

**BRAC, IGC, iiG International Conference on Entrepreneurship and Development:
Experiences, Practices, and Policies
March 27-28, 2011; BRAC, Dhaka, Bangladesh**

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The International Conference on Entrepreneurship and Development, hosted by The International Growth Centre (IGC), BRAC and Improving Institutions for Growth (iiG), was held on March 27-28, 2011 at the BRAC Centre. Its purpose was to bring together international and local academics, policymakers, and stakeholders to discuss, based on their research and experience, whether entrepreneurship could drive development and how to promote entrepreneurship in Bangladesh. The conference was attended by current and former senior-level policy makers of the Government of Bangladesh (GOB), private sector leaders, and international and local academics. Researchers presented research findings followed by discussions by designated discussants.

DAY ONE – March 27, 2011

INAUGURAL SESSION- Promoting Micro-entrepreneurship

9:30 - 9:45 Welcome Address and Overview of Conference Agenda

Chairing the Inaugural session, Mr. M. Syeduzzaman, the former Finance Minister of the GOB, introduced Dr. Mahabub Hossain, BRAC's Executive Director, to deliver the welcome address. Dr. Hossain discussed the effectiveness of microfinance for poverty alleviation and promotion of entrepreneurship. Although the press has highlighted that some borrowers have ended up falling deeper into debt through participating in microfinance programmes, Dr. Hossain said they represented only about 5% of borrowers. Following Dr. Hossain's address, Professor Robin Burgess of the IGC and the London School of Economics gave an overview of the conference agenda.

9:45 - 10:15 Keynote Paper: Promoting Micro-Entrepreneurship in the Developing World

Presenter: Professor Christopher Woodruff, University of Warwick, UK

In Bangladesh, self-employment represents a dominant segment of the labor force. Professor Woodruff's paper asked if there is potential for employment creation in micro-enterprises and if the incomes of the self-employed can be increased. He cited evidence based on research in Sri Lanka, Ghana, and Mexico and discussed the implications for Bangladesh. He found very large increases in profits following cash/in-kind grants for male-owned enterprises, but not so for their female-owned equivalents in Sri Lanka. He also discovered that the three most important reasons firms did not hire workers were lack of capital to make workers productive, fluctuating sales levels, and low (expected) marginal productivity of labor.

With reference to Sri Lanka, Professor Woodruff and his colleagues examined the impact of training amongst enterprises owned by men and women, and the effect of formalization on male-owned enterprises. They found training had modest effects on both business practices and profits and little evidence of short-term effects on formalization.

As regards employment generation from these enterprises, Professor Woodruff referred to the need for more careful selection of enterprises to work with – he suggested that micro-enterprise owners must have aspirations for growth, ability to manage workers, willingness to delegate, and access to capital in order to make workers more productive. In terms of increased incomes for micro-enterprise workers, other factors limiting the ability of female microenterprise workers to benefit were identified, namely household responsibilities, lack of power within the household and the enterprises concerned not generating the primary income of the household.

Professor Woodruff said his findings both supported and challenged traditional microfinance approaches, since returns appeared to be higher for males whilst microfinance institutions prefer to target females, and noted the choice between equity versus debt.

10:15 – 10:35 Discussants

Dr. Debapriya Bhattacharjee, Distinguished Fellow, Centre for Policy Dialogue, Bangladesh
Dr. S.R. Osmani, University of Ulster, USA

Dr. Bhattacharjee began by situating the discussion of entrepreneurship in a historical context. He cited early economic work, in which the word “entrepreneur” was first coined and traced its evolution in economic literature. He highlighted that capitalists take risk for profit, whilst entrepreneurs take risk for innovation. Within the field of micro-enterprises, the key distinction is between survivalist firms versus growth-oriented firms. A further clarification concerns the level of development surrounding micro-enterprises, which impacts upon their success. Dr. Bhattacharjee emphasized that research on firm graduation presents a pessimistic picture, whilst graduation of female-owned enterprise is even rarer in developing countries.

