

Executive Summary

The study *Analysing Export Readiness of the Vegetables Sector of Bangladesh* has been undertaken as per the contract (no. CCER/D/GR/2015/30) awarded to Bangladesh Foreign Trade Institute (BFTI) by Swisscontact under the Agri-Business for Trade Competitiveness Project (ATC-P). The objective of this study is to analyse export readiness of the vegetables sector in Bangladesh. To do so, the study provides an account of the vegetables sector, including production, profitability, problems in vegetables production and export, value chain mapping, international market environment, successes in exports and challenges for future export growth, and so forth.

For the purposes of this study, only those vegetable products have been selected where Bangladesh has shown a significant export potential. Thus the study concentrated on the following vegetables: potatoes, tomatoes, eggplants (brinjal/aubergine), pointed gourds (patol), lady's finger (okra), beans or yardlong beans, cauliflowers, cabbages, and citrus fruits, including lemons and satkora.

The methodology used in the study in collecting data was essentially qualitative in nature. Primary data from the vegetables sector have been collected through interviews with key stakeholders using a Structured Questionnaire (Annex-B). The study also conducted four case studies in order to gain an in-depth insight from specific producers/exporters of their success factors, problems encountered by them and steps taken to overcome those, export readiness of the vegetables sub-sector, and hindrances in exporting vegetables from Bangladesh. In order to have a comprehensive understanding of vegetables export, its potentials/opportunities, impediments and measures needed to promote export, a focus group discussion (FGD), comprising the major stakeholders involved in production, distribution, storage, marketing and exports of vegetables, was conducted at the BFTI. Academics/researchers and think-tanks also participated in the FGD. Collection of data from more than one source (e.g. interview, case study, FGD) helped the study in terms of methodological triangulation.

A careful review of existing literature reveals that Bangladesh has achieved a significant growth in exporting vegetables. The export of vegetables rose from US\$ 44.67 million in FY 2008-09 to US\$ 147.54 million in FY 2013-14. The country exports vegetables to more than 40 countries, though the expatriate Bangladeshis are the main consumers of our exported vegetables. This

growing trend in export suggests that Bangladesh has significant potential to increase exports of vegetables to international markets, provided necessary measures are taken to comply with the market specific quality standards and that certifications for health and food safety are genuine.

In its attempt to analyse export readiness of the vegetables in Bangladesh, this study made a rigorous analysis of the production and export performances of the sector, challenges accompanying vegetables exports, backward and forward supply chain issues and requirements at the export destinations; it also made an assessment of government policies to address the supply side constraints in vegetables exports.

The study presents the status in terms of production and export performance of the vegetables sector in Bangladesh. It finds that vegetables (potatoes, eggplants, okras, long yard beans, pointed gourds, cauliflowers, citrus fruits etc.) are currently exported from Bangladesh to different countries of the world. Unlike the RMG exports, the export market for Bangladesh vegetables is not concentrated in the markets in the EU and the USA. Market destinations for vegetables widely vary across product bases, as each vegetables product has a different market concentration. The major export markets for our vegetables are the United Kingdom, Malaysia, Saudi Arabia, United Arab Emirates, Singapore, Qatar, Russia, Italy and Kuwait. In addition, the promising markets for Bangladeshi vegetables could be Japan, Canada, Indonesia, Sri Lanka, the United States, Bahrain, and Australia.

The study revealed that the current market infrastructure is inadequate, and that the export of vegetables suffer from a number of constraints, e.g. weak linkages among the supply chain actors (i.e., input suppliers, producers and markets), lack of well-structured and organised markets, dirty wholesale markets without modern facilities, such as warehouses and cold storages, lack of clean water and hygienic space to wash and store vegetables, poor connectivity and transportation system to carry vegetables from production areas to Dhaka city, lack of adequate Cool Supply Chain transport facility (including reefer vans) and perennial traffic jam along all the major highways and in the Dhaka city thoroughfares that affect getting vegetables to the Dhaka airport in time. All these deficiencies/constraints result in the deterioration in quality of vegetables.

Analysis of the policy frameworks and strategies adopted by the Government to support and promote vegetables export shows that the current provision of 20% cash incentives to exporters

contributes significantly to sustain exports. The study finds that the relevant GoB organisations, such as the MoA, MoC, DAE, BARI, APBPC, EPB, and HF, have been playing a supportive role in areas, including quality production, product diversification, introduction of new variety, market development, conforming to standards, packaging improvement, provisioning for reefer van, and organising training programmes with a view to raising awareness among farmers and enhancing their knowledge on vegetables production and export. Despite such a supportive role from all relevant agencies, growth in exports of vegetables faces a number of impediments and challenges in producing quality vegetables. These include scarcity in cultivable lands, supply of quality inputs, lack of access to finance, lack of knowledge of appropriate use of fertilisers and pesticides, inadequate knowledge on GAP, and poor post-harvest management.

