Investment Climate in Bangladesh
Overview of Bangladesh
General information

- **Official Name:** The People's Republic of Bangladesh
- **Political system:** Parliamentary democracy
- **Capital name:** Dhaka
- **Time zone:** GMT + 6 hours
- **Area/Land:** 147,570 sq. km. (land: 133,910 sq km, water: 10,090 sq km)
- **Major cities:** Dhaka, Chittagong, Khulna, Rajshahi, Sylhet, Barisal, Rangpur
- **Principal rivers:** Padma, Meghna, Jamuna, Brahmaputra, Teesta, Surma and Karnaphuli. (total 310 rivers including tributaries).

Source: Bangladesh Bureau of Statistics
National Demographics

- Total population (m*): 155.8 million
- Literacy (2013-2014): 57.9%
- Annual growth rate: 1.37%
- GDP per capita: $1192 (at current prices 2014-15)
- GDP/rate of growth (2013-2014): 174.02 billion/6.12%
- FDI Inflows: $1181 bn (Jan-Sep 2014)

Source: Ministry of Finance, Export Promotion Bureau
National Demographics

- **Number of Export Processing Zones (EPZs)**
  Dhaka, Uttara, Adamjee, Chittagong, Comilla, Ishwardi, Karnaphuli, and Mongla.

- **Major export Items**

- **Major import Items**
  Capital Machinery, Machinery parts, Wheat, Fertilizer, Yarn, Scientific & Medical equipments, Petroleum products, Food-grains, Milk-powder, Baby Food, Edible oil etc.

- **Major trading partners**
  USA, EU countries, China, India, Pakistan, Japan, South Korea, Canada, Australia, Malaysia, Hong Kong, Taiwan, Indonesia, Saudi Arabia, United Arab Emirates, Thailand etc.

Source: Ministry of Finance, Export Promotion Bureau
Geography

• Location:
  – Between $20^0\ 34'$ and $26^0\ 38'$ north latitude and between $88^0\ 01'$
  – and $92^0\ 41'$ east longitude.

• Boundary:
  – North: India
  – West: India
  – South: Bay of Bengal
  – East: India and Myanmar

• Area:
  – 56,977 sq. miles or 147,570 sq. km. **Territorial water:** 12 nautical miles
    Territorial Sea, 200 nautical miles Economic Zone.

• Main seasons:
  – Summer (March-May),
  – rainy season (June-September) and
  – winter (December-February)

Source: Bangladesh Bureau of Statistics
## Climate variations

<table>
<thead>
<tr>
<th>Season</th>
<th>Temperature</th>
<th>Rainfall</th>
<th>Relative humidity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>maximum</td>
<td>minimum</td>
<td></td>
</tr>
<tr>
<td>Pre monsoon</td>
<td>32.6°C</td>
<td>22.4°C</td>
<td>453 mm</td>
</tr>
<tr>
<td>Monsoon</td>
<td>31.5°C</td>
<td>25.5°C</td>
<td>1,733 mm</td>
</tr>
<tr>
<td>Post monsoon</td>
<td>30.5°C</td>
<td>21.4°C</td>
<td>210 mm</td>
</tr>
<tr>
<td>Winter</td>
<td>26.5°C</td>
<td>13.9°C</td>
<td>44 mm</td>
</tr>
<tr>
<td>Annual</td>
<td>30.4°C</td>
<td>21.2°C</td>
<td>203 mm</td>
</tr>
</tbody>
</table>
Three Government agencies to deal with investment issues

• Board of Investment,
• Bangladesh Export Processing Zones Authority
• Bangladesh Cottage & Small Industries Corporation
Major Challenges

• Inadequate infrastructure facilities in few areas (power, water & gas)
• Lack of improved means of communication facilities
• Tax structure: Higher corporate tax rate among the Asian countries (35%) after end of tax holiday
• Political unrest - strike / blockade
• Significant volume of paper works while dealing with government bodies
• Rent seeking behavior by government people
• Bureaucratic process in the government offices
• New tax legislation in Transfer pricing with regard to arms length price
Why Bangladesh
Competitive fiscal non-fiscal incentives