Professor Osmani said emphasis should be put on credit, rather than grants, because grants do not have a repayment commitment and are thus more likely to be misused. He also argued that looking at equity and debt as a choice is a false dichotomy. Since the poor have such pressure for immediate consumption, saving is difficult. Debt is the path to equity where they receive the asset immediately and pay back the loan over years, with the repayment becoming a mechanism for forced savings.

SECOND SESSION: Small and Micro-Entrepreneurship Development in Bangladesh

Chairperson: Dr. A.B. Mirza Md. Azizul Islam, Former Advisor to the Caretaker Government, GoB

11:30 - 11:50 Paper Presentation: Constraints to Entrepreneurship Development in Bangladesh and Policy Support

Presenter: Mamun Rashid, Outgoing CEO, Citibank NA, Bangladesh

Mr. Rashid discussed the various constraints surrounding the growth of entrepreneurship in Bangladesh. Major problems faced by entrepreneurs include lack of information, financing, inflation, political instability, regulatory challenges, nepotism, lack of corporate governance and inadequate infrastructural facilities. He added that banks are discouraged from supporting new entrepreneurs since many new and small-scale entrepreneurs fail to repay loans in time, or there are past dues due to delays in project implementation.

Mr. Rashid said the huge pool of human resources available in Bangladesh can contribute to economic development if equipped with entrepreneurial skills. To promote entrepreneurship, the GOB set up the Small & Medium Enterprise Foundation in 2007, while the Equity Entrepreneurship Fund was set up by the Bangladesh Bank, although the latter was not very effective. Mr. Rashid concluded that entrepreneurs need more support in terms of business plan development, sources of funding, both equity and debt, encouraging regulatory support, and financial management skills.

11:50 - 12:20 Paper Presentation: Promoting SMEs through Access to Finance

Presenter: Professor Baqui Khalily, Department of Finance, University of Dhaka, Bangladesh

Professor Khalily observed that in Bangladesh enterprises of less than 100 employees constitute 99% of firms and 58% of employment opportunities, and emphasized that the development of SMEs is important in terms of the country's overall development agenda. He gave an overview of the state of SMEs in the country and observed that SME entrepreneurs face serious difficulties in accessing credit/finance. In spite of continuous efforts by the GOB, the constraints remain unresolved. With 40% of SMEs not approaching banks for loans and another 15% of loan applications getting rejected on the grounds of lack of guarantee or collateral, asymmetric information, and high transaction costs, SMEs are largely financed by their own funds. SMEs can get funding neither from the formal credit market nor the microcredit market, and hence represent the 'missing middle'. Prof. Khalily said that lack of collateral is a huge constraint in accessing the formal credit market for SMEs and went on to discuss BRAC's model of 'collateral-free' SME lending, which has proved to be very effective, with positive impacts at both the enterprise and household levels. Finally, he concluded that SMEs could be financed by microfinance institutions if lateral entry was permitted by the Microcredit Regulatory Agency.

12:20 – 1:30 Discussants

Prof. Mumtaz Uddin Ahmed, Department of Economics, University of Dhaka, Bangladesh

Mr. Mahbub Anam, Managing Director, Lal Teer Seed Ltd., Bangladesh

Dr. Mahabub Hossain, Executive Director, BRAC, Bangladesh

Dr. Ahmed opened by citing Dr. Bhattacharje's identification of the distinction between microenterprises: that of survivalist versus growth-oriented firms, and emphasizing this as crucial to keep in mind for policy formation concerning SMEs. He added a third category, 'avant-garde SMEs', which he defined as high-risk but displaying potential for high growth rates, and receiving investment from venture capital. In reference to Prof. Khalily's

presentation, Dr. Ahmed introduced more recent studies on SMEs. He stated that a major issue with financing SMEs is that banks have a negative attitude towards SME entrepreneurs, despite the fact that SMEs contribute 60-70% of GDP and 70-80% of employment opportunities in developing countries according to the World Bank. Dr. Ahmed added that the term 'missing middle', for describing the absence of finance available to SMEs, is inaccurate. Instead, he referred to them as the "excluded middle", because they are deliberately neglected. He highlighted that the lower end of the micro-enterprise spectrum needs the most help, but financial institutions regard these firms as unwelcome customers.