The study highlighted the role of various development partners, such as KATALYST, USAID, FAO, ADB, World Bank and civil society organisations, in providing financial and technical supports for the growth and enhancement of the vegetables sub-sector. It also elaborated and discussed various determinants of export of vegetables. These include- contract farming, improved quality (pest and disease-free vegetables), attractive packaging, strong SPS regime, and central packing house with cool chain facility and integrity of phytosanitary certificates. Again, the study provided a complete value chain (VC) mapping of the vegetables sector, including an account of *key actors, services/inputs, and service providers* in the value chain. This section shows that the vegetables value chain can be made more profitable for the farmers by developing contract farming, promoting direct farmer-market linkages, increasing involvement of exporters during production, reducing the use of chemical fertilisers and pesticides/insecticides, adding value through sorting, grading, washing and improved packaging in containers, use of cool chain transports for promoting export, and minimising the role of market intermediaries in the supply chain. Using brinjal as an example, the study also presented a detailed export value chain analysis of that vegetable product. It suggested possible interventions in the brinjal supply chain indicating that *farmers' share in consumer price could be increased by minimising (not eliminating) the role of market intermediaries in the existing supply chain and improved marketing system*. The study also observed that the export supply chain of vegetables from Shibpur in Narsingdi district can be made more efficient through capacity building of different stakeholders along the chain.

The study also explored the supply side constraints faced in the vegetables exports. These constraints include backward supply chain constraints **and forward supply chain constraints**. These supply side constraints adversely affect vegetables exports from Bangladesh. Success of vegetables export depends, among others, on the ability of exporters to comply with SPS requirements, traceability and permissible pesticide residue level etc.

Providing a mapping of the international market environment for export of Bangladesh vegetables, this study finds that Bangladeshi vegetables' penetration in the vegetables markets in Saudi Arabia, United Kingdom, the UAE, Singapore, Russia, Italy and Canada is extremely poor, as its share is less than 1% of the total imports in each of those countries. The share is above 1% only in Malaysia (1.29%), Bahrain (1.12%), Kuwait (2.16%) and Sri Lanka (2.15%). This implies that Bangladesh needs to work hard to enhance its vegetables exports to these markets. The study revealed that China and India are the two largest competitors of Bangladesh in the world vegetables market. It also identified that meaningful horizontal diversification has not been possible in Bangladesh, while vegetables exports have remained concentrated in one product only, viz., potato.

With regard to market entry requirements, the study found that tariff barriers do not pose any threat to access the markets of export destinations, as the applied tariff rate on the export of vegetables to Bangladesh's major export destinations is either zero or very low. For example, in these major export destinations, Bangladeshi vegetables also enjoy duty-free entry. However, there are numerous NTMs (e.g. SPS and TBT requirements) that are currently imposed by these export destinations. These NTMs, such as phytosanitary measures, packaging and labelling requirements, certification, inspection and traceability requirements, have continued to hamper vegetables exports from Bangladesh. In some cases, governments in export market destinations (e.g., the EU market viz., in the UK, Italy, Germany and France) even imposed ban/restrictions on our exports, as in the case of betel leaf and potato, on health hazard grounds.

The study concludes with a number of policy recommendations. Some of the key recommendations are highlighted below:

- (i) The GoB should continue allocation of funds so that research, training and other supportive activities could be continued by the DAE, BARI, HF etc. aimed at promoting production, marketing and exports of Bangladeshi vegetables.

