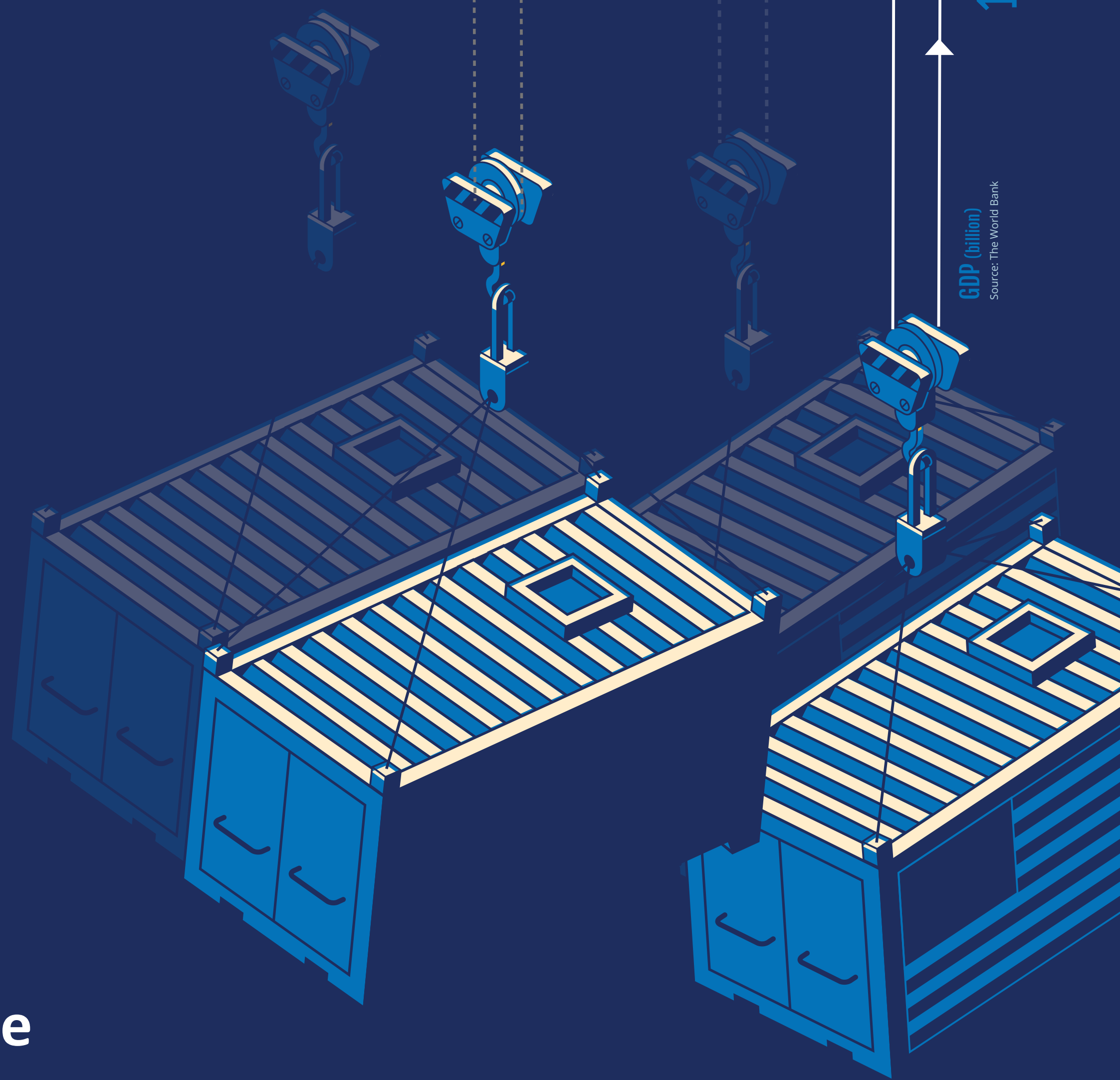
BANGLADESH
DOING BUSINESS BLUEPRINT
2019–20



LightCastle Partners

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At LightCastle, we create data-driven opportunities for growth and lasting impact. Till date, we have consulted for 120+ corporations & development partners, collaborated with 300+ SMEs & startups and supported 20+ accelerator programs across Bangladesh.

BANGLADESH DOING BUSINESS BLUEPRINT 2019–20

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October 06, 2019

AT A GLANCE

Bangladesh aims to be the next Asian Tiger

Among other strong macroeconomic indicators, increased digitization, higher disposable income and consistent GDP growth at around 7.2 percent (The World Bank) have influenced the country's development over the last decade. The population of Bangladesh have also shown their ability to leapfrog technology adoption and in just half a decade, 35 million unique mobile internet users and roughly 45 million smartphone users (GSMA) have formed in the country and these numbers are growing at an accelerated rate.

Bangladesh's inherent strength has been stemming from its population size, which currently stands at approximately 167 million. The working age population (15-64) is more than 60% of the total population and this demographic dividend provides strong opportunities for economic growth. The geo political proximity to both India and China further bolsters Bangladesh's ability to participate in global trade.

With USD 34.1 billion in export (EPB) as of 2018-19, apparel is the key exporting sector of the nation, accounting for 84.2% of the country's export portfolio. Furthermore, the government is imposing new policies to strengthen the leather and manufacturing industry and pushing forward special economic zones to generate further employment. This is a necessary measure taken by the government in accordance to Bangladesh's formal graduation to middle income status in 2024. Therefore, an early investor now can get a strong head start, in terms of financial and operational benefits, in comparison to the late entrants in the foreign investment context of Bangladesh.

Government is focusing on ease of doing business

To attract more investments both domestically and internationally, the government is now aiming to improve on the ease of doing business ranking of 168 (The World Bank) and is proactively taking initiatives to ensure a better investment friendly opportunity for all the potential investors. The prime minister has given an affirmative directive to the chairman of Bangladesh Investment Development Authority (BIDA) to take remedial measures and improve the position of Bangladesh in the 'Doing Business' ranking and uplift Bangladesh into the top 100. Bangladesh aims to maintain positive economic indicators, foster stronger trade relationships and address the challenges that currently exist with doing business in the country.

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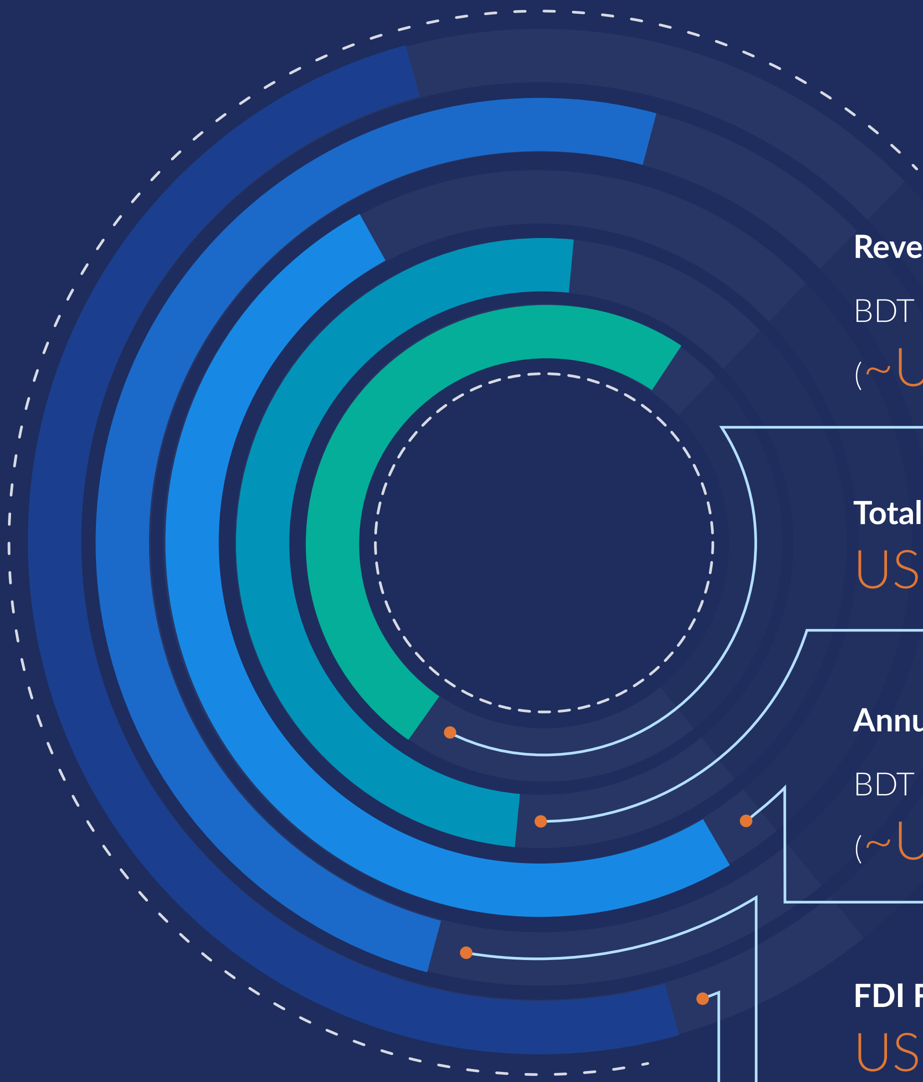
BANGLADESH

BY THE NUMBERS



Revenue collection FY 2017-18[1]

BDT 2,023,129.8 million (~USD 23.9 billion)

Total Export FY 2017-18[2]

USD 36,801 million

Annual GDP FY 2017-18[3]

BDT 22,504,793 million (~USD 266.3 billion)

FDI FY 2018-19 (July-March)

USD 3,232.9 million[4]

Annual FDI FY 2017-18

USD 912.2 million[5] /

Foreign Exchange Reserve FY 2018-19

USD 32,716.5 million[6] /

Foreign Exchange Reserve FY 2017-18

USD 32,943.5 million[6]

Sources:

1. National Board of Revenue 2017-18.
2. Bangladesh Bank Export Data 2017-18.
3. Gross Domestic Product (Final) of Bangladesh 2017-18, Bangladesh Bureau of Statistics.
4. Bangladesh Bank FDI Table 2018-19.
5. Bangladesh Bank FDI Table 2017-18.
6. Bangladesh Bank Foreign Reserve Data.

1

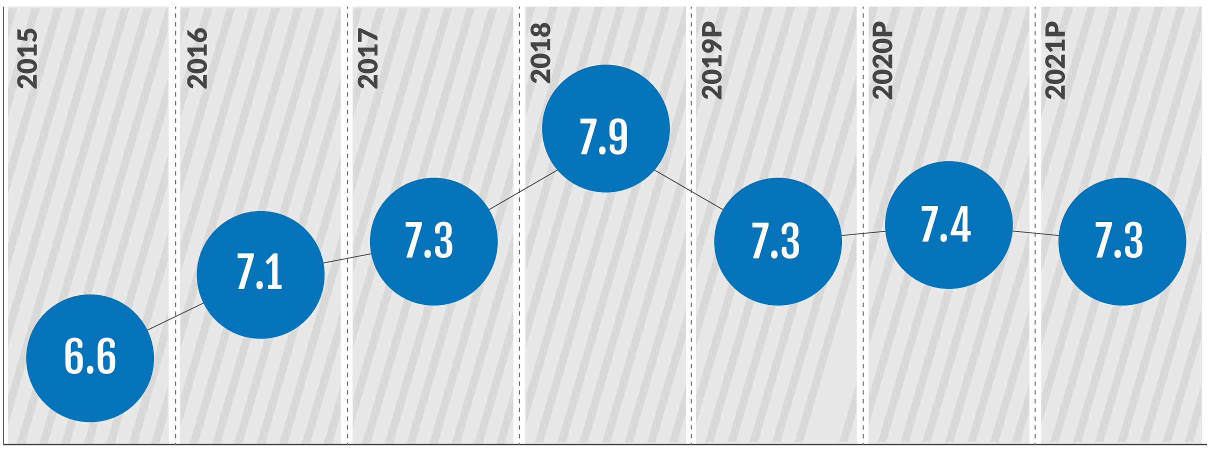
BANGLADESH ECONOMIC LANDSCAPE

1.1 Consistent performance compared to regional peers

Bangladesh GDP has been a strong indicator of growth due to its consistent upward trajectory in the last decade or so. Although country reported numbers remain optimistically higher than those predicted by World Bank, ADB or IMF, the recurrent census among all institutions has been that the country has performed consistently

Unlike many of its South Asian neighbors, Bangladesh has been experiencing a continuously increasing GDP growth rate for the last five years. Strong consumption and public investment, recovery of apparel exports and high remittance growth were the main propellers of economic growth.

Real GDP growth (percentage constant market prices)



Source: World Bank

**P=projected*

higher than regional peers. According to World Bank, Bangladesh recorded an impressive annual GDP growth rate of 7.9% in 2018, up from 7.3% of previous year. The growth has been driven mainly by consumption increase and infrastructure investments and this growth is predicted to sustain.[1]

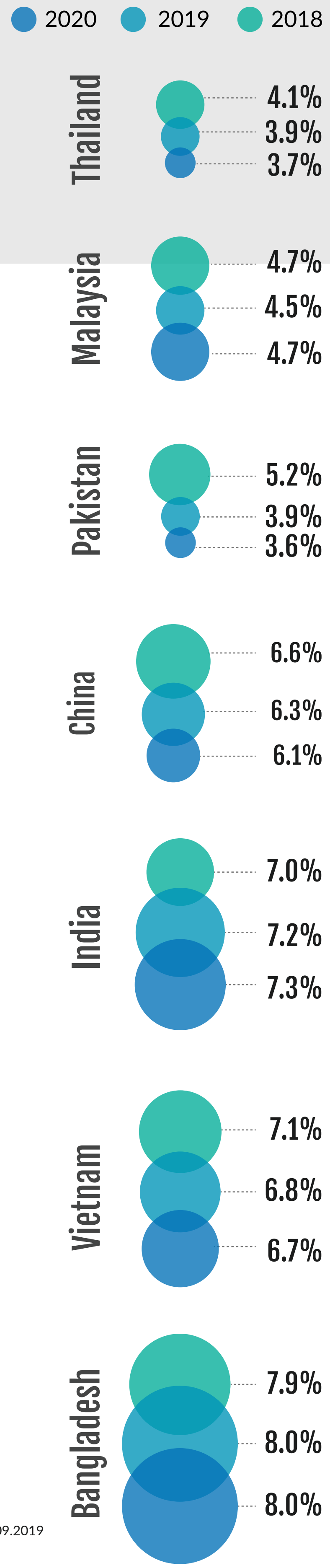
The country's annual GDP growth rate officially surpassed that of India's in 2016 and has been higher than that of its neighbor since then.

Remittance inflow increased by 9.6% in FY 2018-19 compared to last year to reach USD 16.4 billion. For FY 2019-20 (July - August), remittance so far has been recorded as USD 3.1 billion.[2] Real public investments increased by 10.5% and merchandise imports expanded by 25.2%.

