tr>
<td>Greater integration into international trade</td>
<td>70.0</td>
</tr>
<tr>
<td>Improved good will and business reputation</td>
<td>60.0</td>
</tr>
<tr>
<td>Possibility of emergence of stronger backward linkage industries</td>
<td>45.5</td>
</tr>
</tbody>
</table>

VI. Concluding Remarks

Policy Recommendations

• Establishing a single window
• Ensuring better risk management procedures
• Introducing the concept of Authorised Economic Operator (AEO)
• Fostering Customs-to-Customs cooperation
• Ensuring Customs-to-Business cooperation
• Strengthening Business-to-Business relationship
• Identifying needs and priorities
• Providing stimulus packages for business sectors
Thank You for Your Attention