- Remittance of royalty, technical know-how and technical assistance fees.
- Repatriation facilities of dividend and capital at exit.
- Permanent resident permits on investing US$ 75,000 and citizenship on investing US$ 500,000.
- Tax holidays
  - In the Dhaka & Chittagong Divisions: 100% in first two years: 50% in the year three and four: and 25% in the year five.
  - In the Rajshahi, Khulna, Sylhet, Barisal Divisions and three Chittagong Hilly Districts: 100% for first three years, 50% for next three years, 25% for year seven.
- Depreciation allowances
  - Accelerated depreciation for new industries is available at the rate of 50%, 30% and 20% for the first, second and third years respectively, on the cost of plant and machinery.
- Cash and added incentives to exporting industries
  - Businesses exporting 80% or more of goods or services qualify for duty free import of machinery and spares, bonded warehousing.
  - 90% loans against letters of credit and funds for export promotion.
  - Export credit guarantee scheme.
  - Domestic market sales of up to 20% is allowed to export oriented business located outside an EPZ on payment of relevant duties.
  - Cash incentives and export subsidies are granted on the FOB** value of selected exports ranging from 5% to 20% on selected products.
Incentives in EPZ

• Duty free import of construction materials (EPZ)
• Duty free import of machineries, office equipment & spare parts etc.
• Duty free import and export of raw materials and finished goods
• Exemption from dividend tax
• Relief from double taxation
• GSP facility available
• Operation of FC account
Facilities in EPZ

- No UD, IRC, ERC and renewal of Bond license
- Work permits issued by BEPZA
- Secured and protected bonded area
- Off-Shore banking available
- Import on Documentary Acceptance (DA) basic allowed
- Back to Back L/C
- Import from DTA (Domestic Tariff Area)
- 10% sale to DTA (Domestic Tariff Area)
- Customs clearance at factory site
- Simplified sanction procedure
- Sub-contracting with export oriented Industries inside and outside EPZ allowed
- Relocation of foreign industries allowed
- Accords Resident-ship and Citizenship
- One Window same day service and simplified procedure.
Competitive Cost Base

• Bangladesh offers a truly low competitive cost base. Wages and salaries are still lowest in the region, a strong business advantage.
  – Dhaka's skilled labor cost base is still less than the other major cities.
  – Dhaka's management grades are 2-3 times less than in Singapore, Shanghai, Bangkok.
  – Industrial estate rent in Dhaka is cost effective than Shanghai, Jakarta, Bangkok.
  – Office rents are also very competitive with other international cities.
  – Dhaka's housing rent for foreigners are less expensive than Singapore, Mumbai, Karachi, Hanoi.
  – Cost of diesel in Dhaka is found to be more competitively priced than most other large cities.
  – Vehicles increasingly use LPG as Dhaka gasoline costs are competitive with most other cities.

Source: The 20th Survey of Investment-Related Cost Comparison in Major Cities and Regions in Asia JETRO©, April 2010.
Legal Security for Investment

- Foreign Private Investment (Promotion and Protection) Act, 1980 ensures legal protection to foreign investment.
- Bangladesh is a member of Multi-Lateral Investment Guarantee Agency (MIGA), Overseas Private Investment Corporation (OPIC) of USA and International Centre for Settlement of Industrial Disputes (ICSID).
- Member of World Intellectual Property Organization (WIPO) and World Association of Investment Promotion Agencies (WAIPA).
Only Five steps to start business

- Step 1. Information Searches and Registration
- Step 2. A Fact-Finding Visit
  - Make a physical verification of your researches by visiting Bangladesh.
- Step 3. Getting Started
  - Set up an appropriate company structure. By this stage you will know if you are going to operate as a branch/liaison representative office (or Buying House) or if you will be establishing an industrial project.
- Step 4. Business/Plant Set-up
- Step 5. Commercial Operation
Key Sectors
Key Sectors

Some of the key sectors behind this economic transformation

– RMG
– Frozen Food
– Telecommunication
– Power and Energy
– ICT
– Leather and Leather Goods
– Light engineering
– Agro based industries
– Electronics
HISTORICAL TREND
TOTAL EXPORT vs RMG EXPORT

- Bangladesh’s First RMG Export was worth US$ 12000 in 1978
- RMG export in FY2013 - 14 reached US$ 24.49 billion
- We are now the second largest RMG exporting country in the World
HISTORICAL TREND OF BANGLADESH’S TOTAL EXPORT AND RMG EXPORT

1985 = USD116 Mn
0.12 million workers, 384 factories

1995 = USD2.2 Bn
Eliminated Child Labor

2005 = USD6.4 Bn
US Quota phased out

2010 = USD12.5 Bn
Ranked 2nd Largest RMG Exporting Country despite Global Recession

2013 = USD21.52 Bn
Major changes to industry in the wake of tragic accidents; Employment of 4.4 million

2021 = USD50 Bn visioned
Employment may reach 8 million
If we increase our share from 5% now to 8% in global apparel market of $650 by 2020 this means, we can reach over $50 billion...
## STRENGTHS OF BANGLADESH’S RMG INDUSTRY