1. Bangladesh Development Update, The World Bank (2019), Accessed on 19.09.2019
2. Bangladesh Wage Earners' Remittance Inflow, Bangladesh Bank, Accessed on 19.09.2019

Regional GDP Outlook

Source: Asian Development Bank (ADB)



Source: Asian Development Bank (ADB)

GDP of Bangladesh will grow by 7% on average in 2018-2033, according to a forecast prepared by the Centre for Economics and Business Research (CEBR)

India lagged behind Bangladesh with a GDP growth rate of 7.3% in FY 2017-18. The rupee depreciated against the US dollar due to changes in US trade and monetary policy, which dampened the Indian economy. A wide trade deficit caused partially by the renewal of US sanctions against Iran and weak growth of exports were responsible for a less than forecasted GDP growth rate for India in 2018. Pakistan's economy, marred by the balance of payment deficits and political instability, grew by 5.8%.[4]

GDP of Bangladesh will grow by 7% on average in 2018-2033, according to a forecast prepared by the Centre for Economics and Business Research (CEBR). The same forecast estimates the GDP of India to expand by 7.1% in 2018-2033 and that of Pakistan to grow by 4% in 2019 and 3.5% in 2020.[3]

3. World Economic League Table 2019 (2018), Centre for Economics and Business Research (CEBR), Accessed on 19.09.2019

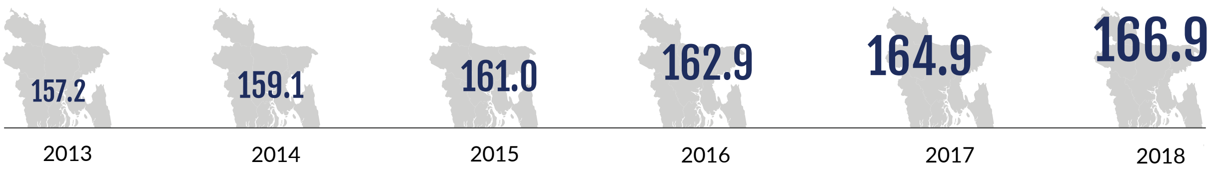
4. The World Factbook (2018), Central Intelligence Agency (CIA), Accessed January 30, 2019

1.2 Demographic dividend and growing working population

Population growth rate has been stable at 1.2% since 2013 and the total population in 2018 now stands at 167 million.[1] The population structure has also remained unchanged for the last 6 years, with the 15-64 age group making up more than 60% of the population.

The median age for the total population is 27 years (26 for males, 28 for females)[4] and according to UN Population Division forecasts, the median age of the population will increase to 29.5 in 2025 and 31.6 in 2030.[5]

Total population in Bangladesh (in million)



Source: World Bank

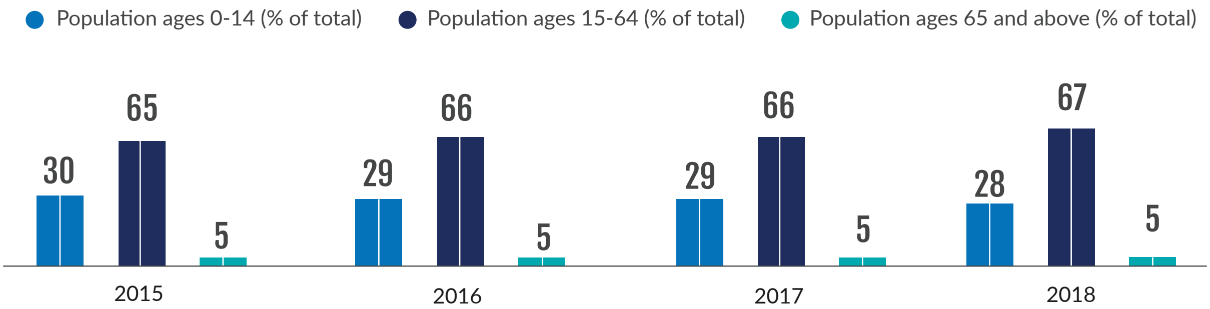
Similarly, Bangladesh's population with a net worth of USD 1 to 30 million will grow by a compound annual rate of 11.4% in 2019-2023 according to Wealth-X's High Net Worth Handbook 2019.[6] The combination of a young population and a high growth rate for high-net worth individuals could further boost the GDP growth rate by increasing consumption in the economy. The current trends in private consumption and population structure combined with the forecasts for economic and income growth suggest that consumption will expand and shift towards high-quality products in the future.

There is also an opportunity to shift the semi-skilled and unskilled workers from the agricultural sector, which constitutes around 40% of the total working population. Shifting this population group in the manufacturing or service industry would benefit both the employees and the employers in this regard. Because of this large population in an area of roughly 147,000 sq. km (roughly the size of Michigan, United States), the country enjoys demographic density dividend. Meaning, with a higher concentration of consumers in an area, businesses are able to reduce cost of operations, such as lower transportation, marketing costs among others.

5. World Population Prospects 2017, United Nations Population Division, Accessed January 30, 2019

6. Bangladesh Country Report 2019, Wealth-X

Age structure of population (% of total population)

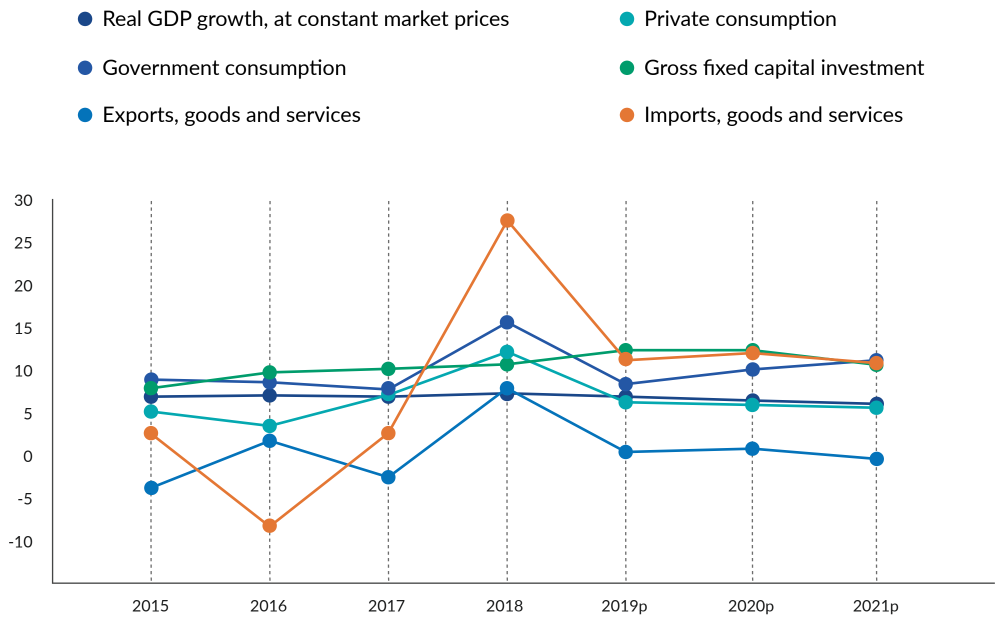


Source: World Bank

1.3 Consumption upgrade and stable inflation

GDP per capita has been growing at rates over 5% since 2015 and was recorded at USD 1,642 in 2018.[1] GDP per capita growth rate has also been continuously increasing due to a stable population growth rate and increasing GDP growth rate. Final consumption expenditure, which accounts for private consumption and general government consumption, has been growing positively for the last 10 years, but growth rates have fluctuated.

Bangladesh growth indicators (% annual)



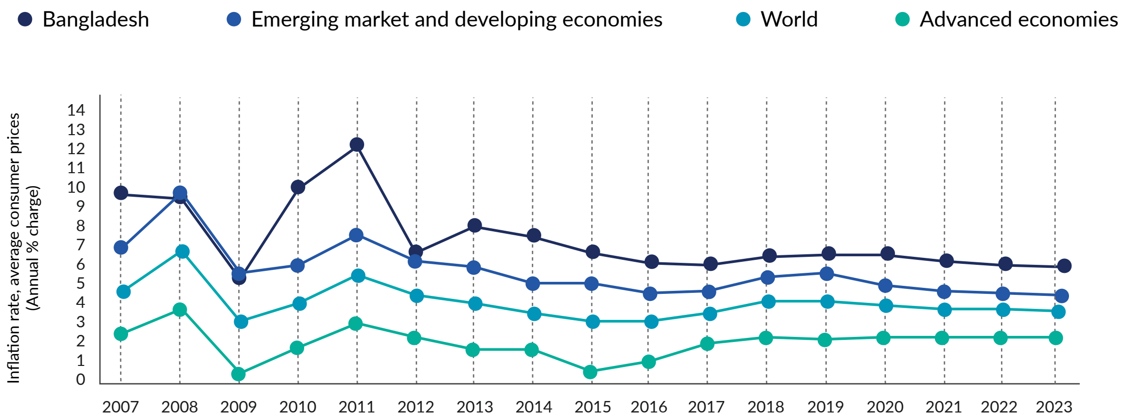
Source: The World Bank

**P=projected*

Private consumption has also been growing for the last 10 years and like total consumption, private consumption per capita growth rates have also fluctuated. Private consumption has grown by 11% in 2018[1] and a Boston Consulting Group (BCG) survey conducted in 2015 inferred that the Bangladeshi consumer market is growing at a robust rate. In the study, consumers in Bangladesh have stated that they expect their incomes to rise in the following years in tandem with the dynamic GDP growth. More than 80% of consumers of durable goods surveyed in the study listed quality as a top priority followed by price.[7]

Inflation rates have fluctuated over the last 10 years. In 2018, general inflation rates, which now stand at 5.8%, were moderated by low levels of non-food inflation. Low food production and weak management of resources from FY 2016-17 caused food inflation to spike to 7.1% in early 2018. Food inflation eased to about 6% late 2018 due to a fall in rice prices, which were propelled by excellent boro harvests, rice and wheat imports. Strong remittance inflows, domestic demand and the depreciating exchange rate caused a spike in inflation rates. Current forecasts from The World Bank predict inflation rates of 6% and 6.3% for 2019 and 2020 respectively.[1]

Inflation rates



Source: International Monetary Fund (IMF)

1.4 Balance of payments position

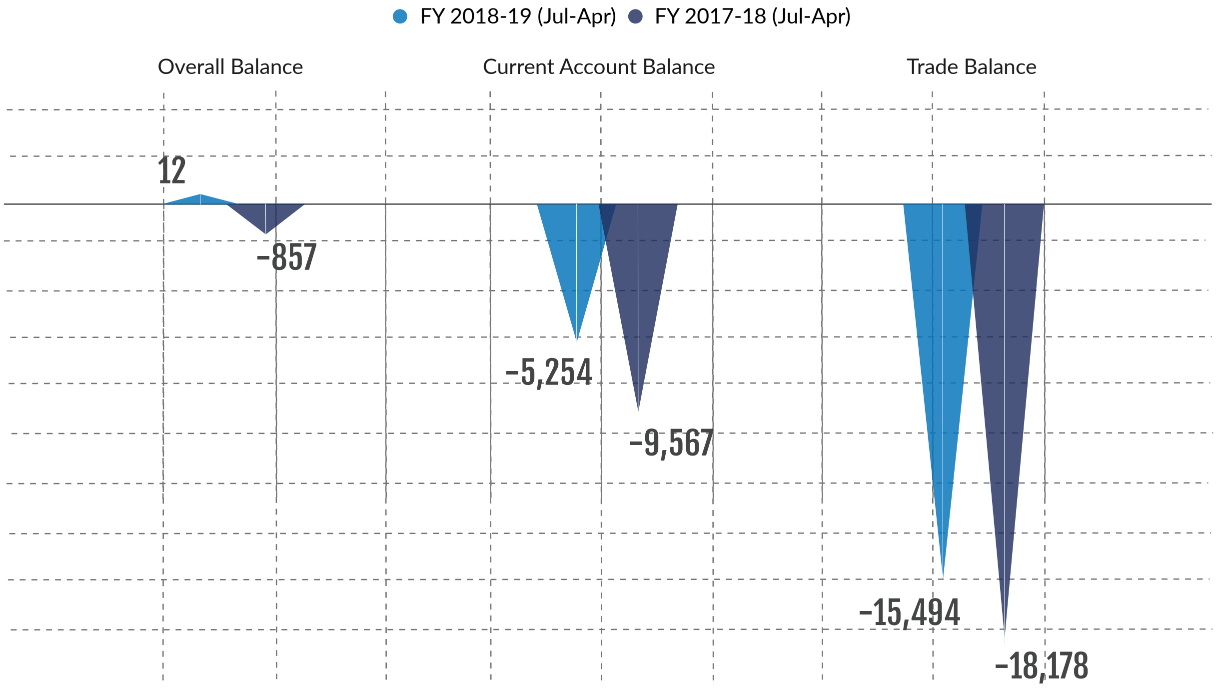
The overall surplus in the balance of payment stood at USD 12 billion at the end of FY 2018-19 against a deficit of USD 857 million in the same period last fiscal year. A 9.6% rise in remittance inflows contributed to this recovery. As emerging economies want to fuel growth in the short term and avoid debt in the long term, they cautiously maintain credit accounts such as - export earnings, remittances inflows, foreign investment, etc. Bangladesh's high negative balance of payment is a crucial factor to keep in check over the next few years. Factors such as -

7. Zarif Munir, Bangladesh: The Surging Consumer Market Nobody Saw Coming 2015, Boston Consulting Group (BCG), Accessed on 19.09.2019

8. Inflation rate, average consumer prices, October 2018, International Monetary Fund (IMF), Accessed January 30, 2019

the dominance of RMG in the export basket, the volatility of global oil price and its relation to remittance inflow are some major bottlenecks within the economy preventing the country to achieve a healthy balance of payment.

Change in balance of payment (USD million)



Source: Bangladesh Bank

1.5 Growth driven by export-led sectors and remittances

Bangladesh's export basket is skewed towards RMG and textiles with few other items like leather, jute, agricultural products and frozen food. In terms of service, remittance is one of the key foreign currency earners. In FY 2018-19, Bangladesh has exported USD 40.5 billion worth of products among which the RMG sector contributed 84.2%.

The government has been putting significant efforts to diversify the export basket by patronizing other manufacturing industries.

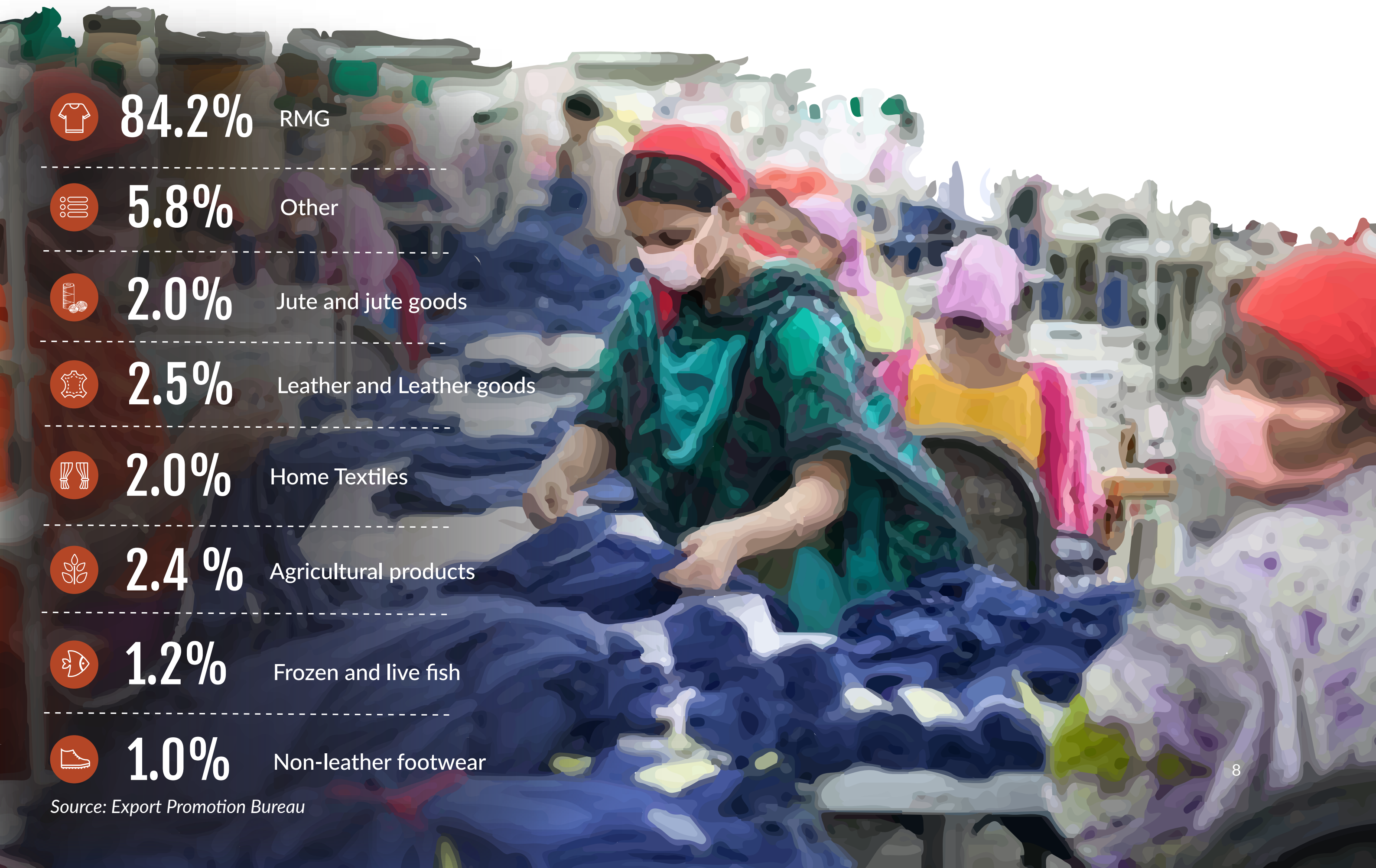
The government has declared light engineering, agro processing and ICT as thrust sectors. As per information gathered from interviews with government stakeholders, it has been found that in the coming years the government will announce furniture industry as another thriving industry that will create more growth opportunities for the industry.

