FOREIGN INVESTMENT

Deserving Factors in assessing Bangladesh

- Bangladesh has never defaulted in its debt-service liabilities to multi-lateral and bilateral donors.
- Bangladesh never experienced negative economic growth during last 30 years of its independence.
- Bangladesh has been remarkably successful in controlling populating growth (from an average rate of 2.4 percent during 1980-90 to 1.5 percent in 2000)
- Bangladesh has grown 26 million metric tons of food grains, basically rice and some wheat and potatoes, which is enough to feed the population of the country and for building reserve stocks.
- Bangladesh has been mobilizing domestic resources at an increasing rate and domestic resources currently finance more than 50 percent of its development budget.
- The cheapest and easily trainable labour is abundantly available in Bangladesh. Out of the total population of about 130 million, labour force comprises more than 56 million.
- Bangladesh has the lowest import-tariff rate in the South Asian region;
- Bangladesh exports readymade garments, knitwear, brand name windcheaters, walking shoes, leather goods, shoes and other products, urea fertilizer, pharmaceuticals, shrimps and prawn, vegetables, jute and jute products, etc. to sophisticated markets of EU, USA, Japan and many other countries. Garments related export is estimated to account for US 4.85 to 4.95 billion in 2000/2001.
- The frequency and intensity of natural disasters is far less in Bangladesh than those in the Philippines, Japan and even the USA. Bangladesh is located outside the major earthquake zones.
- Needless to mention, Bangladeshi people are most hospitable and friendly and greatly value the of role foreign investment in their country.

Investment Opportunities : Major Considerations

Bangladesh is located virtually as a landbridge between the emerging markets of South Asia and the fastest growing markets of South East Asia and the ASEAN countries. The proposed concept of a "Bay of Bengal Growth Triangle" has its apex in Bangladesh, extending South-West via Madras to Colombo and the South-Eastern arm extends through Myanamar & Thailand to Penang, Malaysia, with the third arm to Sri-Lanka, attracting greater attention from the investment world. Bangladesh is a possible entrepot, a potential Singapore, for servicing the region covering Bangladesh, Nepal, Bhutan, the seven North-East Indian states and also for the resource-rich Northern Myanmar, a land locked region.

The external impression of Bangladesh was that of a populous and low-income country - about 130 million people with little purchasing power. Such an impression needs to be balanced by several considerations. In the first place, there is a middle class with some purchasing power in Bangladesh as in the rest of South Asia. As economic growth has begun to pick up in significant measure as a consequence of the opening up of relatively closed economies, this class and its purchasing power are beginning to grow. And in a country with 130 million people even a small middle class may constitute a significant market. One might also note that Bangladesh's GNP at the purchasing-power-parity is nearly four times as high as GNP at the market exchange rate.

The second point to be noted in this context, as already indicated above, is the potential access to the South Asian market. Bangladesh is a member of the South Asian Association for Regional Co-operation (SAARC), created in 1985, which aims to accelerate the processes of economic, social and cultural exchanges among its members. Other members of SAARC are : Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The South Asian Preferential Trade Arrangement (SAPTA) was established in 1993 and the first round of concessions and preferences was held in 1995. In 1996, during the second round of negotiations, commerce ministers of SAARC members announced a commitment to establish a South Asia Free-Trade Area (SAFTA) by 2005.

A single South Asian market would be large indeed, even taking into account the relative poverty of the region, given the size of the population (nearly 1.3 billion) and the acceleration of economic growth following progressive liberalization in the region. Bangladesh has by no means been a laggard in liberalization by regional standards. Its policy regime for foreign direct investment has been thought on all hands to be the best in South Asia.

The following possible areas in Bangladesh may be cited for lucrative returns for potential foreign investors:

a. Oil, gas, mineral-exploration/production/distribution : 24.75 trillion cft gas reserve needs technical know-how and financial resources mobilization

b. Electric power-generation/distribution : About 3000 MW current capacity vs. a requirement of 5700 MW

c. Telecommunication network - service expansion : A handful of private companies in addition to T&T operate about 500,000 lines with a substantial number having analog switches

d. Computer/peripherals/software : $20-25 million current market; expected annual growth rate is 25%

e. Aircraft/parts/ground support/airport equipment : Air travel by Bangladeshis at home and abroad is rapidly growing every year

f. Textile machinery/equipment : A $5 billion export earning sector with a market for more than $30 million for parts and machinery

g. Architecture/constructional engineering and consulting services

h. Cotton market for about $20 million with growth potentials

i. Ready-mixed concrete and aggregate plants - high growth potentials

j. Agro-based investment :

Cotton import reached about $250 m. in the recent past - ample growth potentials exist.

