

Editor's Desk

The August 2021 issue of Thinking Aloud focuses on "Covid-19 and Development Challenges of Bangladesh". The first page article titled "Challenges of SMEs in the time of the pandemic" emphasizes that the resonant performance of SMEs is critical for the recovery of the overall economy in the pandemic context. However, the ongoing pandemic has had some intense impacts on the SME sector of the country as well, and the recovery path for many SMEs is likely to be uncertain. The article suggests several policies and support measures to help the SME sectors come out of the crisis, including deferring income and profit tax payments, providing tax reliefs, easing debt repayment schedules and rent and utility charge payments, providing soft loans (working capital) at low-interest rates, ensuring salary subsidies for job protection, introducing temporary regulations to prevent large-scale lay-off, and allowing alternative work arrangements (including short-time leave). The second and third pages of this issue present two more articles drawing on the SANEM Household Survey 2020. The article titled "Impact of the pandemic on education sector in Bangladesh: Findings from SANEM's household survey" analyses the precarious impacts of Covid-19 on the education sector, which could result in permanent loss of human capital with severe long-term consequences. The article concludes that a medium to long-term policy framework addressing the digital divide, as well as adequate aid and scholarships for the disadvantaged students, is mandatory for the education sector rejuvenation. The article titled "Household's coping strategies during the pandemic: Findings from SANEM's household survey" examines the nature of the crisis faced by the households along with associated coping strategies and assessed the potential consequences in the short term to long term. The article suggests that a universal social security programme for all poor, including new poor households, large-scale employment generation programmes, particularly focusing on the youth, along with more active and coordinated collaboration between the government, development partners, and non-government organisations, will be crucial to mitigating the adverse impacts of the pandemic. The fourth page draws attention to the events in July 2021 and the forthcoming 6th SANEM Annual Economists' Conference (SAEC) 2021 which will be held on 4-5 December 2021.

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Challenges of SMEs in the time of the pandemic

Selim Raihan

In Bangladesh, small and medium enterprises (SMEs) have heterogeneous characteristics, which is evident from their diverse business activities. However, the discussion on SMEs has a fundamental problem related to the definition and scope. As the term SMEs is more popular, often MSMEs are also referred to include micro-enterprises. There are also references to CSMEs to include cottage industries. These definitional anomalies create problems in undertaking the right policies and programmes for the betterment of these sectors.

Furthermore, the nature and depth of challenges faced by the cottage, micro and small enterprises are more acute than those of medium enterprises. Therefore, there is a valid argument of separating out medium industries to have a focussed discussion on the problems and needs of the micro, cottage, and small enterprises.

Keeping in mind the definitional debates, in the article, we will continue to use the term SMEs where small will mean micro, cottage and small enterprises.

SMEs play a critical role in the economic development of a country. Their functions concerning production, employment generation, contribution to exports and facilitating equitable income distribution are vital. Experiences from East and Southeast Asia suggest that SMEs can significantly contribute to economic growth by stimulating competition, innovation, entrepreneurship, and skill dissemination. However, in Bangladesh, we haven't yet been able to acquire the full potential of SMEs. There is an absence of any consistent data on the contribution of SMEs to the national economy in Bangladesh. However, according to some reasonable estimates, SMEs contribute to around 25% of GDP and 35%-40% of employment in Bangladesh. A prime aspect of the contribution of SMEs in the economy is their role in the different segments of the value chains of goods and services. Needless to mention that a large part of the activities of SMEs is informal in Bangladesh.

Micro and small enterprises, among the SMEs, enjoy low entry barriers due to their informality and small size. However, the low entry barrier does not necessarily mean low entry and exit costs for these enterprises in proportion to their business sizes. Therefore, a pandemic situation, like Covid-19, can force many micro and small enterprises permanently out of the business operation.

There are three areas of challenges for SMEs in Bangladesh: financing, infrastructure and skill. These three problems are common to many businesses in Bangladesh. However, these problems become more acute for SMEs, especially for micro and small enterprises.