9. Migration and Remittances: Recent Developments and Outlook 2018, World Bank Group, Accessed on 19.09.2019

A recent World Bank report (2018)[9] ranked Bangladesh as the ninth highest recipient of remittances in the world with USD 14.9 billion remittance inflow as of FY 2017-18 and USD 16.4 billion in FY 2018-19. The country secured the third position in South Asia where the first and second positions were held by India (USD 79.5 billion) and Pakistan (USD 20.9 billion) respectively. For FY 2019-20, officially recorded remittances have so far amounted to USD 3.1 billion. A 15% increase in remittance from the Gulf Cooperation Council (GCC) countries, high number of migrant workers, the 2018 election, increased compliance with financial transaction processes are responsible for this statistic. Remittances inflow in FY 2019-20 is expected to be the highest in Bangladesh's history.[1]

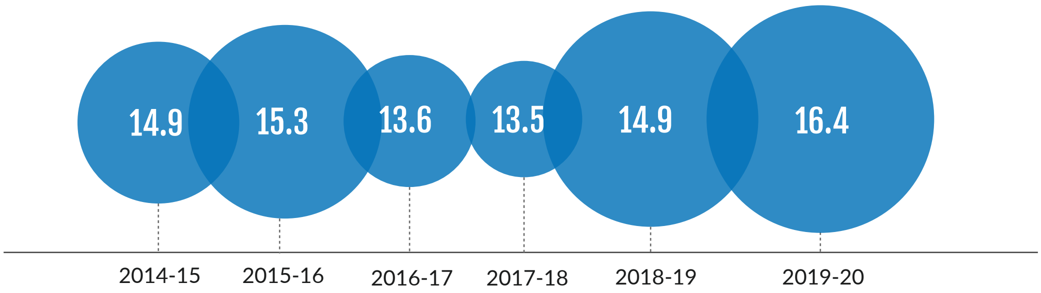
According to The World Bank, almost 12% of Bangladesh's GDP is composed of remittances. In 2017, the remittance inflow declined but rose again to a record high level in 2018. The central bank's initiatives to maintain strong surveillance on illegal money transfer process has encouraged more migrant workers to send their earnings through legal channels. In the FY 2019-20 budget, the government has recently announced a 2% rebate on remittance sent through legal channels. Analysts at central bank forecast that this upward trend will continue. Another reason for the migrant workers to prefer formal banking channel instead of the informal one is because of the decrease in the exchange rate gap between

Major export items (FY 2018-19)



Source: Export Promotion Bureau

Remittance inflow (in USD billion)



Source: Bangladesh Bank

1.6 Strong forex reserve

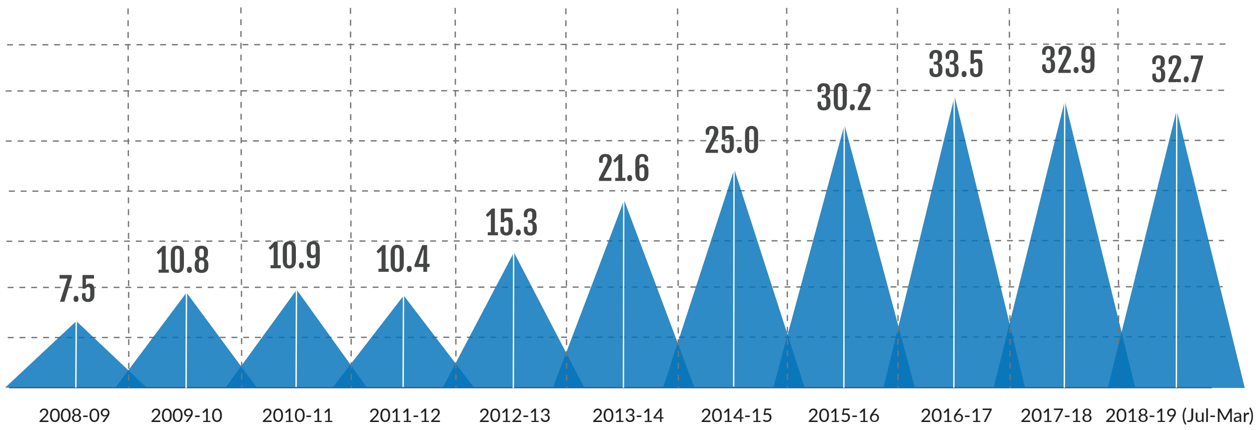
Based on the preceding indicators, Bangladesh is showing strong foreign reserve performance. Foreign exchange reserves are generated from exports, remittances, foreign aid and grants, and foreign direct investment (FDI). Over the past decade (2008-2018), Bangladesh performed remarkably well in these categories, which resulted in foreign exchange reserves growing by 16% from USD 7.5 billion in FY 2007-08 to USD 32.9 billion in FY 2017-18.[10] The latest figure in FY 2018-19 is stated to be USD 31.5 billion.[1]

An economy's financial stability can be measured from the forex reserves. The steady growth rate of exports and remittance helped Bangladesh experience a record high forex reserves of USD 33.5 billion in 2017. In June 2018, Bangladesh's forex reserves experienced a moderate downturn for the second time in the last decade as the central bank injected USD 200 million in the first four months of that fiscal year in order to keep the rate of BDT stable against the rate of USD.[11] However, the Export Promotion Bureau (EPB) has reported that in the July-October period of FY 2018-19, Bangladesh earned USD 13.7 billion, which is 18.7% higher than the same period last year. Additionally, the inflow of remittances increased by 6.6% in October 2018 compared to October 2017. Bangladesh's steady forex reserve increases the attractiveness of its macroeconomic profile, which will result in increased foreign investment.

10. Bangladesh Bank Foreign Reserve Data, Accessed on 17.09.2019

11. 2019 Bangladesh Economic Prospects, LankaBangla Asset Management, Accessed on 19.09.2019

Foreign exchange reserves (in USD billion)



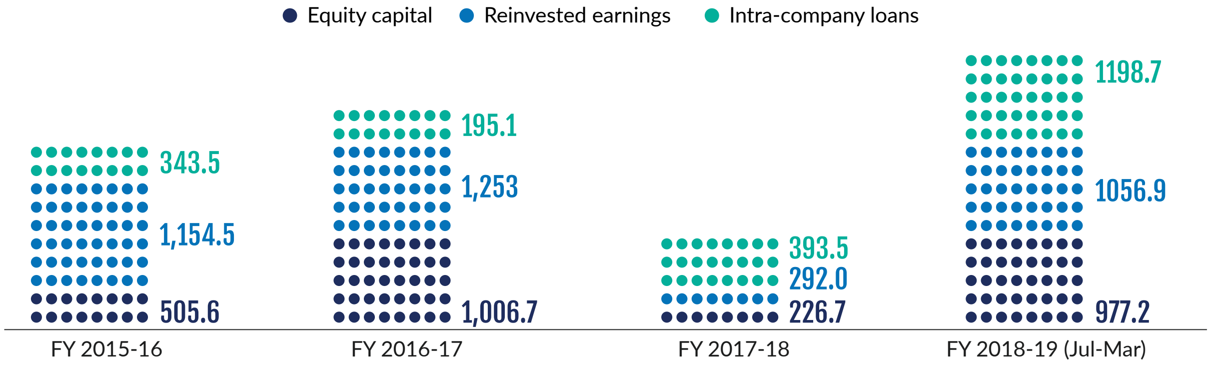
Source: Bangladesh Bank

1.7 Foreign direct investment (FDI) trend

FY 2016-17 and FY 2017-18 were the first two years when the gross investment of Bangladesh was higher than the gross savings of the country. The public investments in terms of GDP have risen from 7% to 9.1% in the recent years while the national public savings stand at around 2.3% and the private public savings is around 27%. The private investment in the country has been stagnant at around 23% over the past few years.

Public and private investment were important contributors to the high GDP growth rate in 2018. Real investments increased by 10.5% compared to FY 2016-17. Public investment to GDP ratio increased while private investment to GDP ratio decreased. However, Foreign Direct Investment (FDI) declined to USD 1.6 billion in FY 2017-18 from 1.7 billion in FY 2016-17. Net foreign direct investment flow was recorded as USD 3.2 billion for the July to March period of FY2018-19.[1]

FDI breakdown by component (in USD million)



Source: Bangladesh Bank

The newly reformed BIDA has been making efforts to attract investments. Although a decrease in FDI amount has been observed from the previous years, BIDA confirmed a 13.3% growth in FDI in the third quarter of 2018, and by the end of September, it received proposals amounting USD 3.2 billion, indicating the continuous interest of foreign investors in Bangladesh.

China, South Korea, India, Egypt, the United Kingdom, the United Arab Emirates and Malaysia have been some of the main investors in Bangladesh.[12] In 2018, Japan automobile giant Honda set up a 25-acre motorcycle manufacturing plant in the Abdul Monem Economic Zone of Munshiganj. In 2017, USD 4.5 billion credit line was offered by the Indian government to Bangladesh for infrastructure development. In October 2017, Bangladesh Petroleum Corp (BPC) signed a 15-year deal with Indian oil refiner Bharat Petroleum Corp Ltd (BPCL) for importing gas and oil to meet the country's energy demand.

Low savings rate causing inadequate investments is leading the government to seek international investments in an attempt to grow the domestic economy. Certain initiatives are currently being taken by the government of Bangladesh in order to attract foreign investments in the country. Although, investing in Bangladesh is an opportune prospect, it requires a thorough understanding of certain intricacies related to opening a business, documentations and taxation policy among others.

12. UNCTAD's 2019 World Investment Report, UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT, Accessed on 19.09.2019

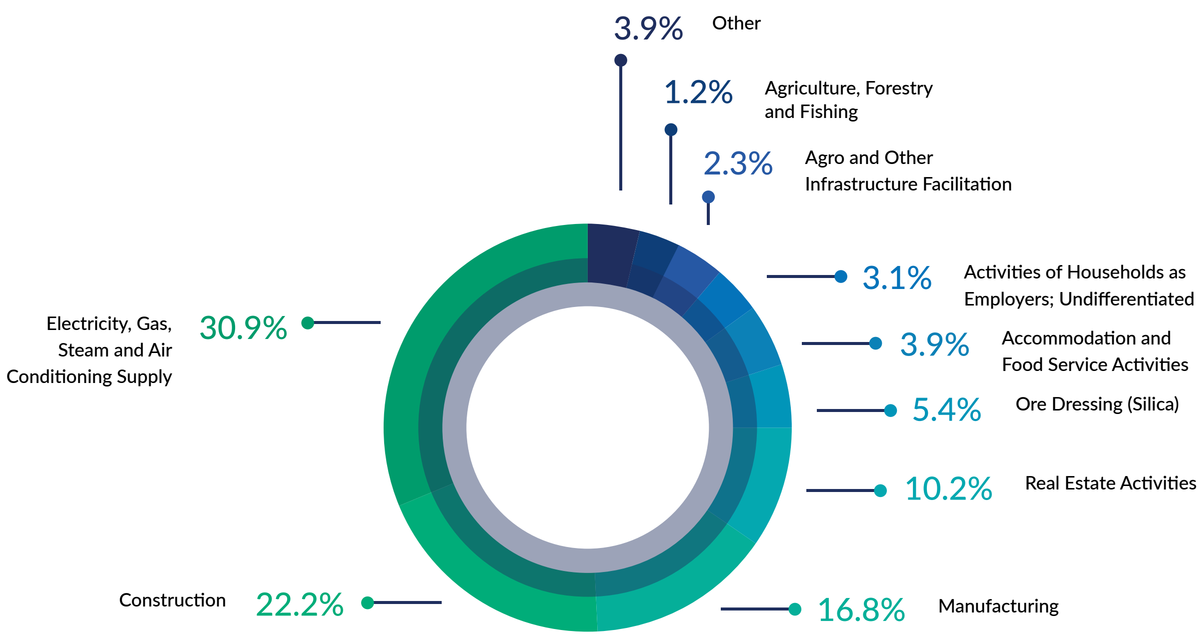
2

CURRENT INVESTMENT ENVIRONMENT

The Least Developed Country (LDC) status of Bangladesh enables the country to benefit from preferential trade and investment policies sanctioned by European and North American markets. Low cost of labour and lower overhead cost compared to regional peers have enabled the country to operate at a cost advantage and the apparel sector has been the main thrust sector benefitting in the global market, which has catapulted Bangladesh as the second largest apparel manufacturer in the world, next to China. Leather and leather goods, jute products, agro-processing to frozen fish are some of the sectors that have been similarly contributing to the growth of the country.

Over the last decade, the domestic market has undergone rapid transformation, with sharply rising per capita income, rapid urbanization and evolving nuclear family structure and more involvement of women in the workforce. In 2005, 26.8% of the total population lived in urban areas, which have increased to 34.3% in 2015. By 2025, 42% of the population is predicted to be living in urban areas.[13] Urbanization level is expected to grow further in the next ten years with the growing Middle and Affluent Class (MAC) population. There are bright opportunities for investors in both export-oriented sectors and sectors which cater to the burgeoning domestic demand.

Sector wise specific investment (BIDA)



Source: Bangladesh Investment Development Authority (BIDA)

13. 2018 Revision of World Urbanization Prospects, United Nations 2018, Accessed on 26.05.2019

2.1 Government incentives to encourage investments

The Government of Bangladesh (GoB) has created liberal investment and business operation policies regarding taxation, import duties, work documentation and capital repatriation among others, in a manner that encourages greater foreign investment in the secondary and tertiary sector of the country.

The Bangladesh government provides five to seven years of tax exemption to international investors planning on operating in certain sectors. Investments in some priority sectors like power, enjoy tax exemption for up to 15 years.[14] Additionally, Bangladesh has a double taxation avoidance agreement with 18+ major trading partners. Bilateral signatories of Double Tax Avoidance (DTA) agreements include Belgium, Canada, China, Denmark, France, Germany, India, Italy, Japan, Poland, Thailand, Netherlands and the UK. Expatriate employees from specific sectors also receive an income tax exemption for up to 3 years.[15]

Currently, no import duties are applicable for export-oriented sectors. For other sectors, the duty structure is at 5%.

According to capital repatriation policies, full repatriation of invested capital, profits and dividends are allowed. Foreign investors reinvesting their retained earnings/dividend will have their investment be treated as new and not recurring.

An international investor can cash out from investment subject to board approvals and independent valuation conducted by Bangladesh Bank. Once a foreign investor completes formalities for exiting the country, the investor can repatriate the net proceeds after securing proper authorization from the central bank.