Fruit imports e.g. apples, grapes, orange, pears have high growth potentials
Flower production for export possesses huge potentials

k. Fisheries - sea food processing, poultry farming, dairy farming for domestic market and export

l. Fruit and vegetable processing for domestic market and also for export

m. Pharmaceutical production plants need expansion

n. Motor part manufacturing has a sizeable domestic market

Foreign Investment : The Basic Policy - framework

a) Foreign investment with particular preference to foreign direct investment is encouraged in all industrial activities in Bangladesh excluding those in the list of 'Reserved Industries'. (Production of arms and ammunitions; forest plantation and mechanized extraction within the bounds of a reserved forest; production of nuclear energy; and printing and minting currency notes). Such investments may be undertaken either independently or through joint ventures, either with the local private or public sector. The capital market also remains open for portfolio investment.

b) The policy framework for foreign investment in Bangladesh is based on Foreign Private Investment (Promotion and Protection) Act, 570 1980 which provides for :

- non-discriminatory treatment between foreign and local investment

- protection of foreign investment from expropriation by the state, and

- ensuring of proceeds from sale of repatriation shares and profit.

c) For foreign investment, there is no limitation pertaining to equity participation, i.e. 100 percent foreign equity is allowed.

d) Foreign entrepreneurs enjoy the same facilities as the domestic entrepreneurs in respect of tax holiday, payment of royalty, technical know- how fees etc.

e) Full repatriation of capital invested from foreign sources is allowed. Similarly, profits and dividend accruing to foreign investment may be transferred in full. If foreign investors reinvest their repatriable dividends and or retained earnings, those will be treated as new investment. Foreigners employed in Bangladesh are entitled to remit up to 50 percent of their salary and will enjoy facilities for full repatriation of their savings and retirement benefits.

f) Work permits are issued to foreign experts on the recommendation of investing foreign companies or joint ventures.

g) Foreign investment in "Thrust Sectors", particularly in small industrial units, is given priority in allocation of plots in industrial estates.

h) Investment of non-resident Bangladeshis is treated at par with foreign direct investment.

i) Intellectual property rights of new products and process are protected.

j) Investment guarantee and dispute settlements are guided by international arrangements and provisions.

<u>THE BOARD OF INVESTMENT (BOI)</u>

The Board of Investment (BOI) headed by the Prime Minister and constituted by Ministers and Secretaries of the concerned ministries and public and private sector representatives, is vested with the power to take decisions for speedy implementation of new industrial projects and provide operational support services to the existing ones.

The major functions of BOI include the following:

a. Undertaking investment promotion activities at home and abroad

b. Providing all types of facilities for promotion of capital investment and rapid industrialization

c. Registration of industrial projects as well as royalty, technical know-how and technical assistance agreements wherever required

d. Approval of payment of royalty, technical know-how and technical assistance fees to foreign nationals/organizations beyond the prescribed limits

e. Issuing work permit to expatriate personnel working in private sector industrial enterprises

f. Providing import facilities to industrial units in the private sector

g. Approval of the terms and conditions of foreign private loan and suppliers' credit

h. Conciliation of disputes relating to foreign investors

I. Providing assistance to obtain infrastructure facilities

<u>One Stop Service Center</u>:

The infrastructure and institutional support service that are available with the One Stop Service Centre at the Board of Investment are:

a) pre investment counselling
b) electricity connection
c) gas connection
d) water and sewerage connection
e) telecommunication facilities
f) solution of problems in case of any difficulty arising in clearing imported machinery under concessional rate of import duty and obtaining bonded warehouse license
g) environmental clearance

Courtesy service:

Board of Investment offers certain courtesy services to visiting foreign investors. The service includes reception at airport, hotel booking, transport arrangement and drawing up itinerary in accordance with the need of the foreign investors visiting Bangladesh. To avail of the services, the investors are advised to intimate BOI in advance.

