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## Survey to Identify Factors Supporting Sustained Economic Activities within PBS Areas

*(ICEA: Component -1, Task 3, Sub Task 1)*



# ICEA

Improved Capacity for Energy Access

Dhaka: November 2009



# EXECUTIVE SUMMARY

## 1. BACKGROUND

Increased Capacity for Energy Access (ICEA) is a project of USAID and the Government of Bangladesh, implemented by IRG (International Resources Group) and NRECA (National Rural Electrification Cooperative Association) International Ltd, which will focus on self-reliance of *Palli Bidyut Samities* (PBSs) (that is, Rural Electric Cooperatives) and strengthening of the regulatory regime in the energy sector of Bangladesh. In April 2009, ICEA awarded Human Development Research Centre (HDRC) an assignment to carry out a study to identify the attributes supporting economic activities within PBS areas. The accompanying study report is an outcome of HDRC's execution of the study requested by ICEA.

## 2. OBJECTIVE

The **objective of the study** was to identify the attributes which contribute to promotion of successful economic development activities in PBS service territories. The **scope of work for the study** covered the following:

- ✓ To identify the types of major businesses that influenced economic development of the PBS territories/areas
- ✓ To assess the overall business climate of selected PBS areas
- ✓ To identify motivations behind the SME entrepreneurs' engagement in businesses
- ✓ To analyze the localized factors, beside availability of rural electricity, that contributed to rise of entrepreneurs and formation of enterprises
- ✓ To recommend, based on the survey findings, how positive attributes influencing growth of businesses in the study PBS areas may be replicated in other PBS areas.

## 3. METHODOLOGY FOLLOWED

The adopted survey method was a combination of both qualitative and quantitative techniques. Both KIIs (Key Informant Interviews) and One-to-one Interviews were conducted. The quantitative questions were used for answering to questions related to the "what" elements of the survey, and the qualitative questions were used for answering to questions related to the "why and how" aspects of the study. A total of five (5) PBS areas were selected for the survey. The selection of the five sample PBS areas was based on a number of criteria and experts' opinion. The five selected sample PBS areas were: (a) Chittagong-1, (b) Noakhali, (c) Narsingdi-1, (d) Tangail, and (e) Sirajgonj.

## 4. SURVEY FINDINGS

### a. Existing Businesses in Sample PBS Areas and Reasons for Their Growth

Almost a half of the surveyed enterprises (47%) are small in size followed by the medium-sized (39%) and the large-sized (14%) enterprises- of which 80% are sole proprietorships, 14% partnerships, and 6% private limited companies.

Some specific enterprises or businesses grow in some particular areas for various reasons. The reasons, among others, are: market access, transport facilities, law-and-order situation, availability of raw materials, cheap and skilled labour, large population with higher purchasing power etc.

In the **Sirajgong PBS area**- *dairy, power loom, and poultry* are growing at a relatively faster pace. Special climatic characteristics of this area are suitable for dairy firms as cows produce more milk in this area than in other areas of Bangladesh. The establishment of the local Bangabandhu Jamuna Multipurpose Bridge has been a critical factor for economic development in this area, as it has been playing a major role for smooth and easy transportation. Large industries like the Bangladesh Milk Producers Co-operative Unions Ltd. have been working as a growth-pole in this area.

In the **Tangail PBS area**, *power loom, food processing industry, dyeing factory and spinning mills* are growing at a remarkably fast pace. Tradition, relatively low labour cost, availability of skilled labour, efficient road network, proximity to growth centres and availability of electricity are the major reasons for growth of power-loom factories, spinning mills and dyeing factories.

In the **Noakhali PBS area**- there are a significant number of *dairy firms, food processing industry, poultry, and feed and medicine for livestock and poultry*. A large number of people in this area are working abroad; and these expatriate Bangladeshis' remittances sent to their relatives are contributing to economic development of the area. Some prominent personalities, having had their birth in this area, have patronized growth of many enterprises in this area. High agricultural production in this area has also been a *catalytic reason* for establishment of some food processing enterprises.

In the **Narsingdi-1 PBS area**, *power-loom, trading in cloth, light engineering workshops, pharmacy, and grocery shops* are growing. Being situated close to the Dhaka city, spillover effects of economic development of Dhaka city has positively impacted on this area. Overall transportation and communication system in this area are sound. A large number of people in this area are working abroad and their remittances to their relatives are contributing to economic development of this area. Foreign remittances being sent to a high-density population are increasing their purchasing power, contributing to acceleration of economic growth in this area. Agriculture-related industries are also growing in this area as their products can easily be sold in Dhaka city at profitable prices.

In the **Chittagong-1 PBS area**, currently growing businesses are: *construction material (rod, cement), garments, textile, dyeing factory, and food processing*. Entrepreneurial acumen among the people, availability of labour, easy market access, good communication facilities, availability of sea ports etc. have been reported as being the key reasons for growth of businesses in this area. Proximity of the sea port has contributed to establishment of a number of export-oriented businesses. The overall economic growth in this region has influenced increase of the demand for various goods and services. Fish processing industries are also growing fast in this region due to the area's access to the seaport.

The **passion for carrying out local traditional businesses** still prevails quite significantly, and **influence of business clusters on economic development** has been identified in some of the sample PBS areas.

## **b. Overall Business Climate**

An 86% of the interviewed Small and Medium Enterprise (SME) owners in Narsingdi reported they have enjoyed easy access to finance from formal commercial banks; but in Tangail- the entrepreneurs lack easy access to credit from banks, because it usually requires an entrepreneur to provide a huge amount of collateral and to undergo a lengthy process to get a loan.