Apart from arms and ammunition, defence machinery and equipment, forest plantation and mechanized extraction, nuclear energy, security printing and mining, all sectors are open for international investments. Companies with 100% foreign ownership can also secure working capital and long-term financing from local financial institutions.

Foreign investors are provided multiple entry visas to Bangladesh, which are valid for 3 years. Expats working for the foreign company will also be provided multiple entry visa, based on recommendations from the investor.

14. National Board of Revenue, Accessed on 26.05.2019

15. Incentives, Investment facilities, Bangladesh Bank, Accessed on 26.05. 2019

Investors are accorded citizenship for investing a minimum of USD 500,000 (~BDT 42 million) or by transferring USD 1,000,000 (~BDT 84 million) to any recognized financial institution (non-repatriable). Permanent residency is provided by investing a minimum of USD 75,000 (~BDT 6.3 million), which is non-repatriable.[16]

2.2 Incentives for export led thrust sectors

The government's industrialization policy focuses heavily on thrust sectors that are primarily export oriented such as agro-based industries and manufacturers that specialize in ICT, artificial flower-making, electronics, frozen food, jute goods, and jewelry. Leather, oil, gas, textiles, construction and tourism are also included in the list.

Some specific policies for promoting export-led sectors include:

Concessionary duty as per Special Revenue Order (SRO) is allowed on import of capital machinery and spare parts while setting up export-oriented factories or for expanding or refurbishing existing manufacturing plants.[17]

A simplified duty drawback system such that exporters can directly receive rebates from concerned commercial banks.

Warehouse facilities for 100% export-oriented companies with back-to-back letter of credits. VAT exemption facilities are also available as part of SRO.

Export earnings from handicraft and cottage industries are exempted from income taxes. For other sectors, proportional income tax rebates in the range of 30-100% are provided on export earnings.

Goods and services supplied to local projects under international tenders are treated as indirect exports and suppliers are entitled to receiving necessary export incentives and tax rebates.

Manufacturers of indigenous fabrics (such as woven, knit, hosiery, grey, printed, dyed, garment check, handloom, silk and specialized fabrics) supplying to 100% export-oriented apparel factories are entitled to a cash subsidy equivalent to 25% of the value of their fabrics, provided the apparel manufacturers are currently not enjoying and other preferential benefits like duty drawbacks or bonded warehouse facilities.

16. Incentives, Investment facilities, Bangladesh Bank, Accessed on 26.05.2019

17. Custom SROS, National Board of Revenue (NBR), Accessed on 26.05.2019

Leather factories exporting at least 80% of their products are treated as 100% export-oriented. Tax holiday for up to 10 years is provided for companies currently operating within the confines of Export Processing Zones (EPZs).

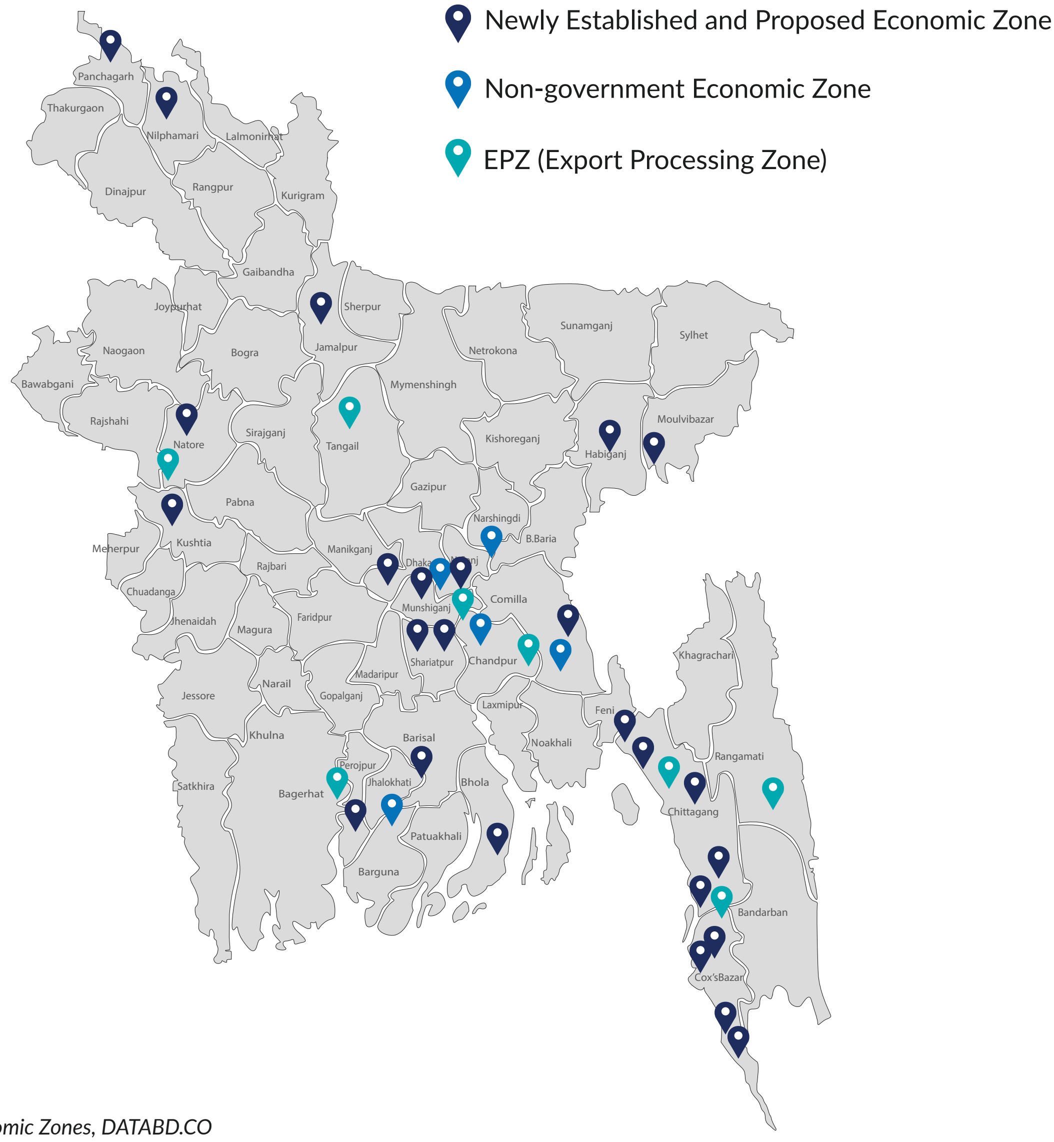
2.2.1 Special economic zones in Bangladesh

The Bangladesh Export Processing Zones Act of 1980 was aimed at boosting industrialization and higher employment rate through promotion of trade and investment. While it was successful in terms of contributing $24.17 billion in export earnings from July to January of FY 2018-2019 and also creating more than 450,000 jobs in the process, EPZ, however, provides weaker domestic linkages and hence the government tried to move towards economic zones that cater to both domestic and export markets. With the aim of more private participation in developing and operating zones, the Bangladesh Economic Zones Authority Act and the Bangladesh Hi-Tech Park Authority Act were both formulated in 2010. Now, like BEPZA, there are two other agencies that have overlapping mandates.

Bangladesh Economic Zones Authority (BEZA) and Bangladesh Hi- Tech Park Authority (BHTPA) are two semi-autonomous agencies with the objective of expanding special economic zones (SEZs) and hi-tech parks (HTPs) across Bangladesh. While the two agencies work under different regimes in comparison to BEPZA, they also tend to focus on production for both the domestic and foreign markets.

BEZA aims to develop 100 SEZs by 2025 while focusing on underdeveloped regions of the country. The reliance for builiding SEZs is mostly on private capital and private expertise, while the government oversees the progress. As of today, there are 66 special economic zones among which 55 are owned by government and 11 are privately owned.

Special economic zones in Bangladesh



Source: Economic Zones, DATABD.CO

BEZA provides multiple incentives for both the developer of the economic zones and as well as the manufacturing unit investors. The incentives for manufacturing unit investors are as follows:[18]

01	Income tax exemption for 10 years
02	Duty free import of raw materials etc.
03	Economic zone declared as custom bonded area

18. Incentive Package, Bangladesh Economic Zones Authority (BEZA), Accessed on 19.09.2019

04	Exemption from dividend tax
05	Full repatriation of capital and dividend
06	No ceiling of FDI
07	100% backward linkage of raw-materials and accessories to sell for EOI in DTA
08	20% sale of finished product to DTA
09	Sub-contracting with DTA allowed
10	50% exemption of stamp duty and registration fees for registration of leaseholder land/factory space.
11	Exemption of VAT on all utility services
12	Duty exemption on export
13	Exemption of CD for import of vehicles
14	Exemption of double taxation subject to the existence of double taxation agreement.
15	Exemption of salary income from IT for expatriates.
16	Foreign loan is allowed in compliance with existing laws
17	FC account for non-residents
18	FC account for both local and joint venture industry
19	Foreign investors to be free to enter into JV
20	Tax exemption on royalties, technical fees etc.
21	Tax exemption on capital gains from transfer of shares
22	Provision of transfer of shares by foreign shareholders to local shareholders and investors
23	Issuance of work permit to foreigners is allowed up to 5% of total officers/ employees of an industrial unit
24	Re-investment of remittable dividend to be treated as new foreign investment
25	Resident visa for investment of US$75,000 or more
26	Citizenship for investment of US$ 10,00,000 or more incentive

2.3 Institutions facilitating investments

2.3.1 Regulatory institutions

The country's central bank, Bangladesh Bank (BB), and Bangladesh Investment Development Authority (BIDA)[19] are the two main regulatory institutions that facilitate and guide investment for most sectors.

Bangladesh Investment Development Authority (BIDA), was formed by merging Board of Investment (BOI) and Bangladesh Privatization Commission. BIDA was established for dealing with matters relating to local and foreign investments. Currently, all incoming investments need to be approved beforehand by BIDA. The regulatory body aims to promote domestic and foreign investments by simplifying the bureaucratic challenges for entering the Bangladesh market. A BIDA helpdesk is located at the Shahjalal International Airport, Dhaka, for guiding international investors. BIDA plans to introduce an online-based One Stop Solution (OSS) service for assistance with necessary licenses and permits required for international investment in Bangladesh in the near future. They envision this would greatly streamline investment procedures for most foreign investors.

Bangladesh Bank must be formally notified within 14 working days after bringing in any international investments, including portfolio investments brought into the capital market.

2.3.2 Trade bodies and chambers

The four main trade facilitation bodies of the country include Dhaka Chamber of Commerce and Industry (DCCI), Federation of Bangladesh Chamber of Commerce and Industry (FBCCI), Foreign Chamber of Commerce and Industries (FCCI) and Metropolitan Chamber of Commerce and Industry (MCCI). While other regional level trade bodies exist, these are the main mediums through which majority of businesses operate.

The Federation of Bangladesh Chambers of Commerce and Industries (FBCCI)

The Federation of Bangladesh Chambers of Commerce and Industries (FBCCI) is the apex trade organization of Bangladesh. FBCCI plays a pivotal role in safeguarding the interest of private sector and providing consultative and advisory capacity in Bangladesh. It was established in 1973 under the Trade Organization Ordinance and Companies Act, 1913.

19. Bangladesh Investment Development Authority (BIDA), Accessed on 26.05.2019

Dhaka Chamber of Commerce and Industry (DCCI)

DCCI is a non-profit, service-oriented chamber **serving as the first point of contact for SMEs.** DCCI provides market-oriented inputs during the government's policy formulation process with respect to import, export and investments. The chamber regularly publishes guidebooks for facilitating trade and commerce. DCCI also has its dedicated training facility for supporting capacity development of professionals working with member organizations.[20]

Foreign Chamber of Commerce and Industries (FCCI)

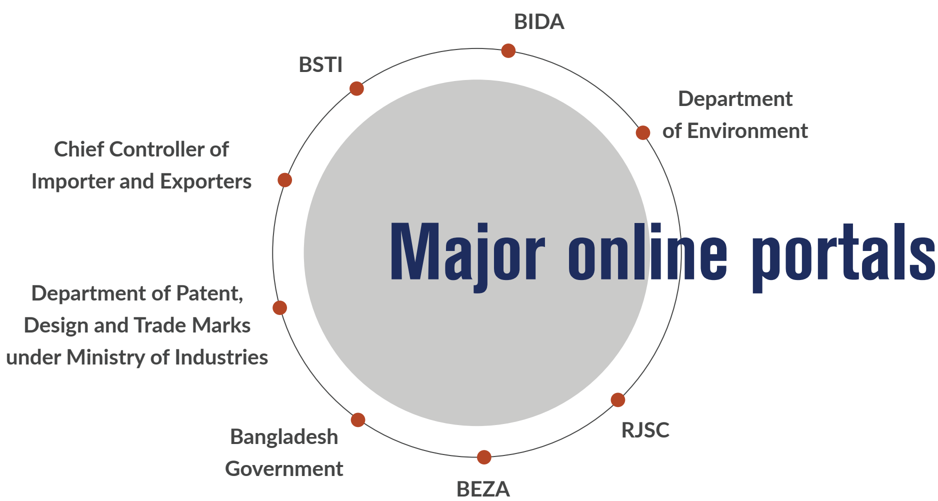
FCCI established in 1963, is composed of 188 members across industry, service and manufacturing sectors. Classified as a Class 'A' chamber of commerce, FCCI is affiliated with FBCCI, International Trade Center (Geneva) and the World Trade Organization (Paris). They work **mainly to facilitate international businesses currently operating in Bangladesh.**

Metropolitan Chamber of Commerce and Industry (MCCI)

MCCI is the leading chamber body composed of members from large local and multinational corporations. MCCI maintains **regular liaison with major international trade bodies and foreign private sector organizations.**

2.3.3 Online portals

The following online portals are some of the relevant portals that are crucial to both domestic and foreign investors:



20. Dhaka Chamber of Commerce & Industry (DCCI), Accessed on 26.05.2019

Major online portals for business in Bangladesh

Entity	Purpose	Website Link
BIDA	Foreign direct investment (FDI)	www.bida.gov.bd
BEZA	Investing in economic zones	www.beza.gov.bd
Bangladesh Government	Trade-related information	www.bangladeshtradeportal.gov.bd/
Office of the Registrar of Joint Stock Companies and Farm (RJSC)	Company name clearance	app.roc.gov.bd:7781/psp/rjschome
Office of the Registrar of Joint Stock Companies and Firm (RJSC)	Registration of company	www.roc.gov.bd/
Bangladesh Standards and Testing Institution (BSTI)	Issuance of certificate for using standard mark	www.bsti.gov.bd/Form_Online.html
Bangladesh Government	Comprehensive list of licenses	www.forms.gov.bd/
Chief Controller of Importer and Exporters	For import and export related policies, documents, licenses	www.ccie.gov.bd/
Department of Patent, Design and Trade Marks under Ministry of Industries	For IP registration, renewal	www.dpdt.gov.bd/
Department of Environment	For issuing environmental clearance	ecc.doe.gov.bd/login/

2.4 Sector-specific taxation policy and some incentives

Supportive trade policies regarding thrust sectors have an incremental positive impact on export performance and employment. Hence the government has put forth in place policies that support key sectors that are poised to have the most impact on economic growth.

Tax holiday depends on the location of the manufacturing unit as well as the sector of operations. The government provides five to seven years of tax holidays for new industrial units in textiles, pharmaceuticals, plastic, ceramics, sanitary items, iron and steel manufacturing, fertilizers and insecticides, computer hardware, petrochemicals, pharmaceuticals, agricultural equipment and industrial machinery. According to the latest national power policy, privately owned Independent Power Plants (IPPs) are also exempted from income taxes for up to 15 years if operations commenced before June 30, 2016.[21]

Sector wise taxation and incentives

Top Sector	Tax Rates	Incentives
ICT and ITES	Private Limited.	Tax holiday incentive for Hi-tech park; Information and Communication Technology (ICT) village or software technology zone and ICT export till 2024 plus 10% cash incentive on export.
Agro- Processing	Varies depending on type of company and product.	12.5% cash incentives to export of frozen shrimp and fish and 20% cash incentives to export of agro processed products is given. The government has also provision for establishing mega food parks, special credit schemes and tax holidays and cash incentives (20%).
Pharmaceuticals	Varies depending on type of companies and number of locally produced API (subject to corporate taxation).	Active Pharmaceutical Ingredient (API) industries will enjoy the benefits for more than six years up to December 2025. TRIPS Agreement to benefit until 2033.