Dr. Anam appreciated the points on the constraints that entrepreneurs face. Whilst Dr. Rashid mentioned extortion as one of several constraints, Dr. Anam suggested that it is the greatest. Whilst on paper, the GOB's policies are fairly pro-entrepreneur, proper implementation leaves much to be desired.

Dr. Hossain discussed the lack of information and analytical data available. Bangladeshi organizations do not maintain proper census and statistical information. Dr. Hossain believes that besides financing, there are other key issues to be addressed: planning, analysis, and feasibility. Bangladesh's main strengths, he said, are manpower and determination.

THIRD SESSION: Evaluation of the Ultra-poor Programmes

Chairperson: Dr. Hossain Zillur Rahman, Former Advisor to the Caretaker Government, GOB and Executive Chairman, Power and Participation Research Center (PPRC), Bangladesh

2:30 – 2:50 Paper Presentation: Can Entrepreneurship Programs Transform the Economic Lives of the Poor?

Presenter: Professor Imran Rasul, University College London, UK

Professor Rasul and colleagues presented their assessment of the BRAC Ultra Poor Program to address the question of whether entrepreneurship can be taught to the very poorest people and whether it can transform their lives in the long run. Prof. Rasul outlined the key components of the program, namely (i) transfer of an asset (livestock) on average worth US\$130, (ii) enterprise training, and (iii) lessons in micro-finance with an invitation to join a micro-finance program after 18-24 months. Together these components aim to reduce the constraints faced by the poor in terms of lack of productive assets and lack of skills and information on how to use assets. He then outlined the research design, highlighting that the study was not limited to program beneficiaries but also measured the spillover effects on non-beneficiary households in the same communities.

The researchers found that ultra-poor (UP) women participating in the program more than doubled their time spent in self-employment and reduced that spent in wage employment, whilst overall labor supply increased through decreases in leisure consumption. They also

found positive impacts in terms of male time spent in self-employment, asset accumulation, size of land cultivated, savings level, and loan size. There were also welfare improvements in terms of per capita expenditure and food security. After conducting a cost-benefit analysis, they found that the program yielded double the rate of return from cash transfers alone, whilst in terms of spillover effects, female wages increased both for UP and non-UP households with positive income effect on 'other poor' households. Prof. Rasul concluded that the program's success demonstrates both that the extreme poor with low skill levels can successfully operate a small business and that program success relies on the choice of appropriate projects.

2:50 – 3:20 Discussants

Ms. Rabeya Yasmin, Associate Director, CFPR-TUP Programme, BRAC, Bangladesh

Dr. Imran Matin, Deputy Executive Director, BRAC International

Dr. Zashem Ahmed, Director, The Centre for Development (CfD) Scotland and Economist, Glasgow Caledonian University, UK

Ms. Yasmin highlighted that poverty targeting has changed greatly since the independence of Bangladesh and emphasized the importance of understanding the historical evolution of development programs.

Dr. Matin commended the Ultra-Poor programs for taking strong, well developed analysis and criticism seriously. He also highlighted his support for Prof. Rasul's analysis of spillover effects experienced by non-beneficiaries of the program. Dr. Matin stated that studies such as this also segue to future programs designed to maximize spillover. He clarified that microfinance is not necessary for graduation in the Ultra-Poor Program. Finally, Dr. Matin raised the question of whether the type of microfinance groups one joins affects behavior as an SME due to peer confidence and peer learning effects.

Dr. Ahmed asked whether the Ultra-poor Program goes further than the programs of current microfinance organizations. He agreed with Dr. Matin about the direct evidence of spillover effects, but is concerned, however, about the crowding out effect this program may cause in terms of degrading future profits.