Welcome service at airport:

'BOI welcome service' counter manned by BOI officials has been set-up to offer round the clock service to all foreign investors arriving at the Zia International Airport, Dhaka. Foreign investors are requested to avail the service on arrival.

INCORPORATING A COMPANY IN BANGLADESH

Business in Bangladesh may be carried out by a company formed and incorporated locally and a foreign company incorporated outside but registered in Bangladesh by establishing an office here. There are mainly two types of companies:

i) Limited companies, and
ii) Unlimited companies.

Limited companies are divided into two categories:

a) Company limited by shares, and
b) Company limited by guarantees.

Unlimited companies and companies limited by guarantees may, or may not, have share capital.

Companies limited by shares:

There are two broad categories of companies limited by shares, namely:-

a) Private limited company, and
b) Public limited company.

Private limited company:

Private limited company means a company which by its articles:

a) restricts the right to transfer the shares;

b) limits the number of its member to minimum 2 and maximum 50 excluding the persons who are in the employment of the company

c) prohibits any invitation to the public to subscribe for the shares or debentures of the company; and

d) entitles to commence business from the date of its incorporation.

Public limited company:

a) A public limited company may issue invitation to the members of the public to subscribe to the shares and debentures of the company through a prospectus which complies with the requirements of the Companies Act. 1994 and the Securities and Exchange Commission Act, 1993 as amended from time to time.

b) The required minimum number of members is 7 with no maximum limit.

c) The minimum number of directors is 3.

d) A foreign company can be formed as a public company or alternatively a company which is incorporated as a private company can also be converted into a public company.

e) In order to commence business, the public company shall have to obtain a commencement certificate from the Registrar of Joint Stock Companies and Firms.

Memorandum of Association:

Memorandum of Association of the company shall state the name of the company, whether it is public limited or private limited and the location of the registered office of the company. The memorandum should clearly spell out the main objective, the authorised capital-division of this capital into shares of fixed amount and liability of its members.

Articles of Association:

The Articles of Association are the regulations governing the internal management of the affairs of the company and the conduct of its business.

INCENTIVES AND FACILITIES FOR THE INVESTORS

Tax holiday:

Tax holiday facilities are available for 5 or 7 years depending on location of the industrial enterprise.

Accelerated depreciation:

Industrial undertakings not enjoying tax holiday will enjoy accelerated depreciation allowance.

Other incentives :

- Tax exemption on royalties, technical know-how fees received by any foreign collaborator, firm, company, an expert.
- Tax exemption on the interest on foreign loans under certain conditions.
- Avoidance of double taxation in case of foreign investors on the basis of bilateral agreements.
- Exemption of income tax up to 3 years for the foreign technicians employed in industries specified in the relevant schedule of income tax ordinance.
- Tax exemption on income of the private sector power generation company for 15 years from the date of commercial production.
- Facilities for full repatriation of invested capital, profit & dividend.
- 6 months' multiple entry visa for the prospective new investors.
- Re-investment of repatriable dividend treated as new investment.
- Citizenship by investing a minimum of US$500,000 or by transferring US$1,000,000 to any recognized financial institution (non-repatriable).
- Permanent residentship by investing a minimum of US$75,000 (non-repatriable).
- Tax exemption on capital gains from the transfer of shares of public limited companies listed with a stock exchange.

- Special facilities and venture capital support provided to export-oriented industries under "Thrust sectors"

Incentives to export-oriented and export-linkage industries:

- Concessional duty rate for import of capital machineries and spare parts.
- Bonded Warehouse and back-to-back Letter of Credit allowed.
- Duty drawback on exportable and potentially exportable goods.
- Easy availability of loans up to 90 percent of the value against irrevocable and confirmed Letter of Credit/Sales Agreement.
- Incentives to the "deemed exporters" supplying indigenous raw materials to export-oriented industries.
- The export-oriented industries are entitled to receive additional foreign exchange on a case by case basis for publicity campaign in opening overseas offices and participating in international trade fairs.
- Export earning from handicrafts and cottage industries is exempted from income tax. For all other industries, income tax rebate on export earnings is given at 50 percent.
- Import of raw materials, which are included in the banned / restricted list, will be allowed if required in the manufacture of exportable commodities.
- Specified quantities of duty-free samples for manufacturing exportable products are allowed.
- Locally manufactured products supplied to local industries or projects against foreign exchange payment or foreign exchange L/C is treated as indirect exports.
- Export Credit Guarantee Scheme.
- 10 percent of production of enterprises, located in both public and private EPZs is allowed to be exported to domestic tariff area against foreign currency L/C on payment of applicable duties and taxes.
- 100% percent export-oriented industry outside EPZ is allowed to sell 20% percent of their products in the domestic market on payment of applicable duties and taxes.
- The Export-oriented industries which are identified by the government as "Thrust Sector" are provided special facilities and venture capital support.

NEW INDUSTRIAL POLICY 1999

Introduction:

The Government adopted the Industrial Policy 1999 in order to achieve the objective of accelerated industrial growth. The policy initiatives undertaken to trigger broad-based industrial investments seek to do the following:

- the objectives outlined in the policy statement project a clear sense of direction;

- the strategies and the policy framework are coherent and consistent;

- the policy pronouncements are backed by adequate legislative endorsements and effective modalities of implementation involving close interaction between the Government and the private sector; and

- there is a monitoring system in place to assess the performance of the sector on a regular basis to bring about necessary modifications in the policy framework as needed.

The Vision of Industrial Development

Bangladesh will have within a decade a sizable industrial sector where manufacturing will account for at least 25 percent of the GDP, and at least 20 percent of employed workforce. This will mean a considerable rise from the figure of 10 percent around which the sector's share in GDP and employed population have hovered for most of the past two decades.

A vibrant and dynamic private sector will be the principal actor in Bangladesh's industrial arena. The industrial sector of Bangladesh will be competitive in the liberalized internal market as well as in the external market. The industrial sector of Bangladesh shall have a dominant export orientation.

The goal of external competitiveness implies the pursuit of industrialization in accordance with the dynamic comparative advantage of the economy. Given Bangladesh's resource endowment, the principle of dynamic comparative advantage means production of labour intensive manufactures with skill up-gradation and productivity growth as its cutting edge. This however, does not preclude the possibility of Bangladesh having a niche in high-tech industrial sub-sector that may be externally competitive.

Dispersal of small and medium industries will constitute to be an important element in the industrial policy approach. Industrial development will be sustainable from the point of view of environmental concerns and resource availability.

Industrial Policy 1999 aims at addressing these concerns building on earlier efforts and gains towards industrialization of Bangladesh economy;

Objectives

The following are the prime objectives of the Industrial Policy 1999:

- To expand the production base of the economy by accelerating the level of industrial investment.
- To promote the private sector to lead the growth of industrial production and investment.
- To focus the role of the government as a facilitator in creating an enabling environment for expanding private investment.
- To permit public undertaking only in those industrial activities where public sector involvement is essential to facilitate the growth of the private sector and/or where there are overriding social concerns to be accommodated.
- To attract foreign direct investment in both export and domestic market-oriented industries to make up for the deficient domestic investment resources, and to acquire evolving technology and gain access to export markets.
- To ensure rapid growth of industrial employment by encouraging investment in labour intensive manufacturing industries including investment in efficient small and cottage industries.
- To general female employment in higher skill categories through special emphasis on skill development.
- To raise industrial productivity and to move progressively to higher value added products through skill and technology upgradation.
- To enhance operational efficiency in all remaining public manufacturing enterprises through appropriate management restructuring and pursuit of market oriented policies.
- To diversify and rapidly increase export of manufactures.
- To encourage the competitive strength of import substituting industries for catering to a growing domestic market.
- To ensure a process of industrialization which is environmentally sound and consistent with the resource endowment of the economy.
- To encourage balanced industrial development throughout the country by introducing suitable measures and incentives.
- To effectively utilize the existing production capacity.
- To coordinate with trade and fiscal policies.
- To develop indigenous technology and to expand production based on domestic raw materials.
- To rehabilitate deserving sick industries.

Details regarding the strategies, regulatory regimes, facilities and incentives and other related issues pertaining to the industrial policy may be found in the document titled Industrial Policy 1999 brought out by the Ministry of Industries, Dhaka.