21. National Board of Revenue (NBR), Accessed on 26.05.2019

Top Sector	Tax Rates	Incentives
Footwear	Varies depending on type of company and product. i.e. leather vs non-leather.	The government is providing 15% cash incentives against the export of non-leather footwear, while a maker has to pay 56% duty. Export tariffs in Bangladesh for leather products are at 0%.
RMG and Textiles	The government has kept the corporate tax for the apparel sector unchanged at 12%. For textile sector tax rate is 15%. The govt has proposed 1% cash incentives against exports to traditional export markets.	1% cash incentive on exports. The corporate tax rate will be 10% if there is a green building certification.
Power and Energy	6% on rental power companies.	Five years beginning from commencement of commercial production, 100% tax exemption if operations commenced after 30 June, 2016.
Banking and Finance	37.5% corporate taxation for merchant banks and 40% for other banking and financial institutions.	N/A
Logistics	10% -15% depending on type of logistics company i.e. freight forward, road transport, etc.	N/A
Real Estate	15% deduction of tax from any sum paid by real estate developer to land owner (other area rates available on NBR).	N/A
Cement	Cement manufacturers are currently paying 15% VAT on the import of raw materials and 5% advance tax on the import of raw materials for cement and 3% source tax on distribution has been proposed in budget 2019-20.	N/A

Company tax rate in Bangladesh

Types of Company	Rates of Taxes on Profit
Publicly traded company	25%
Non-publicly traded company	35%
Publicly traded bank, insurance and financial institution and bank, insurance and financial institutions approved by the Government in 2019	37.5%
Merchant bank	37.5%
Non-publicly traded bank, insurance and financial institutions	40%
Cigarette and tobacco product manufacturing company	45%
Mobile operator company:	
• Publicly traded company	40%
• Non-publicly traded company	45%
Dividends (if as a company non-resident/resident)	20%
Dividends (if as a person non-resident/resident with TIN)	10%
Dividends (if as a person non-resident/resident without TIN)	15%

For industrial undertaking and physical infrastructure facility established between July 1, 2011 to June 30, 2019, the following are eligible for tax holidays upon fulfillment of certain conditions:

Industrial undertaking eligible for tax holiday

A
- Active pharmaceuticals ingredient industry and radio pharmaceuticals industry
- Automobile manufacturing industry

B
- Barrier contraceptive and rubber latex
- Basic chemicals or dyes and chemicals
- Basic ingredients of electronic industry (e.g. resistance, capacitor, transistor, integrator circuit)
- Biotechnology
- Bio-Fertilizer (Introduced in FA 2012)
- Bi-cycle manufacturing industry
- Boilers
- Brick made of automatic hybrid Hoffmann kiln or Tunnel Kiln Technology

C
- Compressors
- Computer hardware

E
- Energy efficient appliances

I
- Insecticide or pesticide

P
- Petro-chemicals
- Pharmaceuticals
- Processing of locally produced fruits and vegetables

R
- Radio-active (diffusion) application industry (e.g. developing quality or decaying polymer or preservation of food or disinfecting medicinal equipment)

T
- Textile machinery
- Tissue grafting
- Tyre manufacturing industry

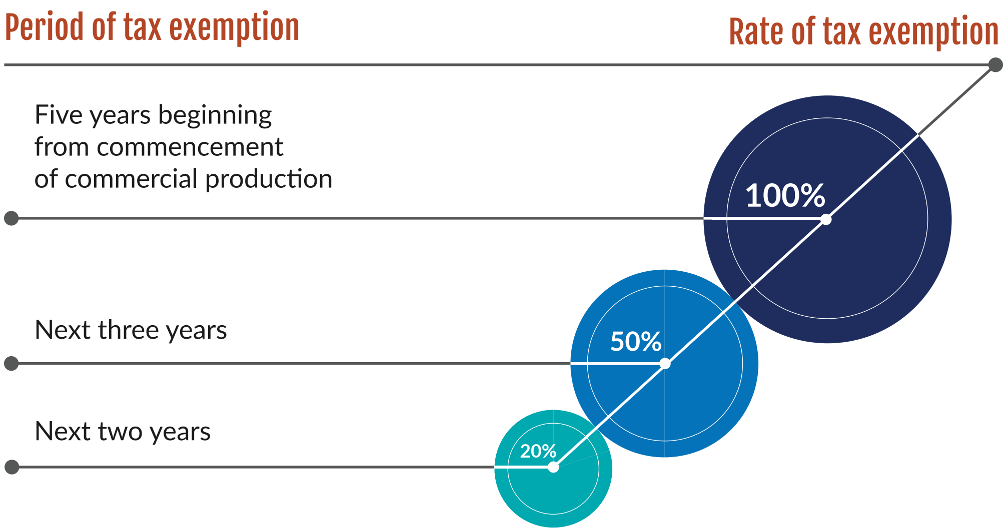
*****
- Any other category of industrial undertaking as the government may, by notification in the official gazetter, specify

Source: National Board of Revenue

Exemptions available for power sector:

Coal based private power generation companies will enjoy full tax exemption for fifteen years, if the company sign a contract with the government in accordance with private sector power generation policy of Bangladesh within June 30, 2020 and started commercial production within June 30, 2023.

Private power generation company that have started their commercial production after 30 June, 2016 will enjoy the following tax exemption:



Tax rebate for manufacturing companies:

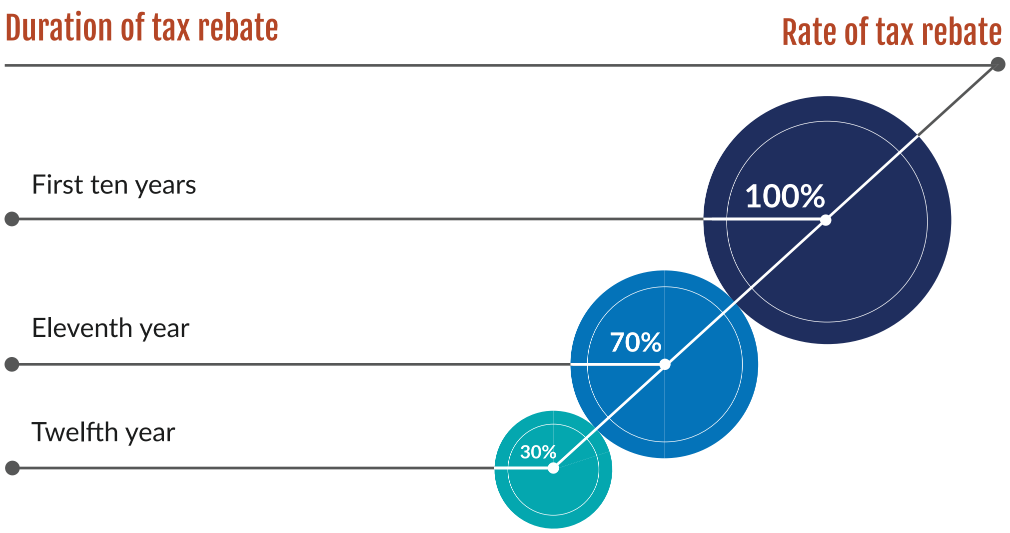
The following tax rebate facilities for the manufacturing industries set up in places other than city corporation areas are as follows:

Industries	Proposed tax rebate	Period of proposed tax rebate
Tax rebate for the manufacturing industries commencing commercial operation between July 1, 2014 and June 30, 2019 located outside any City Corporation area	20%	Up to 10 years next from the date of commencing commercial operation

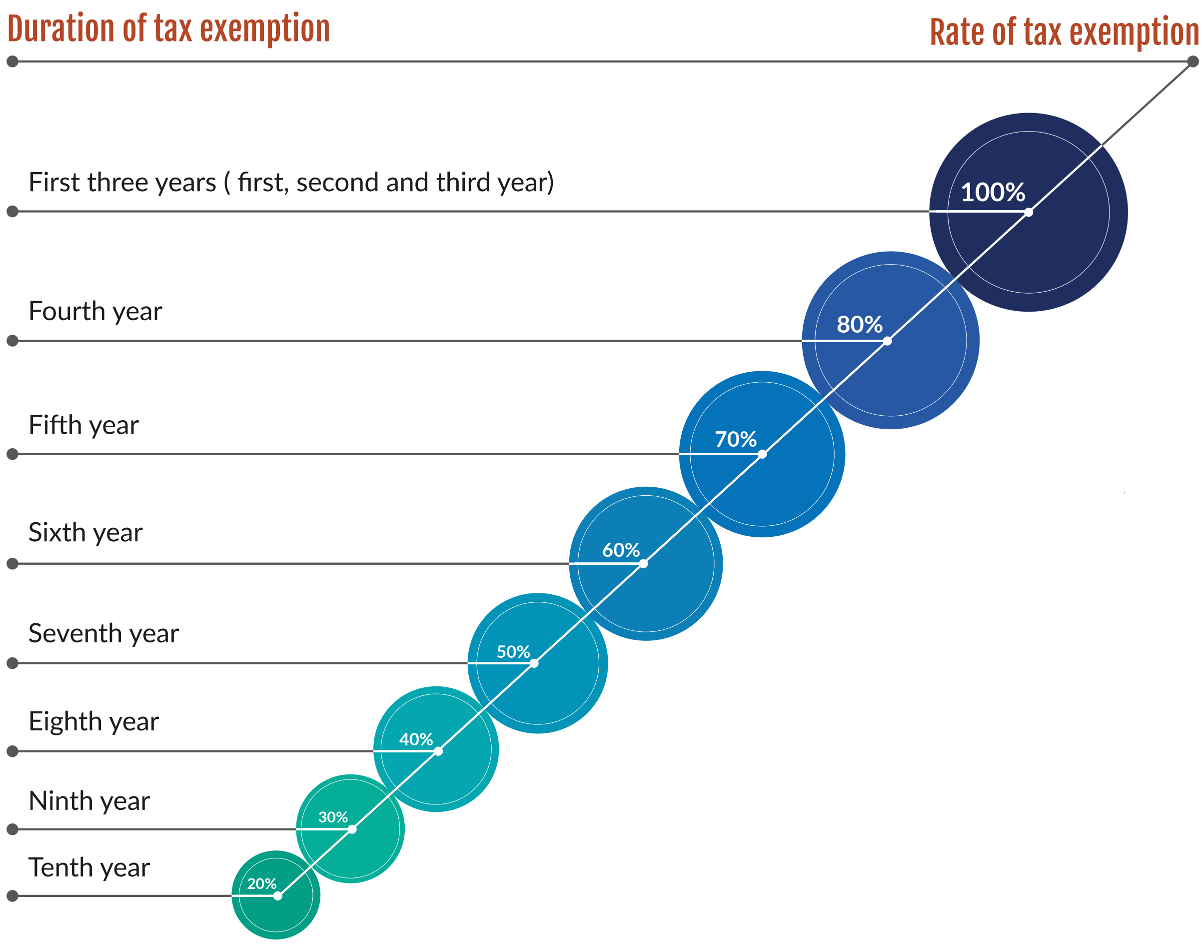
Industries	Proposed tax rebate	Period of proposed tax rebate
Tax rebate for the manufacturing industries shifted/relocation to areas located outside any city corporation are and commencing commercial operation between 1 July 2014 and 30 June, 2019	20%	Up to 10 years next from the date of commencing commercial operation after shifting
Tax rebate for the manufacturing industries already started commercial production located outside any city corporation area	10%	Up to 30 June, 2019

Tax exemption for developers of special economic zone (BEZA) and Hi-Tech Park and industrial undertaking established thereon:

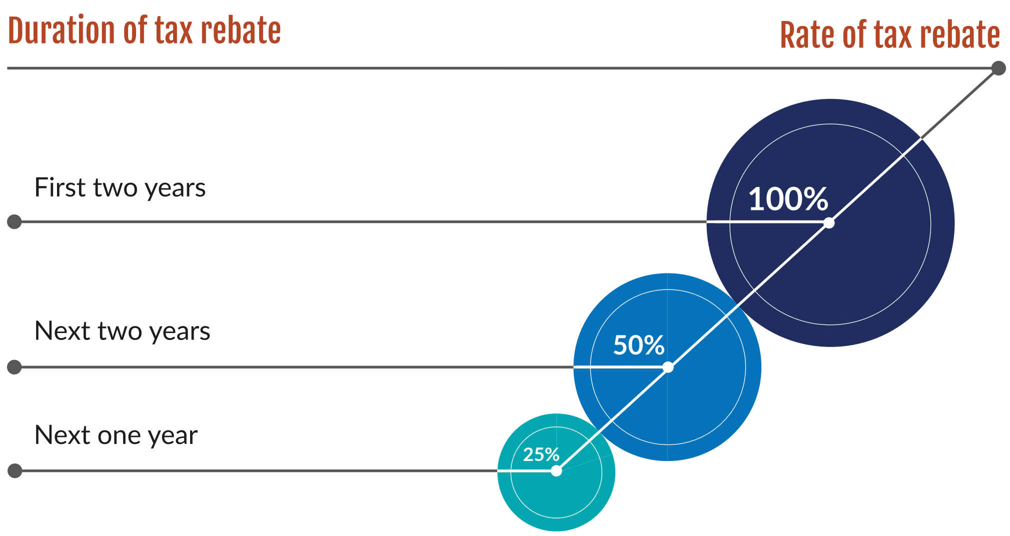
Developers of BEZA and Hi-Tech Park shall enjoy the following tax exemption:



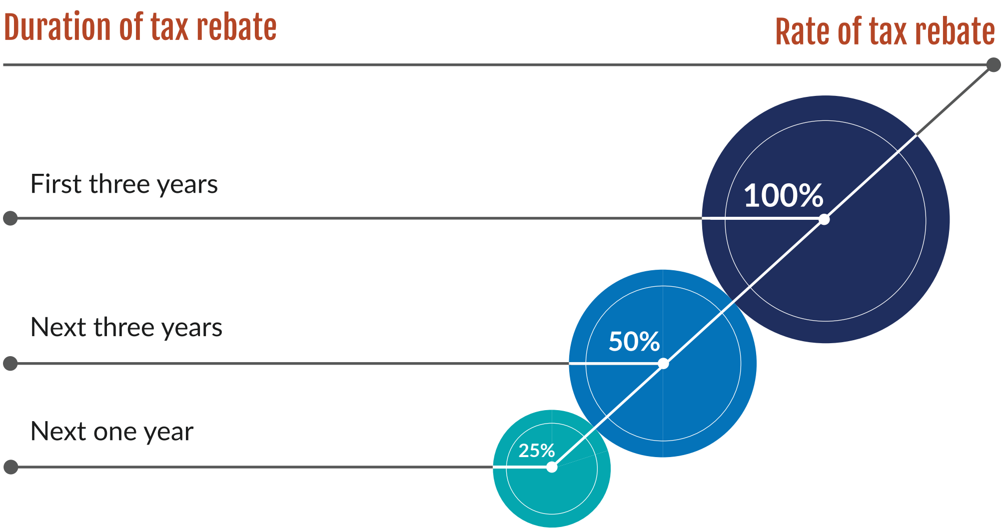
Industrial undertakings established within BEZA and Hi-Tech park areas shall enjoy the following tax exemption:



Industry set up within Dhaka and Chittagong Divison (except Bandarban, Rangamati and Khagrachari hill districts)



Industry set up within all other divisions of the country:



Source: National Board of Revenue

2.5 Trade benefits specific to industry and export countries

Avoidance of double taxation

If a business generates income in a foreign country, then it may be liable to pay taxes on the income in both its home country and the foreign country. This is called ‘double taxation’. In order to avoid this, a lot countries go into double taxation agreements. There are agreements on avoidance of double taxation between Bangladesh and 32 countries:

Trade policy in Bangladesh is operated under the jurisdiction of Export Policy Act 2018-21. The government has a host of policy tools like tariffs and anti-dumping[22] measure for protecting local players. As part of Government's vision for crossing USD 60 billion (~BDT 5 trillion) export within 2021, policymakers have earmarked 15 sectors as 'Highest priority sectors', while 19 have been categorized as 'Special Development Sectors', in which the government has focused on facilitating raw material imports. Some sector specific benefits include project loan at reduced interest rate, income tax rebate, subsidies for utility services, export credit, duty drawback and duty free import of equipment among others.