The financing challenges for SMEs are enormous. SMEs have limited access to institutional finance due to scale obstacles and market failures stemming from policy deficiencies and institutional rigidities. Therefore, formal financing processes, through the banking channels, are not readily available for them. Banks consider financing SMEs costly and risky. The high entry barriers into the formal financing processes at affordable costs function as significant impediments to SMEs growth and expansion. Though, as per the instructions of the Central Bank, 20% of all bank loans must go to SMEs, in reality, SME entrepreneurs are not getting that amount of loans. This forces SMEs to take loans through informal channels at higher interest rates.

SMEs face several supply-side constraints related to insufficient infrastructural facilities and difficulties in accessing appropriate technologies and information. Due

to their small scale, it is costly and challenging to solve the infrastructural related supply-side problems if SMEs work in isolation. A cluster-based approach is, therefore, needed to solve the infrastructural deficiencies of SMEs. The clustering of SMEs can generate external economies of scale. The whole idea of having an industrial park for SMEs, like the BSCIC industrial park, is very consistent with promoting external economies of scale. However, the BSCIC industrial park initiative remained unsuccessful in Bangladesh due to various reasons. The prime reason is the failure to integrate SME development policy in the broad industrial policy in Bangladesh and generate necessary policy and programmatic supports to make the BSCIC industrial park successful.

SMEs in Bangladesh also have challenges related to inexperience in business, lack of technical knowledge, poor managerial skills, lack of planning skills, and market research skills.

The ongoing Covid-19 pandemic has had some intense impacts on the SME sector in Bangladesh. According to the quarterly firm-level surveys conducted by SANEM since June 2020, SMEs in Bangladesh have been more affected than large enterprises. In particular, the impacts are devastating for micro and small enterprises. Also, the business environment has been turning out to be more unfavourable for SMEs during the pandemic. The survey in April 2021 also found that the SMEs were seriously lagging larger enterprises in terms of economic recovery. While, on average, by April 2021, large firms made a recovery of 77.3% of their businesses to their pre-pandemic states, medium firms managed to record a 63.6% recovery, and micro and small firms registered a 46.9% recovery. Large firms also received more stimulus packages than micro, small and medium firms. While 46% of the surveyed large firms received stimulus packages, this rate was 30% for medium firms and only 9% for micro and small firms.

The adjustment costs induced by the lockdown and 'tough' restrictions are very high for SMEs. Many SMEs have lost their businesses during the crisis. Given the difficulty of obtaining loans and other forms of assistance through established means, the recovery path for many SMEs is likely to be uncertain. However, the resonant performance of SMEs is critical for the recovery of the overall economy. While lockdown and 'tough' restrictions contain the spread of the virus, they hamper the livelihood of poor people and small businesses. The economy of Bangladesh is unable to afford the long-term suspension of economic activities. Though more than a year has passed since the pandemic, there have not been any health-related area and sector-specific effective protocols, which can substitute lockdown and 'tough' restrictions, to maintain economic activities.

The governments should undertake several policies and support measures to help the SME sectors come out of the crisis. Examples of these support measures include deferring income and profit tax payments, providing tax reliefs, easing debt repayment schedules and rent and utility charge payments, providing soft loans (working capital) at low-interest rates, ensuring salary subsidies for job protection, introducing temporary regulations to prevent large-scale lay-off, and allowing alternative work arrangements (including short-time leave). As is observed in the SANEM's survey, SMEs are least successful in availing stimulus packages compared to larger counterparts. The barriers to access to stimulus packages by the small and medium firms need to be identified and solved.