4:15 – 4:35 Paper Presentation: Targeting the Hardcore Poor: An Impact Assessment

Presenter: Prof. Jeremy Shapiro, Yale University, USA

Dr. Shapiro began by highlighting that many anti-poverty programs, notably those taking a microfinance approach, fail to reach the poorest of the poor, which suggests the need for targeted programs. His paper evaluated one program - "Targeting the Hardcore Poor" - implemented by (THP) Bandhan, a Kolkata-based MFI, which targets the poorest of the poor with the goal of elevating income levels. The intervention includes an asset transfer of Rs. 4500 (mostly livestock), business/health training, cash allowance, mandatory weekly

savings, microfinance training and introduction to microfinance groups. Prof. Shapiro found increases in food consumption at all percentiles amongst program participants, but little indication of increases in non-food consumption. Other measures of well-being such as food security, emotional health, formal savings and livestock holdings also saw positive impacts, but there was no effect on credit or business creation. From the results, non-agricultural enterprises appear important in terms of income generation. Prof. Shapiro ended by stating that he and his colleagues hope to undertake follow-up research in order to examine the long-run effects of the program and potential graduation to microfinance.

4:35 – 4:55 Discussants

Prof. Syed M Hashemi, Director, BRAC Development Institute, BRAC University, Bangladesh
Dr. Sajjad Zohir, Executive Director, Economic Research Group, Bangladesh

Dr. Hashemi answered a few questions raised by Dr. Shapiro's study; for example, children were found to be working more under the program, but also studying more. He observed that the costs of running such a program are quite high, from US\$350 in Bandhan, to US\$1900 in Haiti. He called for a cost/benefit analysis of this program in order to understand what one-dollar invested achieves as compared to other safety net programs. This information is necessary in order to scale-up such an approach, eventually partnering with local governments. A clear story is necessary in order to attain the interests of policy makers, observed Dr. Sajjad Zohir. He commented that Dr. Shapiro's study requires more in this regard. He also raised the concern of a high rate of attrition in his longitudinal study.

DAY TWO – March 28, 2011

FOURTH SESSION: Improving Firm Productivity

Chairperson: Dr. Mohammed Farashuddin, Former Governor, Bangladesh Bank, Bangladesh

9:30 – 9:50 Paper Presentation: Improving Firm Productivity: Policy and Business Factors

Presenter: Professor Jagadeesh Sivadasan, University of Michigan, USA

Dr. Sivadasan presented his work on the 1991 Indian reforms. He summarized recent related work on economic policies/trade liberalization and productivity as well as recent work on business practices and productivity. Research shows that liberalization led to reduced barriers of competition and thus higher productivity, as well as increased knowledge-sharing by foreign investors with technology embodied in inputs. Evidence from other research suggests that increased competition from industrial and trade liberalization spurs productivity growth. Furthermore, we see aggregate growth gains from reallocation to more productive firms after liberalization. He highlighted that business practices also play an important role in productivity, with strong positive effects found from incentive-based

pay, human resources and management practices. But Dr. Sivadasan concluded by highlighting that in developing countries like Bangladesh, these practices are not widespread, particularly among smaller firms.

9:50 – 10:10 Discussants

Professor M.A. Sattar Mandal, Vice Chancellor, Bangladesh Agricultural University, Bangladesh

Dr. Adnan Qadir Khan, Research Network Director, IGC, UK

Dr. Adnan Qadir Khan discussed evidence regarding productivity gains in developing countries as a result of policy reform. He stated that this is a field requiring further rigorous research and highlighted that policy reform to support firm productivity does not necessarily have to be targeted at the firm level. Policies that drive higher educational attainment may also increase firm productivity. Another example cited was energy-efficient firms forcing out non-energy efficient firms as a mechanism for productivity gains.