The export policy Act 2018-2021 puts leather into special focus in an attempt to reduce dependency on garment, which represents 84.2% of total Bangladeshi export. As a plausible solution, the government plans to extend the benefits in the garments industry to the leather industry as well. Programmes will be implemented to upgrade the leather industry to green standards. In order to reduce lead time, central bonded warehouse will also be set up for storing the raw materials of the leather industry.

Other key takeaways from the Export Policy Act 2018-2021 are as follows:

- A special economic zone for the plastic sector will be established at Gazaria in Munshiganj
- Garments sector will be able to send samples worth $20,000 instead of the previous $15,000 limit
- Pharmaceutical and information technology sector will be provided with various tax and other incentives
- The local value addition has been cut down from 40% to 30% in the export oriented industries
- Technology development and upgradation fund and green fund will be introduced by central bank in order to provide loans for modernisation and upgradation of export oriented industries
- The export development fund (EDF) of Bangladesh Bank will ease loans and other banking facilities to export oriented industries
- Light engineering products, photovoltaic module, cashew nuts, processed crabs and toys are the newest additions to the special development sector
- Denim, active pharmaceutical ingredients and reagents are added to the priority sectors list

22. The Customs Act 1969 (Act IV), BDLAWS, Accessed on 26.05.2019

Priority sector

- Agro-products & agro-processed products
- Denim
- Footwear & leather products
- Furniture
- High value added RMG and garment accessories
- Home furnishing
- Home textile & terry towel
- ICT products
- Jute products
- Pharmaceutical ingredients and reagents
- Pharmaceutical products
- Plastic products
- Ship & ocean going fishing trawler
- Software and IT enabled services

Special development sector

- Architecture
- Cashew nuts
- Ceramic products
- Coir products
- Diversified jute products
- Electric & electronic products
- Engineering and consulting services
- Handicrafts
- Handloom products
- Light engineering products
- Paper and paper products
- Photovoltaic module
- Poppadum, rubber
- Printing and packaging
- Processed crabs and toys
- Rough diamond and jewelry
- Silk products
- Tourism industry
- Value added frozen fish

2.6 Types of companies that can be setup in Bangladesh

Bangladesh offers opportunities for foreign businesses to invest in Bangladesh through traditional channels of investments by either forming a fully/partially owned subsidiary or setting up a branch or liaison office for operating in Bangladesh. The type of entity formed would depend on the investor's medium and long-term strategy for penetrating the market.

2.6.1 Wholly owned subsidiaries

Foreign companies are permitted to establish wholly owned subsidiaries in Bangladesh under the 'Company Act 1994', for establishing either a private limited or a public limited company. Company registration related-paper work is handled by the Registrar of Joint Stock Companies and Firms (RJSC) and foreign entities can incorporate a new company complying with the requirements of the RJSC.

Foreign entities can also fully acquire any existing Bangladeshi companies. The foreign entity will be subject to laws and regulations applicable for business operations in Bangladesh and have to take certain steps before setting up wholly owned subsidiaries in Bangladesh.

Steps for setting up wholly owned subsidiaries in Bangladesh:

Step 1	Clear your desired company name with RJSC[23]
Step 2	Open bank account and transfer value of share capital
Step 3	Register company with RJSC
Step 4	Acquire trade license, tax identification number and other required licenses (full list available in the following chapter)
Step 5	Register your company with the Factories Act (For more than 10 workers)
Step 6	Obtain environmental clearance (for industrial projects)
Step 7	Obtain work permits for foreign staff (if any)
Step 8	Start operation

23. RJSC Form VI, ROC, Accessed on 26.05.2019

2.6.2 Joint ventures

If not wholly owned subsidiaries, foreign companies can incorporate joint venture companies with Bangladeshi partners.

The equity ownership of the foreign company will vary depending on the amount invested by each party.

Steps for setting up joint venture companies in Bangladesh:

Step 1 Clear your desired company name with RJSC[24]

Step 2 Submit MoA and MoU

Step 3 Submit scan pages of subscriber's details and form IX duly signed

Step 4 Submit Joint Venture Agreement to RJSC for proposed company details

Step 5 Provide encashment certificate to RJSC for the proposed company

Step 6 Pay registration fees to a scheduled commercial bank

Step 7 Start operations

2.6.3 Limited liability

Foreign investors are free to invest in local companies and shares can also be issued to foreign investors against capital machinery imports. However, confirmation and approval from the customs and excise authority are necessary with proper import documentation. There are no restrictions on the transfer of shares to non-residents. Foreign investors may sell their shares, irrespective of their percentage of shareholding.

24. RJSC Form VI, ROC, Accessed on 26.05.2019

The following are the key takeaways for a foreign investor interested in forming a limited liability company:

- The limited liability company consists of at least 2 persons/directors
- Statutory meetings and reports are not applicable as per section 83, Act 1994
- Retirement provisions are not applicable as per section 91 (b)
- There is no restriction on the allotment of shares as per section 148 of company act 1994
- There is no mandate to invest in any sector in Bangladesh by local or foreign investors
- Invitation to the public to subscribe for shares or debentures are strictly prohibited
- The total number of members cannot exceed a total of 50. This is exclusive of the employees working in the company.

2.6.4 Operating as a foreign entity

Beneficiary Owners (BO) account

A BO Account is required for participating in the capital market. International investors can purchase and hold stocks using the BO account, which can either be individual or institutional in nature. It should be noted that for foreign investors, a custodian bank is needed for acting as an intermediary (who would hold the Power of Attorney on behalf of the investor) when trading shares with a broker.

Steps for setting up Beneficiary Account:

Step 1 Collect relevant forms from the preferred brokerage firm

Step 2 Fill up the forms and get introducer part attested by the local Bangladeshi embassy

Step 3 Get photo attested by the host nation's embassy in Bangladesh

Step 4 Send the form back to the brokerage house with the Nominee of Attorney details filled out

For individual BO account, duly attested photograph, bank statement, copy of pay slip or tax return, copy of employment certificate/ trade license, copy of passport and other requirements by custodians need to be submitted. For institutional accounts, copies of Memorandum and Article of Association (MoU, MoA), Certificate of Incorporation, copy of Board resolution permitting investment or trade in Bangladesh and custodian details must be submitted. Also, a copy of board resolution authorizing personnel (who will handle the account) with specimen signature and all relevant identification documents would need to be submitted.

Branch or liaison offices

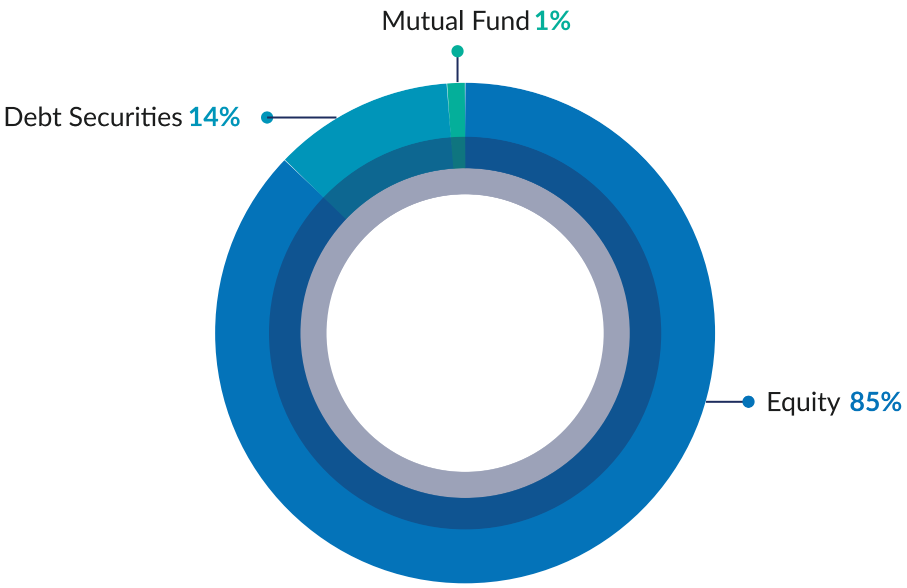
Foreign companies can also set up representative/ liaison offices in Bangladesh. The branch office must follow Bangladesh's foreign exchange guidelines and be under the direct supervision of BIDA. In general, no outward remittances of any kind are allowed, unless specifically permitted by the foreign exchange regulations or by the Central Bank. These offices are required to bring inward remittances of at least USD 50,000 (~BDT 4.2 million) within two months of registering the entity, as part of setup costs. One of the required approvals for setting up liaison offices is the security clearance, which must be obtained from the Ministry of Home Affairs.

The following list of documents is required for setting up branch offices:

- Four (04) copies of application in the prescribed form signed by the authorized person for establishing branch or liaison office
- Memorandum and Articles of Association and Certificate of Incorporation of the principal or parent company
- Name and nationality of the directors of the principal company
- Audited accounts of last financial year of the principal company
- Board resolution authorizing opening of office in Bangladesh
- Proposed organogram of the office with clear delineation of local and expatriate staff
- Details of activities to be performed by the branch office through a forwarding letter

A fee of BDT 25,000 (~USD 300) in the form of a bank draft needs to be submitted to BIDA with necessary documents. After scrutinizing necessary documents, BIDA officials will place the application to the inter-ministerial committee for securing final approved.

2.7 Funding opportunities in Bangladesh



Source: Market Capitalization, Dhaka Stock Exchange[25]

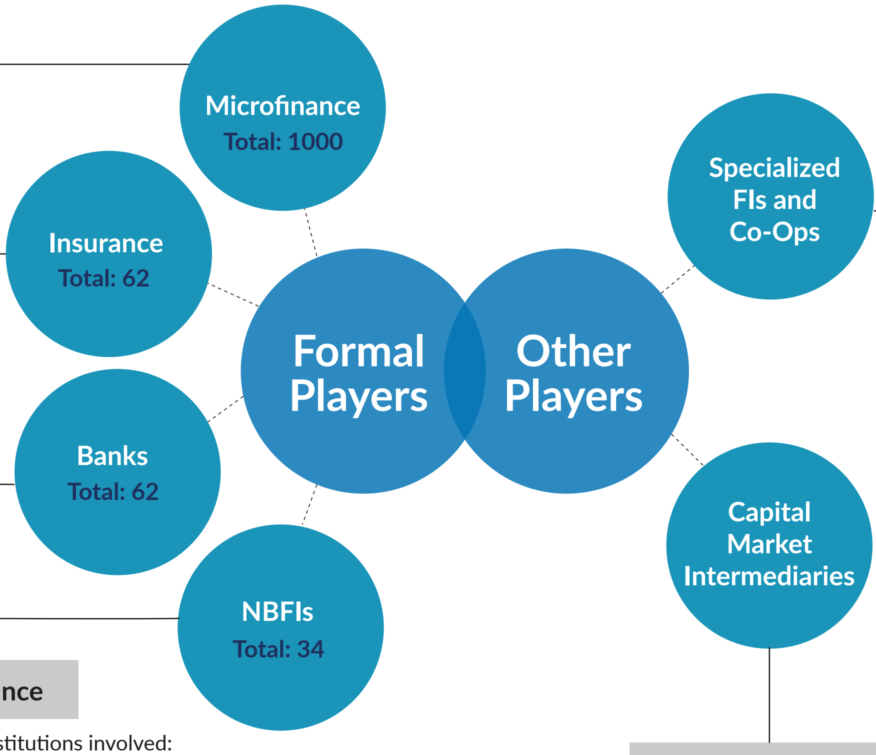
Loans for working capital, syndication and trade financing can be taken from local financing institutions by foreign entities for short term or long term investments. Some local and foreign institutions also have access to on-shore and off-shore funding facilities within Bangladesh.

Currently, the financial sector has 59 scheduled commercial banks with 3 new banks recently approved by the Bangladesh Bank, which will take the total to 62 banks. Other than that, a host of Non-Bank Financial Institutions (NBFIs) and specialized financial institutions operate in the market.[26]

Apart from raising debt-based funding, investors can also consider securing equity-based financing from the country's capital market. Bangladesh currently has two stock exchanges that are growing in tandem with the country's growth. As of May 2019, 583 companies are listed on DSE alone with market capitalization of USD 45.9 billion (~BDT 3.8 trillion).[27] Government has preferential policies for encouraging companies to list in the country's bourses and take advantage of benefits such as tax breaks for sector-specific companies.

25. Dhaka Stock Exchange (DSEBD), Accessed on 26.05.2019
26. Bank &FIs, Financial System, Bangladesh Bank, Accessed on 26.05.19
27. Dhaka Stock Exchange (DSEBD), Accessed on 26.05.2019

The financial market in Bangladesh



Microfinance

4 types of Institutions involved:
Grameen Bank
Around 1500 NGOs
Commercial and Specialized Banks
Government Sponsored Microfinance Projects

Insurance

18 Life Insurance (1 State Owned, 1 Foreign)
44 General Insurance (1 State Owned)
Listed: 47

Banks

Commercial Banks
Total: 59
5 non-scheduled Bank

6 State Owned Bank
3 Specialized Banks
8 Islamic Banks (Private)
32 Private Commercial Banks
9 Foreign Commercial Banks
30 Listed in Capital Markets

NBFIs

2 State Owned NBFIs
1 Subsidiary of SOCB
15 Private Domestic Initiative
15 Joint Venture Initiative
23 Listed in DSE

Capital Market Intermediaries

Listed Securities in DSE: 586
318 companies
38 mutual funds
212 government bonds
8 debentures
1 corporate bond
323 Listed in CSE

Specialized FIs and Co-Ops

House Building Financial Corporation
PKSF (Rural Cooperative)
Samabay Bank
Grameen Bank

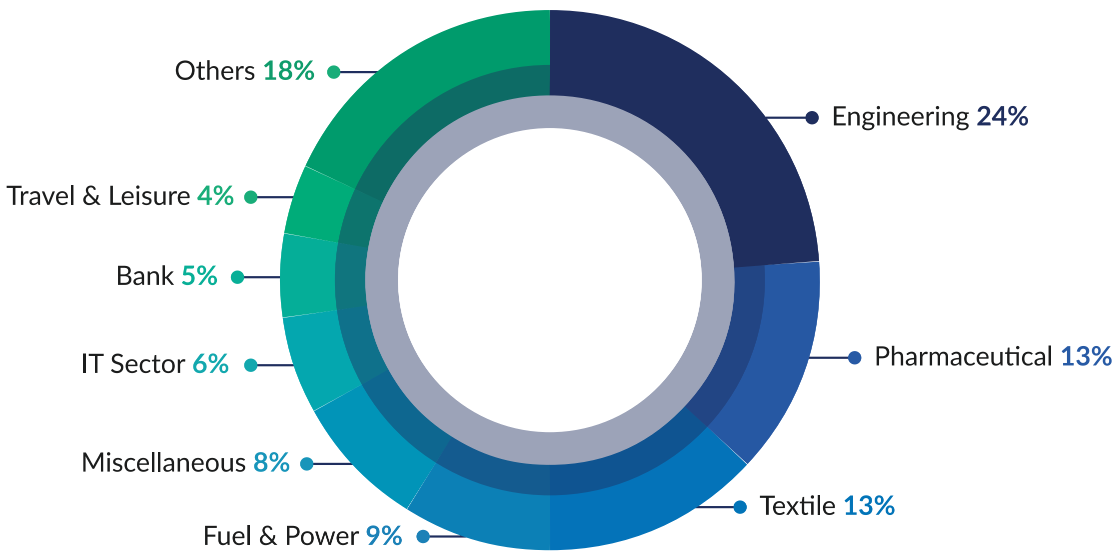
Source: Bangladesh Bank, Bangladesh Securities and Exchange Commission

Capital markets in asia

Name of capital market	Indice name	Year end indice (March 2019)	Listed companies	Market capitalization till march 2019 (USD in billion)
Colombo Stock Exchange	CSE All Share	5,557.2	311	14.3
Dhaka Stock Exchange	DSEX	5,421.6	586	41.1
Pakistan Stock Exchange	KSE 100	30,526.1	576	65
Philippines	PSE Composite	7,920.9	275	286.9

Source: Investing.com, Dhaka Stock Exchange, Colombo Stock Exchange, Pakistan Stock Exchange, Philippines Stock Exchange, Stock market clock

Sector wise market capitalization



Source: National Board of Revenue

2.7.1 Equity capital

Foreign-owned companies can start raising capital from the equity market, provided they have made profits for 3 consecutive years. The government is keen on increasing the number of listed companies in the local bourse and is providing regulatory incentives for encouraging profitable companies. Listed companies enjoy 25% corporate taxes against a 35% tax rate for non-listed companies (except few sectors). The fund-raising process requires formal approval from the Bangladesh Securities and Exchange Commission (BSEC). Companies can either proceed using the fixed price or the book building process. Under the fixed price method, the appointed merchant bank and auditor help prepare a prospectus, valuing the company based on existing assets and future growth potential. The indicative price of the stock is estimated and requires approval from the regulator. The book building method requires appointed merchant banks to prepare a prospectus with indicative pricing. The company in contention then hosts a series of roadshows where institutional investors are invited for bidding on their stocks. IPO share price is set based on the feedback and interests from other institutional investors.