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Impact of the pandemic on education sector in Bangladesh: Findings from SANEM's household survey

Selim Raihan, Mahtab Uddin, Md. Tuhin Ahmed

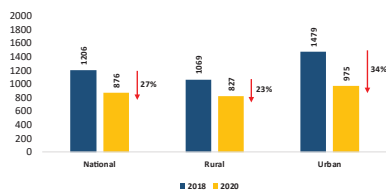
Over the years, Bangladesh has made remarkable strides on several indicators of education, notably increased literacy rates and school enrolment ratio, reduced primary and secondary school dropout rates, as well as enhanced gender parity in education. However, the COVID-19 pandemic, as with many other socio-economic developments achieved by the country, poses a serious threat to the continuation of this progress. Given the depth of the crisis, it is imperative to explore how the COVID-19 induced socioeconomic shock is affecting the education sector in Bangladesh. SANEM's nationwide household survey conducted in November-December 2020 (with a sample size of 5600 households) covering the same households from the SANEM-GED Household Survey in 2018 provides some crucial insights in this regard. SANEM's household surveys in 2018 and 2020 capture the overall situation of the households

cut on education could be due to their lower access to savings or borrowing, or even because of considering education as a 'luxury good' with higher income elasticity.

It must be noted that the fall in education expenditure at the household level could be 'voluntary' or 'involuntary'. The voluntary fall in expenditure would arise from the 'income effect': as the income of the households fell, the demand for education expenditure went down. An 'involuntary' fall in education expenditure may arise due to supply-side constraints. Since most of the education institutes remained closed during this time, the shortage of supply could explain a part of the fall in education expenditure. Moreover, during this time, a clear digital divide has been observed, which could also partly explain the disparity in the fall in education expenditure. As education depended on virtual media (online/television), the 'digital divide' emerges from the heterogeneous access to devices and services by households and regions. As such, only 21% of the students from the surveyed households could participate in virtual classes (Figure 3). The

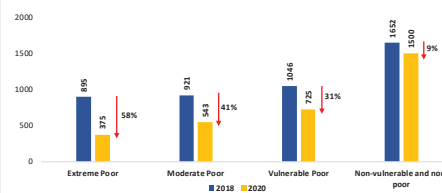
unavailability of virtual classes. In other words, poorer households had lesser 'choices' and 'endowments' compared to the richer households. Nevertheless, the digital divide is not the only concern that came out of the survey findings. More than 70% of the participating households (with students taking virtual classes) opined the virtual classes as ineffective. Also, there was very little support for students for joining the virtual classes. As the survey reveals, only 1.6% of students received some form of financial aid. Moreover, the survey finds around 3% of the households unsure about continuing the education of their currently enrolled children, with a larger percentage in rural areas. The prime reasons behind not continuing education were the unaffordability of the households to continue (rural 67%; urban 73.7%), being already involved in economic activities (rural 17.5%; urban 15.8%), or being married (rural 13.6%; urban 5.3%), amongst others. Although seemingly low as a percentage, even a 3% dropout would mean more than 1 million students would never come back to school – who would have studied had there been no pandemic.

Figure 1: Average per capita monthly education expenditure (Tk) between 2018 & 2020 by national, rural and urban



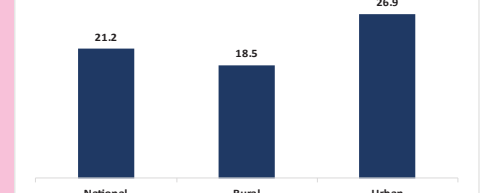
Source: Authors' estimation based on SANEM Household Survey 2018 & 2020

Figure 2: Average per capita monthly education expenditure (Tk) between 2018 & 2020 by poverty status



Source: Authors' estimation based on SANEM Household Survey 2018 & 2020

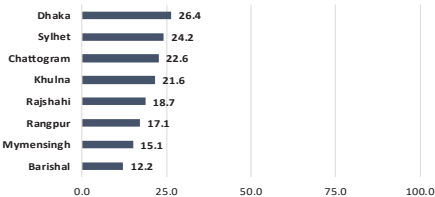
Figure 3: Participation in any forms of online (TV, internet, etc.) education (%)