The major conclusion Professor Mandal drew from the paper was that trade liberalization had a positive impact on aggregate Indian firm productivity, whilst price competition led to decreases in output prices. Because of trade liberalization and reduced barriers, FDI led to great gains in the Indian economy. Dr. Mandal discussed some experiences of trade liberalization in Bangladesh and their effects. He concluded by identifying another area for research, that of quantifying the optimal subsidy rates of agricultural inputs.

FIFTH SESSION: Export Dynamics and Firm Capabilities

Chairperson: Prof. Rehman Sobhan, Chairperson, Centre for Policy Dialogue, Bangladesh

11:15 – 11:40 Paper Presentation: Export Dynamics in Bangladesh: Exploring the Data

Presenter: Mr. Bernardo Diaz de Astarloa, Pennsylvania State University, USA

Mr. Astarloa discussed an ongoing study in which he and his colleagues addressed export growth. Bangladesh has experienced rapid growth in exports of textiles and apparel, but their study examines whether there is room for more, and notes a pressing need for diversification, as well as asking, more generally, about the prospects of export growth in future. Diaz's analysis asked further questions regarding whether the 'easy' phase of expansion for Bangladesh is over and if subsequent growth needs to come from higher unit values and quality upgrading. The researchers explored the idea of diversification out of apparel and clothing. They closely examined data on long-term surviving firms and found that new destinations and product diversification was responsible for driving their growth.

11:40 – 12:00 Discussants

Dr. Fahmida Katun, Additional Director and Head of Research, Centre for Policy Dialogue, Bangladesh

Ms. Fatimah Afzal, Private Sector Development Advisor, DFID Pakistan

Dr. Katun highlighted that although the total revenue of Bangladesh's export sector has multiplied fifty times over since 1981, commodity concentration of exports remained unchanged. Only jute exports declined but these were replaced by the RMG sector. Furthermore, as a Least-Developed Country, Bangladesh enjoys duty free access to the EU market as well as countries such as Australia, and Canada. Yet even with these advantages Bangladesh has failed to diversify exports. Also, although Bangladesh has a comparative advantage in terms of a large low-cost labor force, the skilled labor required to expand is lacking. From the presentation Ms. Fatimah Afzal was appreciative of the study but asked a range of questions. Can we make people entrepreneurial, or are people born that way? Bangladesh has seen a huge revenue gain, but how does this affect the laborers?

12:15 – 12:30 Paper Presentation: Export Markets: Implications for Firms Capabilities and Policy

Presenter: Professor Rocco Macchiavello, Warwick University, UK

Professor Macchiavello's paper explored the implications for firms, business associations and governments of a world in which trust and reputation are important determinants of export success. He highlighted that low costs, although an advantage, are not enough; quality and reliability are also important. Enforcing contracts on the basis of quality and reliability is difficult, particularly across national borders. Prof. Macchiavello cited his previous research on the export of Chilean wines to the UK, and the Kenyan flower export industry, both of which provide evidence that trust and reputation are valuable in export markets. He then referred to the questions he and his colleagues intend to explore in relation to the Bangladesh knitwear industry - they want to examine the various aspects of the relationship between foreign buyers and local exporters, right from the stage of initiation of these relationships. He touched on initial ideas about how trust and reputation can be acquired, considering trust and reputation as assets, and the need for financing them, and the related externalities. Prof. Macchiavello concluded that if trust and reputation are important determinants of export success, entrepreneurs, business associations, government agencies should pay attention to a long-term commitment to success, credit, product differentiation, common marketing, providing information and lowering search costs.

12:30 – 12:40 Discussant

Prof. Mustafizur Rahman, Executive Director, Centre for Policy Dialogue, Bangladesh

Professor Rahman asked what the required investment is in order to build a reputation, noting externalities across sectors and the country. In 2009, knitwear superseded woven wear within the apparel sector and continues to ascend, thus he suggested that focusing on

the current status of this industry would serve as an important resource for Dr. Macchiavello's study. He concluded by noting that firm-level efforts are not the only thing that matter - an industry as well as a country's global image may have strong negative effects on reputation.