- 30 years of experience & reputation in garment manufacturing
- Competitive Price
- International standard quality
- Vibrant population, 70% below 40 years age, quick learning & dedicated
- Irresistible & resilient entrepreneurial spirit
- Duty free market access in most of the developed countries & PTA in India, China, Korea, Malaysia
- Rapid adoption of environment friendly, energy efficient and green concepts
- Rapidly developing backward linkage/Washing/Dying/Finishing/Embroidery, etc
- Versatility of factories to produce different type of products
- Increasing trend of direct sourcing through local liaison offices at Dhaka
Industry capacity

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Garment Factories</td>
<td>3500 + active factories</td>
</tr>
<tr>
<td>Workers</td>
<td>4 million</td>
</tr>
<tr>
<td>Export in dollar value FY2013-14</td>
<td>USD 24491.88 million</td>
</tr>
<tr>
<td>Woven</td>
<td>12442.07 million USD</td>
</tr>
<tr>
<td>Knit</td>
<td>12049.81 million USD</td>
</tr>
<tr>
<td>Export in volume FY2012-13</td>
<td>1487.11 million pcs</td>
</tr>
<tr>
<td>Woven</td>
<td>709.89 million pcs</td>
</tr>
<tr>
<td>Knit</td>
<td>777.22 million pcs</td>
</tr>
<tr>
<td>Yarn manufacturing</td>
<td>1.7 billion kg/year</td>
</tr>
<tr>
<td>Fabric manufacturing</td>
<td>2 billion meter</td>
</tr>
<tr>
<td>Import of cotton</td>
<td>4 million bales</td>
</tr>
<tr>
<td>Industry CAGR (10 years)</td>
<td>14.33%</td>
</tr>
</tbody>
</table>
• **EU GSP**: Rules of Origin has been relaxed from two-stage to one-stage procession from 1 January 2011. EU has reformed its GSP that will come in to effect from January 2014, whereby the number of beneficiary countries has been reduced from 176 to 89. This would enhance the effectiveness of the trade concession among the beneficiaries.

• **Japan GSP**: Rules of Origin for knitwear has been revised from three-stage to two-stage from 1 April 2011. Woven garment enjoys one-stage rules of origin.

• **Switzerland GSP**: Rules of Origin has been relaxed from two-stage to one-stage procession from 1 April 2011.

• **Norway GSP**: Rules of Origin has been relaxed from two-stage to one-stage procession from 1 May 2011.

• **Canada GSP**: Canada provides Zero duty access on 25% value addition requirement.

• **Australia & New Zealand GSP**: Australia & New Zealand provides Zero duty access on 25% value addition requirement (subject to additional 25% sourcing from GSP beneficiary countries).

• **China Duty Free**: China provides Zero duty access for 60% items from Bangladesh under global initiative through WTO.

• **India**: India provides Zero duty access to all the RMG items under SAFTA (countervailing duties applicable).

• **Malaysia & South Korea**: Both these countries provide duty free access to a number of apparel items from Bangladesh.
CHALLENGES & WEAKNESSES

- Working Condition Improvement
- Eroding Competitiveness
- Political Situation
- Workers-Management Relations
- Environmental Sustainability

A. WAHAB & CO. Chartered Accountants
WORKING CONDITION IMPROVEMENT

• Only **32 factories** (which is less than 1.25% of the factories inspected) have been closed for major repairs

• All the inspection reports of the factories are now available at the **Fair Factory Clearing house (FFC)** database, which is accessible by all the buyers. This makes our progress even more transparent and credible.

• The Government of Bangladesh has also launched an online **publicly accessible dataset** of all the RMG factories in March 2014.

• Two private sector firms (TUV - SUD and VEC) have been contracted in January 2015 which have commenced operations to assess the remaining some **1,300 factories by April 2015**

• **Duty free import** of fire safety equipment

• Organized **Fire & Building Safety Expo** in February 2014 and December 2014
WORKERS-MANAGEMENT RELATIONS

- **Labor Act 2006 amended** in June 2013
- BGMEA is arranging regular *training programs on worker-management relations* and labor. Around 914 workers and mid-level management staffs have been trained. We are training 100 people every month.
- The BEF, BGMEA and BKMEA with the support of ITC-ILO will train 100 senior master trainers. These 100 master trainers will train 7,500 supervisors and subsequently the supervisors will train an estimated 7,50,000 workers. The training of 100 senior master trainers is already completed.
- 17 factories have registered for the *Better Work program*, 3 more in the pipeline. Target is to reach 300 factories by 2016
# Minimum Wages since 2006