Source: Authors' estimation based on SANEM Household Survey 2020

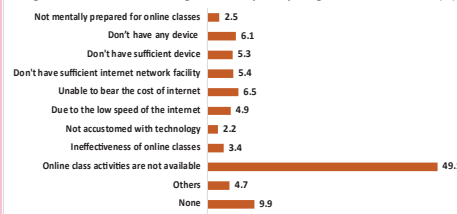
between the pre and post COVID period on a broad spectrum of indicators including education. The socio-economic aspects considered in this analysis is the pandemic's impact on education expenditure by households, participation levels in

Figure 4: Participation in any forms of online (TV, internet, etc.) education (%) by divisions



Source: Authors' estimation based on SANEM Household Survey 2020

Figure 5: Reasons behind irregular or not participating in online/TV classes (%)



Source: Authors' estimation based on SANEM Household Survey 2020

online education, households' perception of the effectiveness of such schooling and desire to continue education, etc.

Having observed an unprecedented shock on income, households reduced their non-food expenditure, particularly on education significantly. At the national level, the per capita education expenditure has fallen by 27% (Figure 1). The fall is larger in the urban areas, which were more prone to COVID spread, compared to the rural (34% and 23% respectively). Noteworthy to mention, in the urban – the per capita education expenditure was almost 40% higher compared to the rural before the pandemic. During the pandemic, this gap has been reduced to only 18%. An interesting trend is observed while breaking down the education expenditure by poverty status (Figure 2). Although all categories of households observed a decline in education expenditure, the dip was not the same. While the extreme and moderate poor households cut down their per capita education expenditure by 58% and 41% respectively, the non-vulnerable non-poor households cut it down only by 9%. The reasons behind poorer households' proportionately larger

participation rate is slightly higher in the urban areas compared to the rural (21.2% and 18.5% respectively). Participation rate higher than the national average is observed in Dhaka, Sylhet, and Chattogram divisions – which are also more urbanized with less concentration of poverty (Figure 4). The students' participation is lower than the national average in Barishal, Rajshahi, Rangpur, and Mymensingh divisions – regions with lesser urbanization and higher concentration of poverty. The reasons behind not participating in the virtual classes are diverse. The most significant reason was the unavailability of virtual class activities (Figure 5). In addition, no access to devices (6.1%), insufficient access to devices (5.3%), inadequate access to internet connection (5.4%), inability to bear the cost of internet connection (6.5%) were also identified as the causes behind non-participation. Unsurprisingly, there is a distinction between poor and non-poor households on this dimension. While most of the students from the poor households faced barriers both in terms of unavailability of devices and virtual classes, most of the students from the richer households only faced the problem with the

The havoc brought on the education sector by COVID could result in permanent loss of human capital with severe long-term consequences. The World Bank estimate shows that the cost of learning loss could be between \$67 billion and \$114 billion in GDP (Rahman and Sharma, 2021). To address the challenges posed by the pandemic, the Government of Bangladesh (GoB) needs to act fast and act big. Since the pandemic is going to last for another couple of years, the GoB should have a medium to long-term policy framework for the education sector rejuvenation. Focus must be placed on ensuring access to digital devices for students and teachers. High-speed internet should be available across all regions, to drive up participation rates through greater connectivity. Also, more funds should be directed into providing aid and scholarships to disadvantaged students. Moreover, proper steps and planning should be in place for gradually opening the schools and educational institutes at the earliest possible time.