- (ii) The MoA and MoC, in collaboration with the HF, BFVAPEA, DAE, research organisations (BARI, BAU), development partners/NGOs and other relevant private sector organisations together can play a more active role in vegetables export promotion through assisting quality production following GAP, postharvest management, developing efficient market intelligence support for promoting exports, and enhancing capacity to comply with market entry requirements etc.
- (iii) The GoB also needs to take steps to ensure the timely implementation of ongoing projects, in the agricultural sector in general and the vegetables sub-sector, in particular, being implemented by the GoB with or without assistance and support from development partners.
- (iv) The GoB policy of providing cash incentives (currently @20% of FoB value) has immensely contributed to the gaining of competitive advantage by exporters and to mitigate the adverse impacts they have to endure due to lack of space in aircraft and high air fare. Therefore, the policy of cash incentive should continue.
- (v) A major implementation challenge for the GoB (viz., the DAE) is to impart training to uneducated and rural farmers in proper harvesting techniques and timing. Adequate steps can address this challenge effectively.
- (vi) To address the determinants that adversely affect exports of vegetables from Bangladesh, the GoB should undertake the following activities:
 - a. It should encourage the growth of contract farming. Contract farming effectively addresses the issue of traceability providing direct linkage between exporters and primary producers, and ensures adequate knowledge of buyer requirements.
 - b. The GoB should continue its efforts to ensure integrity and quality of the product and the reliability of certificates specifying quality. Establishment of more scanners at the HSIA, and automation of PC processing and issuance would be a welcome development.
 - c. It should establish packing houses with controlled temperature, since these help exporters maintain quality and specifications of the product as per the requirements of either the importing country or the buyer. The GoB should take stringent actions

against those exporting firms that are accused of exporting vegetables without any PC or with doctored PCs.

- (vii) There are growing fears that due to compliance problems some importers of fresh vegetables may divert their imports from Bangladesh to other countries. Hence, immediate intervention, in a concerted and coordinated manner, from different ministries, Bangladeshi exporters, government agencies or departments and growers is necessary to ensure quality production of vegetables, storage and transport through cold room facility to preserve freshness and supply to export markets on time at competitive prices.
- (viii) Bangladeshi firms will have to discontinue their current practice of serving export markets following a *market-to-market approach* (i.e. buying vegetables from domestic market and sell those to foreign markets). To ensure collection of quality vegetables to meet foreign buyers' requirements, exporters will have to reach the growers/farmers and to monitor whether or not vegetables are produced following certain procedures/standards in order to meet importers' requirements. Contract farming can be of great help in this regard. This will also help in determining traceability that would be instrumental in enhancing exports and in effectively catering to the need, especially of the EU market.
- (ix) Adoption of modern production methods, including contract farming, will ensure quality production of vegetables for export markets. Mechanisation in necessary areas and special policies for production and export of vegetables sector will also be necessary.
- (x) Efforts should be made from all concerned so that quality of the vegetables in demand improves by different value addition activities like upgrading the packaging, processing, handling, grading, and transportation system.
- (xi) The Plant Quarantine Wing of the DAE needs to be strengthened by improving its capacity for quarantine inspection and monitoring through one-stop quarantine inspection and certification facilities.
- (xii) The GoB must allocate more resources to enhance the capacity of the DAE and strengthen its SPS system by providing inspection tools and other necessary equipment. The GoB may also consider a separate wing within the DAE to deal with the SPS issues and other market entry requirements.

- (xiii) Implementation of a laboratory technician certification programme is necessary to build the capacity of laboratory technicians at the DAE to employ Good Laboratory Practices (GLPs) and perform analytical diagnostics. It will also be necessary to establish or identify (with adequate facilities and infrastructure, equipment and trained personnel) at least two fee-for-service laboratories for potential vegetables exporters.
- (xiv) Recognition of pest free areas (PFAs) and areas of low pest prevalence (ALPPs) is a technical and administrative process to achieve acceptance of the phytosanitary status of a delimited area. It serves as a powerful tool for addressing pest pressure and establishing the ability to export commodities (viz., citrus to the EU). Therefore, necessary efforts may be taken to establish Areas of Low Pest Prevalence/Pest Free Areas.
- (xv) Bangladesh's export diversification strategies in the case of vegetables should be geared keeping the Asian competitors, such as China, India and Myanmar, in view and examining the strengths and weaknesses they have. By doing so, Bangladesh will be able to capture not only the ethnic market but also the mainstream market in our existing and potential export destinations.
- (xvi) As Bangladesh has not been able to expedite any meaningful export diversification in the vegetables sector, there should be greater intervention from the GoB in facilitating both the horizontal and vertical diversification in the vegetables sector in Bangladesh.
- (xvii) Bangladesh must be ready to accept the reality that all countries will continue to maintain SPS measures to ensure health and food safety and to prevent the spread of pests or diseases among animals and plants. A number of private sector standards have also emerged in the developed societies. As these standards requirements are non-negotiable, our vegetables products must comply with those requirements. **Efforts already undertaken by the GoB/private sector to conform to the health and food safety standards of developed countries** should be continued with active support and assistance from the GoB.