<table>
<thead>
<tr>
<th>Grades of Workers</th>
<th>Designation</th>
<th>Wage (in Taka/month)</th>
<th>% Change (2006-2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>VII</td>
<td>Assistant Sewing Machine Operator, Assistant Dry-washing/Line Iron (Man/Woman)</td>
<td>1662.5 3000 5300</td>
<td>218.80%</td>
</tr>
<tr>
<td>VI</td>
<td>General Sewing Machine/ Button Machine Operator and Others</td>
<td>1851 3322 5815.2</td>
<td>214.17%</td>
</tr>
<tr>
<td>V</td>
<td>Junior Sewing Machine Operator, Junior Cutter, Folder (Finishing Section) and others</td>
<td>2046 3553 6184.8</td>
<td>202.29%</td>
</tr>
<tr>
<td>IV</td>
<td>Sewing Machine Operator, Quality Inspector, Cutter and others</td>
<td>2250 3861 6677.6</td>
<td>196.78%</td>
</tr>
<tr>
<td>III</td>
<td>Sample Machinist, Mechanic, Senior Sewing Machine Operator and others</td>
<td>2449 4218 7248.8</td>
<td>195.99%</td>
</tr>
<tr>
<td>II</td>
<td>Mechanic/Electrician, Cutting Master</td>
<td>3840 7200 12020</td>
<td>213.02%</td>
</tr>
<tr>
<td>I</td>
<td>Pattern Master, Chief Quality Controller</td>
<td>5140 9300 15380</td>
<td>199.22%</td>
</tr>
</tbody>
</table>
• Engaged with the Government of the Netherlands, IFC and a number of global brands to run a project titled Partnership for Cleaner Textile (PaCT) with a view to promoting clean & responsible production in the Bangladesh textile sector.

• Textile Technology Business Center (TTBC) will be set up in BGMEA to support the factories to reduce their ecological footprint through:
  - (a) enhancement of water resource management;
  - (b) adoption of low-cost/no-cost Cleaner Production practices; and,
  - (c) investment in technologies that significantly reduce water consumption and effluent.

• MoU signing with GIZ on a sustainability project named towards resource efficiency and environmental sustainability.
Frozen Food
Frozen Food

- Frozen foods is the second largest export sector of the economy.
- The massive natural resources available in Bangladesh make this sector particularly promising for investors looking to supply in international as well as in domestic markets.
- 148 numbers of shore based export oriented fish processing plants
Thriving in this sector are shrimp farming and fish production.

The government is promoting semi-intensive shrimp farming.

Shrimp processing and export industry is largely dominated by the small business sector.
Incentives

• 15% cash incentive offered to shrimp export amount.
Exportable Products

• Frozen shrimp & prawn
• Frozen fish
• Fresh & chilled fish
• Frozen fillets & steaks of fish, sharks shells skates & rays
• Shark fins & fish maws
• Salted & dehydrated fish
• Dry fish
• Live crabs & tortoises
• Fish meals & crushed
Growth in Export of Processed Fish

• Commercial culture of shrimp increased rapidly in the coastal belt of Bangladesh and it went through several stages of transformation.

• Bangladesh has earned international credibility by responding to the food-safety and quality requirements of its destinations, mostly, the United States and the European Union countries.
Telecom
Sector Highlights

• Bangladesh Telecom sector’s growth has exceeded all expectations and had a transformative impact on the economy in terms of aggregated investment and productivity level
• 100m active mobile connection subscribers' landmark.
• Mobile penetration is 66.36% among the whole population with a growth of 10% per annum.
• Along with Bangladesh, only 12 countries in the world have more than 100m active subscribers.
• There is immense opportunity for 3-G mobile services, and mobile based internet and other non-telephony services.
Power & Energy
Sector Highlights

• As per the Power and Energy Development Roadmap (2010-2021) - desired destination (20,000 MW by the year 2021) through the 10% growth in production per year

• The government is strongly committed to attract private investment for installing new power generation capacity on build-own-operate basis.
Facilities and Incentives for Foreign Investors

- Tax exemption on royalties, technical know-how and technical assistance fees, and facilities for their repatriation.
- Tax exemption on interest on foreign loans.
- Tax exemption on capital gains from transfer of shares by the investing company.
- Avoidance of double taxation case of foreign investors on the basis of bilateral agreements.
- Exemption of income tax for up to three years for the expatriate personnel employed under the approved industry.
- Remittance of up to 50% of salary of the foreigners employed in Bangladesh and facilities for repatriation of their savings and retirement benefits at the time of their return.
- No restrictions on issuance of work permits to project related foreign nationals and employees.
- Facilities for repatriation of invested capital, profits and dividends.