Application for and receipt of bank loans need huge paper work, and the rate of interest on such loans are also usually high. Overall, 50% of SME owners have reported that they have had easy access to credit. Besides the formal sources of credit, the *mahajans* (local money lenders) are the most frequently accessed source of capital.

In majority (78%) of the cases, the surveyed enterprises have easy access to inputs. Only in Chittagong PBS-1, about 50% of the surveyed enterprises have reported that they do not have easy access to inputs; and even the large enterprises surveyed in this area do not have easy access to inputs. In almost all the cases (89%), the surveyed enterprises in the entire sample PBSs have easy access to labour. An 11% said that there is serious deficiency of skilled labour in almost all the sectors.

A 52% of the entrepreneurs had some type of formal business training from different sources. A 90% of the respondents (entrepreneurs/managers) have reported that there are no training or advisory support centers in their localities. A 92% of entrepreneurs had enjoyed proper and easy communication mechanisms. The spread of use of cell/mobile phones has made communication easy for them.

PBSs do not have any formal system of business support. However, a 33% of sample entrepreneurs reported are getting **informal** business advice from PBSs (especially through GMs and AGMs)- but the other 67% of them could not get such support from PBSs to improve their businesses.

### **c. Entrepreneurship among the Businessmen in the Sample PBS Areas**

As entrepreneurship is a critical factor in economic development, various aspects of it have been identified to find out the attributes of local economic development.

The entrepreneurs have reported various reasons for their motivation to become entrepreneurs. The reasons are as follows: *profit maximization; motivation for self-employment; easy market access; motivated from experience in similar field; easy access to input (labor, raw materials); motivated from ancestor's business; and appropriate location.* However, it has been found that in all the PBSs (except Tangail PBS), entrepreneurs, irrespective of size of their enterprises, have most frequently reported that *they are doing the business by becoming motivated by their ancestors' businesses.*

A 70% of the entrepreneurs want to expand their businesses in the surveyed enterprises irrespective of size of the enterprises. The other 30% of the entrepreneurs do not want to go for expansion for such reasons as: (a) high Import duty for some raw materials, (b) less friendly business climate, (c) lack of skilled labour, (d) frequent power load-shedding, and (e) long and difficult process of obtaining loans on high interest rates from banks. A majority (61%) of the surveyed entrepreneurs are members of various business associations. Others have not become members of such associations for various reasons.

### **d. Other Potential Attributes Likely to Facilitate Local Economic Development**

With a view to contributing further to economic development of the sample regions, as the respondents thought, the following would be the **most effective initiatives**:

- ✓ Subsidies to the agriculture and availability of fertilizers and pesticides have a great potential of increasing agricultural yield to a good extent.

- ✓ Better access to the internet would impact heavily on local businesses by providing information on prospects for sale of goods in markets and evolving demand patterns at home and abroad.
- ✓ Uninterrupted provision of electricity can boost both industrial and agricultural output.
- ✓ Alternative sources of fuel (e.g., gas) can be of significant value to businesses.
- ✓ As the SME entrepreneurs have not yet received proper relevant training, the establishment of business support organizations can help them significantly.

#### **e. Constraints to Business Development**

The study respondents mentioned that the SME owners/operators usually face a number of constraints in their businesses which need to be eliminated to accelerate economic development. The constraints to business development, reported by the entrepreneurs, are as follows:

- ✓ Power load-shedding interrupts production
- ✓ Gas as a fuel is scarce
- ✓ Difficulties in preparing Business Plans for obtaining bank loans
- ✓ Complexities in preparing related legal documents to initiate a business.

### **5. CONCLUSIONS AND RECOMMENDATIONS**

#### **a. Conclusions**

There are certain factors that prevail in various PBS areas in Bangladesh that directly encourage growth of business; and there are certain linkages between one business and another one triggering growth of further businesses. The most prominent favourable factors appear to be as follows:

- (a) Entrepreneurial attitude of the local community results into more business activities
- (b) Favourable business enabling environment, consisting of a number of factors
- (c) Overseas remittances by expatriates help invest more and set-up new businesses
- (d) Low power load-shedding
- (e) Large-scale enterprises as growth-poles
- (f) Proximity to the capital city (big cities) as an access to market
- (g) High agricultural yields- allowing surplus to be invested in businesses.

#### **b. Recommendations**

The following steps are recommended for REB/PBSs to utilize potentials for localized business and economic development for expanding their rural electricity network:

- 1) Taking on survey and analysis of potential consumer mix in areas where the PBSs are now operating as well as those where REB plans to establish new PBSs
- 2) Optimization of the prevailing tariff for respective types of power connections, by enhancing certain user fees, as feasible
- 3) Widening business advisory services to the consumers on matters relating to economic development through the following ways-
  - Establishment and capacity building of business support organization within the PBS and partnering with other business support service organizations

- Develop a realistic community-focused business plan with a mission of assisting small to medium size enterprises with proper business planning, start-up issues, and sustainability strategies
- Survey into localized prospects for business, and dissemination of information so collected among the aspiring to-be-entrepreneurs
- Supporting feasibility of businesses proposed by prospective seekers of PBS' power connections
- Assisting entrepreneurs in conversion of their plants from non-power-fed to power-fed if and when such conversions appear to be profitable and viable
- Assisting the prospective entrepreneurs willing to receive PBS' electricity for running viable businesses.