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Household's coping strategies during the pandemic: Findings from SANEM's household survey

Selim Raihan, Mahtab Uddin, Md. Tuhin Ahmed

The COVID-19 pandemic has brought a major setback on the development discourse of Bangladesh severely disrupting livelihoods. Unlike many other developing countries, the challenges induced by the pandemic in Bangladesh are different, but complex given the structure of the economy and the socio-economic dimensions. Although Bangladesh lowered the poverty rate from 40% in 2005 to 20.5% in 2019, still nearly half of the population lived below the vulnerable poverty line (defined as 1.25 times the upper poverty line). In this scenario, any major shock, such as the COVID-19 pandemic is likely to dent short-to-medium-to-long term consequences over a large set of the population. Not all households have equal access to resources to bat out the challenges posed by the pandemic. Neither, the coping strategy is similar across the regions or households.

Against this backdrop, it is important to understand the nature of the crisis being faced by the households along with associated coping strategies and assess the potential consequences in the short to long term. The 'SANEM Household Survey 2020' conducted in November-December 2020 covering the same households from the 'SANEM-GED Household Survey 2018' provides some first-hand insights in this regard. Based on the survey data, this study identifies the challenges being faced by the households on income, employment, health, education, and migration and remittances and assesses the households' coping strategies by region and poverty status. **Challenges faced by the households**

Fall in income and employment opportunities: Due to the COVID-19 pandemic, the average household income fell by 27.4% between February and October 2020 (Figure 1). Compared to the wage employed, day labourers, and self-employed experienced a deeper fall in income during this period. However, the impact on employment was not homogenous for all households. Among the surveyed households, 55.9% responded that despite being employed, their main earner's income had fallen since March 2020. Around 8.6% of the households claimed that they lost work during March-November 2020; 7% had reduced working hours and 33.2% reported that their work stopped temporarily but resumed again during this period. Only 17.3% of households were involved in economic activities without any disruption.

Health and education: Households faced multiple problems in accessing healthcare during the pandemic. At the national level, 41% of the respondents (who sought medical healthcare) replied that they faced additional medical costs, while 31% mentioned that the healthcare providers were unavailable. Poor management at the hospital was faced by 28% of households and 28% reported negligence of healthcare providers when sought. The

survey findings show average per capita health expenditure increased across all households, with greater increases in non-poor ones. On the other hand, in terms of education, there was a decrease in expenditure across all households with greater decreases in poor ones. It indicates, on one hand, the poor households are cutting more on education than the richer households; on the other hand, their healthcare expenditure has risen minimally compared to the richer households. Therefore, the net investment in human capital for the poor households has shrunk considerably during this pandemic compared to the richer households.

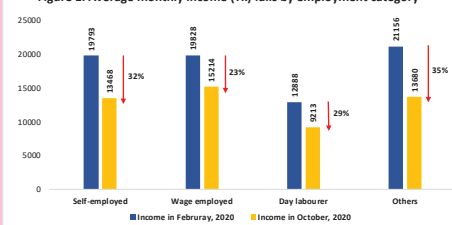
Migration and remittances: A temporary reverse migration was observed during the pandemic in the domestic labour market, where people moved back to rural areas from urban. However, once the economy reopened most of the people migrated back to the urban areas. Moreover, an interesting pattern was observed on foreign remittances. Although the official foreign remittance receipts soared even during the pandemic, at the household level, 82% of the remittance-receiving households claimed a fall in remittances received between March

items (27.3%), involuntary change in dietary patterns, (27%) and donations from friends/relatives (16.7%). Alarming, 7.5% of the households responded that they could not cope with the problem at all. Furthermore, between urban and rural areas, a greater proportion of the households which could not cope with their problems were from rural areas (8.8%).

However, the coping strategy for the poor was significantly different than that of the non-poor (Figure 4). Compared to the non-poor households the poor households relied more on government supports, or involuntarily changed their dietary pattern. They also reduced more non-food expenditures. Moreover, compared to non-poor, poor households had lesser opportunities to cope with the problem. As such, 7.8% of the poor households could not cope with the crisis in oppose to 5.8% of non-poor households.