Source: Private Sector Power generation Policy of Bangladesh, Ministry of Power, Energy and Mineral Resources
ICT and business services
Sector Highlights

- IT Industry and Information Technology Enabled Services (ITES are still lot smaller compared to the overall economy
- Over the last few years the industry has grown considerably and is expected to grow at that rate for some time.
- During the last five years the average yearly growth rate of software & ITES industry has been over 40%.
- The growth has been driven by both good export trends in recent years as well as the growing IT automation demand in domestic market (local demand has been led by large automation projects by telecom, banking sector and export oriented garments/textile industry and Digital Bangladesh Project by GOB)
- Currently there are over five hundred (800+) registered software and ITES companies
- Over 20,000 ICT professionals.
- Out of these companies, around 60% are mainly domestic market focused while 40% are mainly export focused (significant number of companies work for both local and export clients).
- Total estimated IT Industry Size: US$ 120 Million (including export)
Leather and Leather Goods
Leather and Leather Goods

• Bangladesh produces between 2% and 3% of the world’s leather.
• Most of the livestock base for this production is domestic, which is estimated as comprising 1.8 % of the world’s cattle stock and 3.7 % of the goat stock.
• The hides and skins (average annual output is 15m sq.m.) have a good international reputation.
Incentives

• Government support in the form of tax holidays, duty free imports of raw materials and machinery for export-oriented leather market, export incentives.

• Tariff and quota free access to major markets such as the EU.
Light Engineering
Sector Highlights

- Thriving in this sector are machinery parts and consumer items.
- Increasingly affluent middle class creating demand for consumer durables.
- About 40,000 small scale light engineering enterprises existing over the country.
- Export-oriented production has experienced strong growth in past few years.
- Currently about 10,000 types of different items are manufactured for the local industry.
- As demand grows for engineering and electronic goods, so does demand for light engineering products.
- Entrepreneurs from China, Japan and Korea have taken advantage of Bangladesh's cheap and easily trainable labor and its infrastructure facilities to manufacture products for the export market.
Incentives

• Government provides cash incentive facilities to exporters of value-added light engineering products.
Agri Business
Agri Business

• The economy of Bangladesh is primarily dependent on agriculture.
• About 84% of the total population lives in rural areas and are directly or indirectly engaged in a wide range of agricultural activities.
• Agriculture contributes about 20 to 23% to the country’s GDP.
• About 43.6% of the labor force is employed in agriculture with about 57% being employed in the crop sector.
Thriving in this sector are:
- canned juices, fruits, vegetables, dairy and poultry. The country offers:
- Huge supply of raw materials exist for the agribusiness industry.
- A tropical climate for all year growing, a lot of fresh water, indeed a land interspersed with numerous rivers, available land with fertile soil.
- Government and NGOs conduct regular training programs to develop skilled manpower in the industry.
- Wide range of biodiversity exists for different crops.
- Agricultural commodities have a comparatively higher value added than non-agricultural commodities.
Investment Opportunities

There is a wide variety of investment opportunities including:

• Cold storage facilities serving the supply chain, especially fresh produce for export.

• Fresh produce production for local and export markets.

• Production of fertilizers and cultivation of seeds.

• Eco-friendly jute production, supported by jute technology development institutes.

• Shrimp farming.

• Halal foods.

• Milk and dairy products.

• High value-added foods for export, including herbs, spices, nuts and pulses.
Incentives

• Investments in agribusiness industries in Bangladesh are encouraged with the following support measures:
  – The Equity Entrepreneurship Fund for development of agribusiness industry.
  – Special loan facilities available to set up an agribusiness.
  – Agribusiness industry enjoys tax holidays.
  – Any investment in this sector will enjoy similar tax amnesty as available in other sectors.
  – Imposition of supplementary duty on mango, orange, grape, apples, dates and others to utilize the high quality and cheaper local resources.
  – Cash incentives to the exporters ranges from 15% to 20% in various sub sectors.
Electronics
Industry Background

• The electronics industry in Bangladesh mostly produces consumer items.

• Home appliances includes televisions, radios, DVDs and CD players, refrigerators, air conditioners, ovens, electronic fans, blenders etc. are being assembled to a large extent.

• To ensure the performance reliability, the key challenges in this sector are technical assistance and proper technology orientation of the industry.

• As yet, Bangladesh does not have any telecommunication equipment industry in the private sector.
Sector Highlights

• The home appliance market in Bangladesh is growing rapidly.
• Bangladesh is going to be one of the largest cell-phone markets in South Asia.
• The labor-intensive nature of the electronic industry matches the ability of Bangladesh to provide a high skilled labor source.
Thanks