The following table provides a comparison between listed and non-listed companies' difference in tax rate:

Details	Tax Rate	Remarks
Listed companies (other than banks, insurance companies, merchant banks, other financial instituions, jute, textile, garment industries, mobile phone operator companies and any tobacco product manufacturing companies) in any stock exchange in Bangladesh	25%	If non listed companies (other than banks, insurance companies, merchant banks, other financial instituions, jute, textile, garment industries, mobile phone operator companies and any tobacco product manufacturing companies) list at least 20% of their paid up capital through IPO, they shall receive a rebate of 10% in the year of listing. 50% of export income is exempt from tax.
Non listed companies (Other than banks, insurance companies, merchant banks, other financial institutions, jute, textile, garment industries, mobile phone operator companies and any tobacco product manufacturing companies)	35%	

Details	Tax Rate	Remarks
Publicly listed banks, insurance and other financial institutions (except merchant banks) and got approval from the government in 2013	37.5%	
Non listed banks, insurance and other financial institutions (except merchant banks) and got approval from the government in 2013	40%	
Publicly listed mobile phone operator companies with at least 10% shares through stock exchange of which maximum 5% may be through pre initial public offering	40%	Mobiles phone operator companies with at least 20% of their paid up capital through IPO shall receive 10% rebate in the year of listing
Non listed mobile phone operator companies	45%	
Merchant banks	37.5%	Irrespective of listing status

Details	Tax Rate	Remarks
Tobacco product manufacturing companies	45%	Irrespective of listing status

Source: National Board of Revenue

The process of listing in the DSEX has the mandatory requirement of hiring or appointing an Issue Manager (approved by the DSEX). The method of deciding IPOs requires assistance from the approved Issue manager.

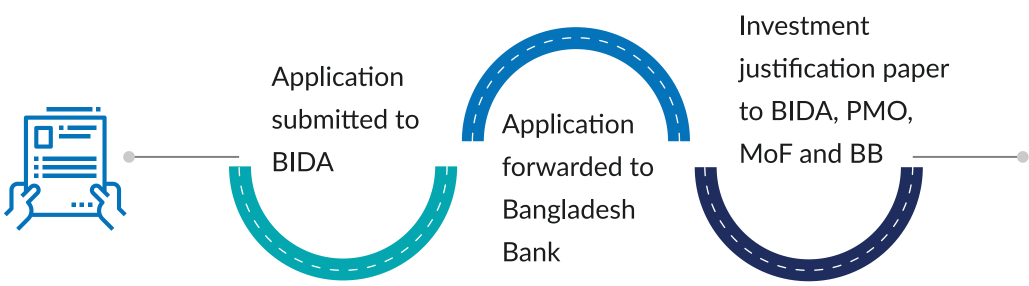
The draft prospectus must be prepared in line with the Securities and Exchange Commission (Public Issue) Rules, 2006.[28]

2.7.2 Debt capital from local commercial banks

Foreign investors have access to local debt funding within Bangladesh. Trade finance, term loans and working capital are readily available, especially to major foreign investors. Interest rates for those loans are low and between 9-16%. Bangladesh has a high number of state and commercial banks and bank loans can be fairly easily obtained against secured collateral.

2.7.3 Private foreign commercial borrowing

For securing long-term foreign currency loans, an application must be submitted to BIDA, which is subsequently forwarded to the central bank for further assessment. Another requirement for securing funding would be preparing a working paper justifying the need of the loan, which is submitted to a committee comprised of members from BIDA, Prime Minister's Office (PMO), Ministry of Finance and chaired by the Bangladesh Bank governor.



28. Securities Laws, Rules, Regulations, Bangladesh Securities & Exchange Commission, Accessed on 26.05.2019

2.7.4 Bonds

The bond market in Bangladesh is at a nascent stage with only a few bonds available for investment. Policymakers are pushing to promote the market, but there is hardly any demand for debt instruments, hence many companies are unwilling to contemplate raising funds through debt instruments.

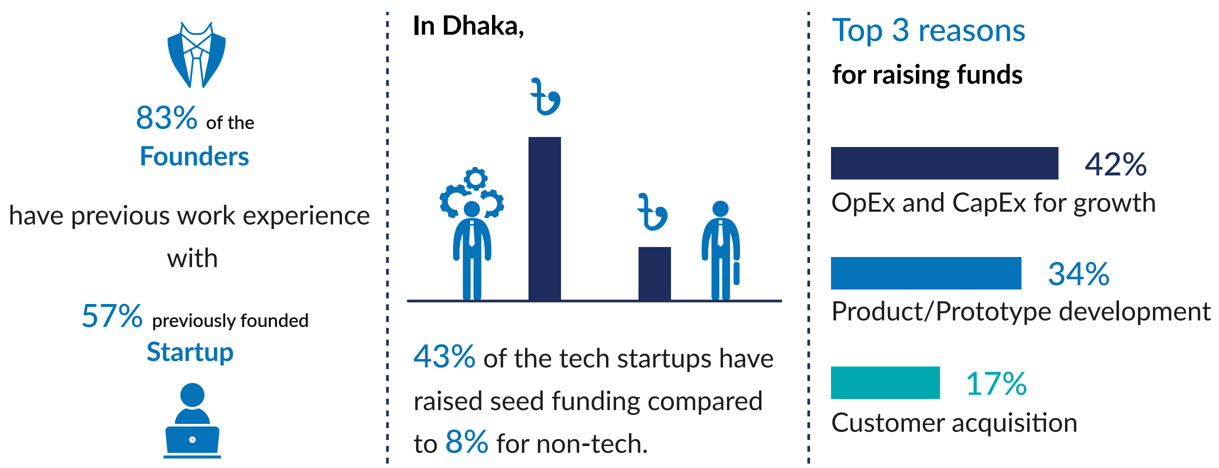
2.8 Startup ecosystem in Bangladesh

Startup ecosystem has picked up rapidly since 2013 with participation from angels, starting up of eco-system enablers like co-working space, community events, local and global incubators and active interest from government/development partners. However, major deals and growth has started happening since end of 2017. As of now there are a number of international and local funds operating like Fenox, BD Ventures, IDLC Venture Fund along with incubator/accelerator programs for pipeline development. However, Series A funding is yet to properly kick off.

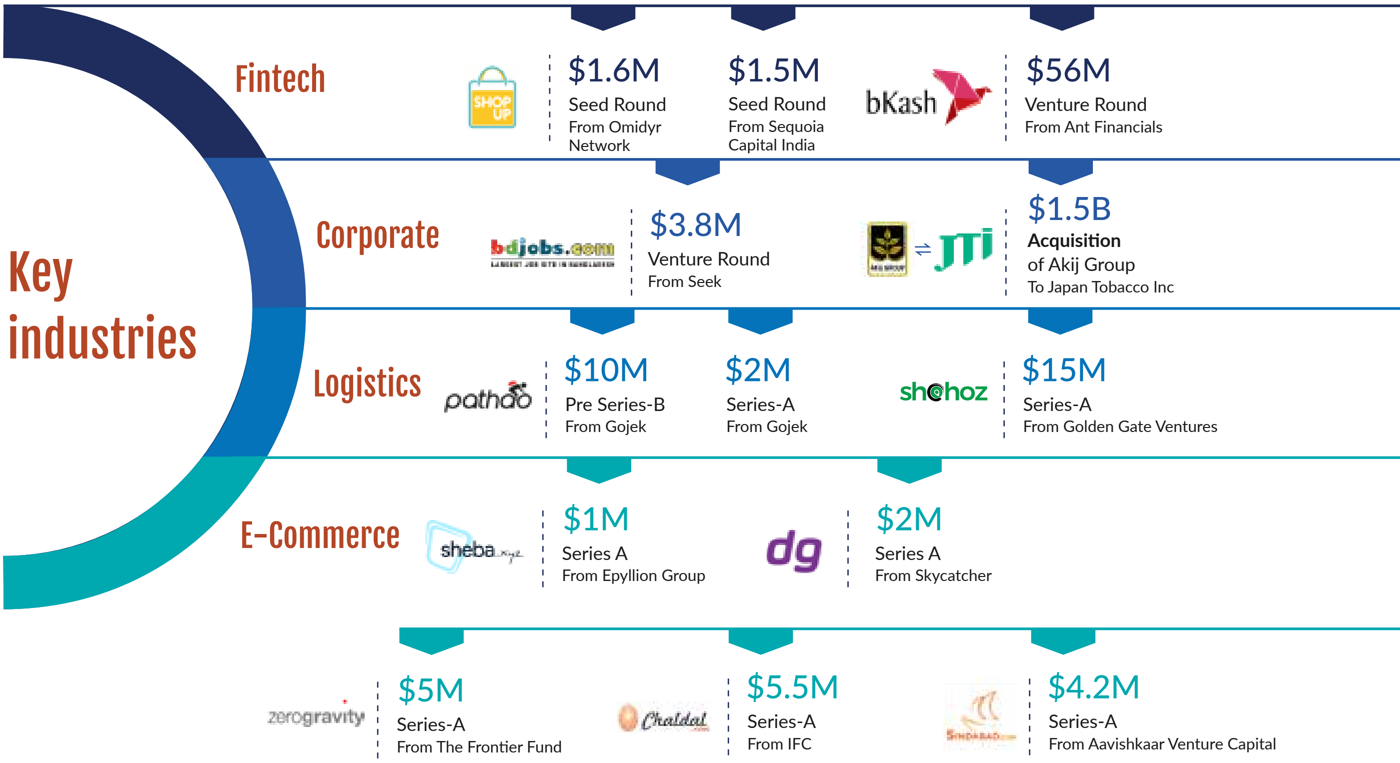
In the recent years, ride-sharing and logistics solutions have gained significant traction in the market. Other popular startup categories include FinTech, Software, Web and Mobile Apps, Health Tech and Digital Marketing.

Preferred investor choices are Angels followed by VCs and Friends/Family and financial institutions (especially debt capital) ranks last. Key success factors startups perceive to be critical are Right Team, Access to Funding and Right Connections.

According to LightCastle's research, the top 3 choices for investors right now are e-commerce, Fintech and impact businesses. Preferred investment sectors are Asset Sharing and Logistics (85%), FinTech (83%), Health Tech (67%), Education Tech (67%) and C2C Commerce (50%). Critical success factors according to investors are Team (83%), Market Potential (67%) and Scalable Idea (50%). Additional verticals that will get a lot of attention in the coming days are Fintech (Digital Banking), Impact (Agriculture, Climate, Education, Health) and Robotics/Low-cost Hardware.



Notable Deals



Source: Deals, DATABD.CO

2.9 Investment stories

2.9.1 Japan Tobacco Group acquires the tobacco business of Akij Group

ESTABLISHED 1966
DHAKA TOBACCO
INDUSTRIES

JTI
JAPAN TOBACCO INTERNATIONAL

With a population of an estimated 167 million, Bangladeshi consumer market provides great opportunity for consumer goods producer because of the high population density and also because of the low costs associated with production and promotion. The Bangladeshi tobacco market is currently the 8th largest in the world with volumes exceeding 86 billion units and growing by about two percent annually. Dhaka Tobacco was the second largest tobacco company (around 20% market share) in Bangladesh, right after British American Tobacco who holds 60% of the total market share. On

August 6, 2018, Japan Tobacco group acquired the tobacco business (Dhaka Tobacco) of Akij Group for the single largest private investment in Bangladesh with an estimated BDT 124.3 billion (USD $1.5 billion).[29] Japan Tobacco International, is one of the five largest tobacco companies in the world and acquiring Dhaka tobacco is the second major purchase by the group after acquiring Russia's Donskoy Tabak for $1.6 billion in March, 2018. The single largest foreign private investment in Bangladesh's history shows that Japan Tobacco Group is in the industry for the long term. The transaction, which was expected to be completed in the third quarter of the fiscal year 2018, will add around 17 billion units to the JT Groups overall volume. It will also make JT group the second position holder in both value and base segments, together covering up to 90% of Bangladesh's cigarette market.

Eddy Pirad, President and CEO, JTI expressed his optimism in doing business in Bangladesh. He said, "Bangladesh is one of the fastest growing economies in the world with a pro-business mindset, which is why we are keen to expand our presence in the country. The tobacco business of Akij is profitable, has state-of-the-art manufacturing facilities and a strong distribution network and workforce. With our strong track record of integration, we can accelerate operational efficiencies and introduce some of our Global Flagship Brands alongside Akij's well-established portfolio."

2.9.2 North-West Power Generation Company Limited in Joint Venture with China National Machinery Import and Export Corporation

NWPGCL
North-West Power Generation Compant Limited

CMC

In order to ensure sustainable growth of GDP, Bangladesh needs reliable and cost effective power source to cater to its emerging economy. To tackle this issue, the government of Bangladesh has prepared a master plan that caters to meeting demands in short, mid and long term. The adopted Master Plan aims to generate 24,000 MW by 2021, 40,000 MW by 2030 and 60,000 MW by 2041. The government formed many generation entities to achieve the aforementioned target and in August 28, 2007, the North-West Power Generation Company Limited was formed to cater to the power demand of the nation. With an intention to be the best power producer of the country, NWPGCL aims to generate over 10,000 MW by 2025. However, NWPGCL lacked the necessary ample resources required to establish an independent power plant. Hence on June 9, 2014, NWPGCL formed a Joint Venture Company with China National Machinery Import and Export Corporation (CMC) as a strategic alliance to tackle this issue. As a follow up to this,

29. JT Group Agrees to Acquire Tobacco Business of Akij Group in Bangladesh (August 6, 2018), Press Release, JTI, Accessed on 26.05.2019

Bangladesh-China Power Company (Pvt.) Limited (BCPCL) was formed and registered with the registrar of Joint Stock Companies and Firms. The Joint Venture aims at implementing a 1320 MW Thermal Power Plant Project by using eco-friendly Ultra Supercritical Technology. Currently under construction, the estimated cost of the project is USD $2 billion and China Exim Bank will provide a loan as a source of financing. NWPGCL formed two more joint venture companies, one with M/s Sembcorp Utilities Pte Ltd, Singapore. The newly formed Sembcorp North- West Power Company Limited (SNWPCL) has been working on producing 400 MW Combined Cycle Power Plant Project at the Sirajganj Power Generation Hub. Lastly, to develop the largest LNG-based power plant of the country, which has a capacity of 3600 MW including re-gasification terminal and gas pipelines, NWPGCL formed the second joint venture with Siemens AG.