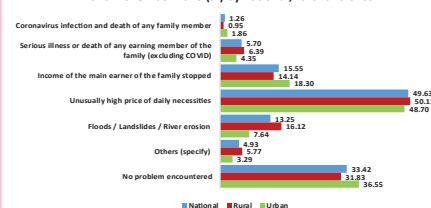
Arguably the COVID-19 pandemic could be the greatest challenge Bangladesh has ever faced since its independence. Navigating out of the pandemic would require long-term policy frameworks. SANEM's survey shows that less than one-third of all

Figure 1: Average monthly income (Tk) falls by employment category



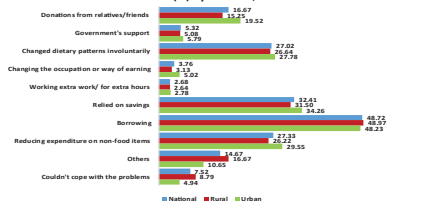
Source: Authors' estimation based on SANEM Household Survey 2018 & 2020

Figure 2: Major problems faced by households during March and November 2020 (%) by national, rural and urban



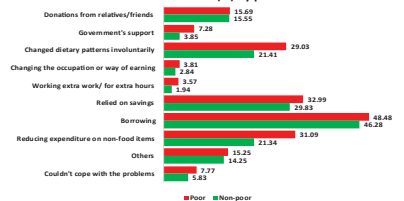
Source: Authors' estimation based on SANEM Household Survey 2018 & 2020

Figure 3: Households' coping strategies during March and November 2020 (%) by national, rural and urban



Source: Authors' estimation based on SANEM Household Survey 2020

Figure 4: Households' coping strategies during March and November 2020 (%) by poor status



Source: Authors' estimation based on SANEM Household Survey 2020

and November 2020.

Other shocks: Overall, more than two-thirds of the households responded that they faced several critical challenges during the pandemic (Figure 2). At the national level, only 1.3% responded that their family suffered due to COVID-19 infection or death of a family member (rural 0.95%, urban 1.9%). Serious illness or death of any earning member of the family from different causes was a setback for 5.7% of the surveyed households. Nearly half of the households responded the unusually high prices of daily necessities as a major challenge (rural 50.1%, urban 48.7%). Amongst other major challenges faced by the households were that the income of the main earner of the family stopped (national 15.6%; rural 14.1%, urban 18.3%) and negative consequences faced due to floods, landslides or river erosion (national 13.25%, rural 16.1%, and urban 7.6%), etc.

Coping strategies: In response to the crises, households adopted a variety of coping strategies, often from multiple sources (Figure 3). The most prominent strategy was borrowing (48.7%) – which was higher for rural households - followed by reliance on savings (32.4%), reduced expenditure on non-food

households (27%) showed optimism to cope with the crisis and return to the pre-pandemic situation once it ends. Indeed, battling the impacts of the pandemic alone would not be possible for poor households. This study shows that poor households are cutting more on their education or healthcare expenditure, or relying more on borrowing compared to their richer counterparts. If adequate supports are not extended, these households would suffer from long term consequences, including

the loss of human capital, and be trapped in the vicious circle of borrowing and poverty.

Broadly, three policies could be chalked on this front. Firstly, a universal social security programme for all poor (including new poor households) should be undertaken. The National Social Security Strategy (NSSS) has an inbuilt framework that could be materialised in this regard. Second, the government should undertake large scale employment generation programmes, particularly focusing on the youth. And thirdly, more active and coordinated collaboration is required between the government, development partners, and non-government organisations for tackling the socio-economic challenges posed by the pandemic. COVID-19 is a unique global challenge. Combating this pandemic alone is neither feasible nor socially optimal.