CONCLUDING SESSION: Reflections, Policy Dialogue, and Way Forward

Chairperson: Professor Wahiduddin Mahmud, Former Advisor to the Caretaker Government, and Country Director, IGC, Bangladesh

Chief Guest: Dr. Atiur Rahman, Governor, Bangladesh Bank

14:00 – 16:00 Synthesis of the Proceedings and Panel Discussions

Dr. Imran Matin, Deputy Executive Director, Brac International

Prof. Robin Burgess, London School of Economics and IGC, UK

Dr. Mohammed Farashuddin, Former Governor, Bangladesh Bank, Bangladesh

Mr. Arifur Rahman, Livelihoods Adviser, DFID Bangladesh

Dr. M.K. Mujeri, Director General, Bangladesh Institute for Development Studies (BIDS), Bangladesh

Dr. Mahabub Hossain, Executive Director, BRAC, Bangladesh

Dr. Quazi Mesbahuddin Ahmed, Managing Director, PKSF, Bangladesh

The concluding session commenced with Dr. Imran Matin presenting a synthesis of the conference so far, outlining the research findings and implications from various sessions. In his discussion, Prof. Robin Burgess stated that Bangladesh is an unsung growth hero. Furthermore, Bangladesh has moved away from aid dependence and towards a higher trade to GDP ratio. However discussion and analysis of Bangladeshi policy is hampered by lack of data. Prof. Burgess did not see a purpose in survival-based SMEs, as there is no clear long-term development benefit. However, he observed that, basic entrepreneurship and innovation is happening in Bangladesh with great benefits, and now there is a much greater appetite in places like Pakistan, Afghanistan, and sub-Saharan Africa for Bangladeshi innovations.

Mr. Arifur Rahman observed that poor people are not homogenous. Policy implications should be made by context and tailored intervention. He thought that the distribution of growth is a major concern in Bangladesh. Three major points were highlighted: access to finance, access to health and education, and access to resources.

Dr. Mujeri emphasized the upward movement of SMEs while reserving their employment generation position. He cited the experiences of East-Asian neighboring countries, where

support programs and institutions were made, specific to that country's needs. He said Bangladesh should adopt a vision as to where the country wants SME's to go.

Dr. Mahbub Hossain thought the first issue was that of the marginalized sectors. These sectors include farming, the informal rural non-farm activities, and lastly SME labor. There have been many attempts at reaching the farming sector (90% of farmers have less than 1 hectare of land) since the late 1970's with credit, but they have not succeeded. Dr. Hossain thought that the ultra-poor grant-based programs are very expensive and new avenues should be explored by NGOs. Also, programs with market-distorting effects should be avoided. He thought, initially, they are needed, but to reach a level of global competitiveness, exit strategies out of these programs require refinement.

Dr. Quazi Mesbahuddin Ahmed discussed the growth of microfinance, from the perspective of PKSF. He echoed remarks on lack of personal knowledge and entrepreneurial capacity. He also stated that defining the difference between an SME and a graduated medium-size firm is necessary in order to design policy applicable to one and not the other.

The chairperson of the session, Prof. Wahiduddin Mahmud, mentioned the need for research and the scope for randomized experiments on graduation of microcredit borrowers to micro-entrepreneurs.

Finally, Dr. Atiur Rahman briefly discussed the status of SMEs in Bangladesh and the constraints they face. He also discussed the steps Bangladesh Bank has taken in order to encourage this sector. He suggested that banks and microfinance institutions may consider part-credit-and-part-equity based mechanism when financing SMEs. Reiterating previous research findings - that employment generation in microenterprises has been constrained by entrepreneurship and managerial skills - Dr. Rahman argued for external business and skill development programs. This by itself could lead to the generation of a new type of skill development in microenterprises.

Dr. Mahbub Hossain raised a vote of thanks and drew the conference to an end.