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SANEM-Bournemouth University jointly hosted a capacity-building workshop



SANEM, in collaboration with the Bournemouth University, organized a capacity building workshop titled “Application of Economic Modeling in Trade Policy Analysis: An Introduction”, over zoom, on 12 July 2021. Regional Trade Agreements (RTAs) and bi-lateral or multi-lateral Free Trade Agreements (FTAs) can be mutually beneficial for the parties involved, in terms of increasing trade and productivity. As preferential access to markets are subject to a range of external factors, there are a few alternatives to RTAs and FTAs for developing countries. However, a successful trade policy would require empirical nuance which can be achieved through the application of economic modeling theories. In light of the growing interlinkages and increasing collaboration in the international markets, countries across the world



are required to assess and formulate various strategies and policies that can positively influence trade and boost economic growth. To assist such trade policy analyses, the workshop aimed to enhance the knowledge of young professionals and researchers from relevant government bodies, non-government organisations, research institutions, and universities.

Professor Sangeeta Khorana, Professor of Economics, Bournemouth University, delivered the opening remarks in the workshop. The virtual workshop consisted of two sessions. The first session on “Partial Equilibrium Modeling using WITS SMART Model” was conducted by Mr Mahtab Uddin, Lecturer, Department of Economics, University of Dhaka, and Research Economist of SANEM. Dr Selim Raihan, Professor, Department of Economics, University of Dhaka and Executive Director of SANEM, facilitated the second session on “An Introduction to Computable General Equilibrium”.

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6th SANEM Annual Economists' Conference (SAEC) 2021

YEARS OF BANGLADESH

Achievements, Challenges and Lessons

December 4-5, 2021

Dr Sayema Haque Bidisha spoke at the FE Dialogue-Episode 4



Dr Sayema Haque Bidisha, Professor, Department of Economics, University of Dhaka, and Research Director of SANEM, was a panelist at the fourth episode of the Financial Express Dialogue on “Redefining Social Safety Net: Attuned to Economic Recovery” held on 13 July 2021. Dr Fahmida Khatun, Executive Director, Centre for Policy Dialogue (CPD), moderated the webinar and Mr Shah Husain Imam, Editor of The Financial Express, delivered the welcome remarks. Among the panelists were also present Dr Atiur Rahman, Former Governor of Bangladesh Bank; Dr K.A.S. Murshid, former Director General of Bangladesh Institute of Development Studies (BIDS); and Md. Rubaiyath Sarwar, Managing Director & Lead Consultant of Innovision Consulting Private Ltd. During the discussion, the panelists urged the relevant authorities to expand and redesign the social safety net programmes (SSNPs) considering the impact of the COVID-19 pandemic on the national estimates for poverty and inequality. Furthermore, they suggested that the government should ensure proper evaluation and implementation of the programmes to assess whether they are successful in fulfilling their intended goals.

Dr Selim Raihan attended the CPD-FES virtual dialogue



A virtual dialogue on “Trade in Services in the Digital Age”, jointly organized by the Centre for Policy Dialogue (CPD) and Friedrich-Ebert-Stiftung (FES) Bangladesh Office on 19 July 2021, was attended by Dr Selim Raihan. Dr Fahmida Khatun, Executive Director of CPD, moderated the dialogue and Mr MD Kamruzzaman, a former Senior Research Associate of CPD, delivered the keynote presentation. As panelists were present: Dr Ratnakar Adhikari, Executive Director, EIF, WTO; Dr Rashmi Banga, Senior Economic Affairs Officer, UNCTAD; Mr Md Mahub Ur Rahman, Chief Executive Officer, The Hongkong and Shanghai Banking Corporation Limited Bangladesh; Mr Syed Almas Kabir, President, BASIS; Mr Md. Mezbaul Haque, General Manager, Payment Systems Department, Bangladesh Bank; Dr Dushni Weerakoon, Executive Director, IPS; Dr Puspa Sharma, Executive Director, SAWTEE; and Dr Priyadarshi Dash, Associate Professor, RIS. Mr Felix Kolbitz, Resident Representative, FES Bangladesh delivered the introductory remarks at the dialogue. The experts suggested that, to reap the benefits of the 4th Industrial Revolution, Bangladesh needs to create an environment conducive to digital trade in services.