2.10 Regulations for operating in Bangladesh

2.10.1 Investment friendly FDI policies

Interests of international investors are protected by government policies and successive governments since the country's independence in 1970s have continued the preferential policy treatments of international investors. The policy framework for foreign investment in Bangladesh is based on 'The Foreign Private Investment (Promotion & Protection) Act 1980,[30] which ensures legal protection for foreign investments in Bangladesh. The law guarantees non-discriminatory treatment between foreign and local investments, and permission of freely repatriating proceeds of profits and divestments.

Some benefits for the foreign investors include:

- Full ownership of companies within the country and ability to invest in the domestic bourse sans restrictions
- Full repatriation of investments and dividend and reinvestment of profit is considered a new investment
- Tax exemption for expatriates working for the company for up to 3 years
- Expatriates employed in Bangladesh are entitled to remit up to 50 percent of their salaries and benefits of repairable gratuity and retirement benefits
- Multiple entry VISAs issued to foreign investors for up to 3 years

30. The Foreign Private Investment (Promotion and Protection) Act 1980 (Act XI), BDLAWS, Accessed on 26.05.2019

- Preferential treatments are given to foreign investors while allocating lands in the new Special Economic Zones (SEZs).[31]

- Tax holidays for provided up to 7 years for investing in SEZs, while investments in some sectors like Power enables tax holiday for up to 15 years

2.10.2 Capital repatriation

Capital repatriation is the process of transferring a company's assets, financial and/or physical, to its origin country through closure of business operations in host country. Profit and capital repatriation are subject to strict reporting requirements or authorization by Bangladesh Bank. Proceeds from the sales of securities (equity) of publicly listed companies may be repatriated without prior approval for an amount not exceeding the market value of the shares as listed in the stock exchange. All other capital repatriations (i.e. private limited companies and public limited companies not listed in the stock exchange) are subject to prior authorization by Bangladesh Bank. In the absence of an established market valuation of the company, the amount repatriated may not exceed the net asset value of the company at the date of the transaction.[32] The Bangladesh Bank also does its own valuation of company and determines repatriable amount before approval of repatriation.

The 2009 Foreign Exchange Regulation Act[33] requires foreign-owned companies to obtain commercial domestic loans. The 2009 regulations provide a general authorization to banks involving working capital. Term loans may be provided as well upon certain conditions, including a maximum 50-50 debt to equity ratio.[34] Borrowing internationally is possible based on approval from the central bank and BIDA. An investor can exit the country anytime with their investment based on the resolution of the company board. Once a foreign investor completes the formalities to leave the country, he or she can repatriate the net proceeds after securing proper authorization from Bangladesh bank.

2.10.3 Merger and acquisition (M&A) framework for Bangladesh

The policy on the Merger and Acquisition (M&A) of companies is mentioned through section 12-14 of The Companies Act, 1994.[35] According to section 12, companies willing to go through M&A must seek approval from the court.

Bangladesh Securities and Exchange Commission (BSEC) is in the process of drafting fresh guidelines for M&A based transactions. Currently, a company planning on merging with another company must seek approval from existing shareholders followed by ratification from the court.[36] According to the proposed guidelines, the court would remain the sole authority for ratifying merger between two organizations.

31. Bangladesh Economic Zones Authority, BEZA, Accessed on 26.05.2019
32. Foreign Exchange Regulation (FER) Act 1947, Bangladesh Bank, Accessed on 26.05.2019
33. Foreign Exchange Guideline Vol 1, Bangladesh Bank, Accessed on 26.05.2019
34. Foreign Exchange Policy Department Circular 7, Bangladesh Bank, Accessed on 26.05.2019
35. Company Act 1994, BDLAWS, Accessed on 26.05.2019

2.10.4 Preferential trade policies

Bangladesh has bilateral agreements for avoiding double taxation and investment treaties with the following countries.[37]

Bilateral Agreements: Belgium, Canada, China, Denmark, France, Germany, India, Italy, Japan, Poland, Romania, Singapore, South Korea, Sri Lanka, Sweden, Thailand, The Netherlands, United Kingdom (including Northern Ireland).

Ongoing Negotiations for Bilateral Agreements: USA, Iran, Philippines, Qatar, Australia, Nepal, Turkey, Indonesia, Cyprus, Norway, Finland and Spain.

Investment Treaties: Belgium, Canada, France, Germany, Iran, Italy, Japan, Malaysia, Pakistan, Philippines, Poland, Republic of Korea, Romania, Switzerland, Thailand, The Netherlands, Turkey, UK, USA, Indonesia.

Ongoing Negotiations for Investment Treaties: India, Hungary, Oman, Moldova, DPRK, Egypt, Austria, Mauritius, and Uzbekistan.

2.10.5 Additional policies for protecting foreign investments

- Bangladesh is a signatory to MIGA (Multilateral Investment Guarantee Agency),[38] which insures investors against political risks. MIGA is an Investment Guarantee Agency of the World Bank Group which guarantees foreign investors against losses incurred due to non-commercial risks and encourages FDI. MIGA's guarantee protects investors from the risks of currency transfer, exploitation, war and civil disturbances. MIGA is only restricted to de-risking new investments, privatization and financial restructuring.

- Overseas Private Investment Corporation (OPIC),[39] an US-based organization, insures incoming US investments to frontier markets like Bangladesh. OPIC provides the necessary guarantee for foreign investors in case of unforeseen major events like civil war, expropriation and natural calamities.

- Bangladesh is a signatory of International Centre for Settlement of Investment Disputes (ICSID),[40] an organization which settles investment disputes between states and nationals of different countries. ICSID seeks to encourage greater flows of international investment by providing facilities for the conciliation and arbitration of disputes between governments and foreign investors.

36. Company Act 1994, BDLAWS, Accessed on: 26.05.2019
37. Incentives, Investment facilities, Bangladesh Bank, Accessed on: 26.05.2019
38. Multilateral Investment Guarantee Agency (MIGA), The World Bank Group, Accessed on 26.05.2019
39. Overseas Private Investment Corporation (OPIC), Accessed on 26.05.2019
40. International Centre for Settlement of Investment Disputes (ICSID), World Bank, Accessed on 26.05.2019

2.10.6 Preferential trade benefits

Bangladesh enjoys several trade benefits, which provide significant cost advantages while competing in international markets. However, the country is predominantly benefitting from exporting to the EU.

European Union

Bangladesh benefits from EU's Generalized Scheme of Preferences (GSP),[41] namely the Everything But Arms (EBA) arrangement, which grants duty and quota-free access for all items, except arms and ammunition. Under the framework of the EU-Bangladesh joint co-operation Agreement, ratified in 2001, engagements between the two regions can include a variety of activities from trade and economic development to good governance and environmental regulation. Bangladesh's export to the EU is dominated by apparel, which contributes 90% of total export.

USA

The United States of America (USA) is the single largest export destination for Bangladesh and in FY 2017-18, the latter exported goods worth USD 5.98 billion (~BDT 500 billion).[42] Bangladesh used to enjoy the Generalized System of Preferences (GSP) in the US market till 2013. In response to US's cancellation of GSP, Bangladesh is currently negotiating a new trade agreement with the US, under the Trade Facilitation Agreement (TFA)[43] arrangement. The agreement, signed on November 2013, provides a platform for discussing trade and investment-related issues and other areas of common interest.

APTA

Asia-Pacific Trade Agreement (APTA) is a preferential regional trade agreement that aims to promote economic development of its member countries through preferential trade agreements. APTA was formerly known as the Bangkok Agreement. Initially, APTA focused more on initial negotiation of tariff concessions on merchandise trade but currently its core focus is negotiating investment, services trade and trade facilitation. Seven participating States - Bangladesh, China, India, Lao PDR, Mongolia, Republic of Korea, and Sri Lanka are the parties to the APTA.

SAFTA

The South Asian Free Trade Area (SAFTA) is a free trade agreement of South Asian Association for Regional Cooperation (SAARC). It came into force in 2006. The members of this agreement are Afghanistan,

Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The purpose of the agreement is to promote the mutual trade and enhance economic cooperation by ensuring free flow of goods and services among member countries.

41. Generalised Scheme of Preferences (GSP), European Commission, Accessed on 26.05.2019
42. Export Promotion Bureau of Bangladesh (EPB), Accessed on 26.05.2019
43. Trade Facilitation Agreement, World Trade Organization, Accessed on 26.05.2019

Functions of SAFTA:

01	To establish a free trade area in South Asia through the elimination of tariffs
02	To form and implement the rules of origin to ensure that the product is manufactured by the country which is desirous to export
03	To allow member countries to prepare a list of products which are to be restricted to import for the protection of national interest
04	To form compensation scheme for the losses of revenue to the least developed member countries due to the arrangement of free trade area
05	To provide technical support to the least developed member countries to promote export competitiveness

3

STEPS FOR SETTING UP BUSINESS OPERATION

Basic documentation requirements for setting up operations in Bangladesh are not complex to prepare but an understanding of country specific requirements would help investors go through a more efficient process.

3.1 Certificate of incorporation

Affiliated law(s): The Companies Act-1994[44]

Affiliated agency: Registrar of Joint Stock Companies and Firms (RJSC)

A foreign investor planning on operating in Bangladesh would need to register the company with the Registrar of Joint Stock of Companies (RJSC). This is the first step to setting up the process, followed by other important and relevant documents like VAT, TIN needed for the registration of a company. In order to obtain the Certificate of Incorporation, the following steps need to be taken:

Step 1 | Obtaining a name clearance from RJSC

- **Rationale:** To ensure no two companies of the same name exist in the system.
- **Cost:** BDT 200 (Approx. $2.5)/name
- **Time taken:** 2-3 weeks upon submission of all the documents to RJSC. Once the clearance is obtained, the name remains valid for 6 months.
- **Name clearance application:** It can be completed at the ROC website.[45]

Quick Tips The total cost to complete registration of a company in RJSC can be calculated from the RJSC website.[46]

Step 2 | Prepare MoA (Memorandum of Article) & AoA (Article of Association)

- **Rationale:** This formalizes the to be registered company, its relevant stakeholders and the authorized capital injected in the former.

44. The Companies Act (Bangladesh) 1994, Accessed on 26.05.2019
45. Name Clearance Application, ROC, Accessed on 26.05.2019
46. Fee Calculator, RJSC, Accessed on 26.05.2019

- **Process:** The MoA needs to be signed by all the company shareholders, while detailing out on the shares that each stakeholder holds and the process needs to be completed in front of two witnesses. RJSC requires the object clause in the MoA to be within 400 words and 7 clauses.

Quick Tips

A minimum of two directors, over the age of 18, is mandatory, irrespective of whether they are local or foreign citizens. The private limited company can have shareholder from a minimum of 2 to a maximum of 50. 100% local or foreign shareholding is allowed in most sectors in Bangladesh. The authorized capital must be stated in the MoA and AoA. Sample can be found at the RJSC website.[47]

- **Name clearance certificate:** This is the completion of step 1
- **MoA and AoA:** This is the completion of step 2
- **Form I:** Declaration on registration of company[48]
- **Filled in form VI:** Notice of situation of registered office and of any change therein[49]
- **Signed form IX:** The RJSC Form IX refers to the consent of director to act form[50]
- **Filled in form X:** List of persons consenting to be directors[51]
- **Filled in form XII:** Details of the director, manager and managing agents of any change therein evident of name clearance[52]
- **Bank account details in the name of the registered company:** A local bank account in the proposed company name needs to be opened. Capital equal to the worth of shares owned by the foreign shareholder needs to be remitted to the Bangladeshi bank account
- **Shareholder particulars:** Passport and other ID for foreign shareholders and national id for local shareholder needs to be provided

47. Memorandum of Association, RJSC, Accessed on 26.05.2019
48. Form-I, Declaration on Registration of Company, RJSC, Accessed on: 26.05.2019
49. Form VI, Notice of Situation of registered office of any change therein, RJSC, Accessed on: 26.05.2019
50. Form- IX, Consent of Director to Act, RJSC, Accessed on: 26.05.2019
51. Form X, List of Personal Consenting to be Directors, RJSC, Accessed on: 26.05.2019
52. Form XII, Particulars of the Directors, Manager and Managing Agents And of any therein, RJSC, Accessed on: 26.05.2019

- **Registered address:** Refers to renting or buying office space at a commercial area in Bangladesh
- **Subscriber page:** The subscriber page of MoA needs to be printed and signed
- **Proof of payment:** Receipt from designated bank for treasury stamps

Upon completing these three steps, the investor can submit all the documents to RJSC in order to obtain the Certificate of Incorporation. Payments required can be calculated from the fees calculator in the RJSC website.

Once the registration is completed, RJSC will provide the following documents:

- **Certificate of incorporation:** RJSC will issue this certificate which will contain the registration number, name of the company and date of incorporation
- **Form XII:** It contains the list of directors of the incorporated company
- **Certified copies of the MoA and AoA**

Other than these documents, it will be wise for the investor to maintain share certificates for each of the shareholders and also a register for shareholders, shares, directors etc.

Quick Tips

A company seal and a rubber stamp will be really helpful post registration of the newly formed entity!

3.2 Registration with the Bangladesh Investment Development Authority (BIDA)

Affiliated law(s): The Investment Board Act-1989[53]

Affiliated agency: BIDA

53. Act XVII of Investment Board Act 1989, Accessed on 26.05.2019

Required documents:

- Application duly filled in prescribed form
- Trade license
- Certificate of MoA and AoA
- Partnership deeds
- Deeds of the proposed land
- Background of the proprietors in official letterhead pad
- Pay Order/Bank Order for applicable registration fee in favour of BIDA
- TIN Certificate

Note: If the total project cost exceeds BDT 100 million (~USD 1.2 million), a project profile is needed.

Registration fee for foreign Investment

Amount (BDT)	Required fee (BDT)
Up to 10 Crore (~USD 1.2 million)	5,000/- (~USD 60)
10-25 Crore(~USD 1.2-3 million)	10,000/- (~USD 120)
25-50 Crore (~USD 3-6 million)	25,000/- (~USD 300)
50-100 Crore (~USD 6-12 million)	50,000/- (~USD 600)

Registration fees based on investment amount

Quick Tips

While registering with BIDA, the investor will require 2 copies of the application form[54], two attested copies of the deeds of the proposed land, two copies of project profile in case the total project cost exceeds BDT 100 million (~USD 1.2 million) and 7 copies of the background of proprietors in the official letterhead.

54. Application Forms for Registration of Foreign Investment, BIDA, Accessed on 26.05.2019

3.3 Tax Identification Number (TIN) & obtaining tax return documents

Affiliated law(s): Finance Act 2015[55]

Affiliated agency: National Board of Revenue (NBR)

Time required: 2 working days

Required documents:

- Filled up application form
- Identity card of the entrepreneur
- Holding tax payment receipt
- Recent passport size photograph of the entrepreneur
- Declaration of non-judicial stamp to abide by the rules and regulation of city corporation and municipal corporation
- A certified copy of MoA and AoA
- A copy of the certificate of incorporation
- Agreement of partnership
- Tax identification number certificate
- A copy of the lease agreement of the registered office
- Work permit from BIDA
- Bank solvency certificate

Obtaining tax return documents:

Each income tax payer is entitled to receive income tax return form free of cost from tax offices or NBR's website.[56] NBR has an online tax calculator for assessing taxes.[57] After calculating the amount of income tax, every tax payer must deposit the amount to the government exchequer through pay order, treasury chalan or pay online.[58] Tax payers must then submit duly signed and verified return form along with the necessary documents to relevant tax collection committee.

55. Finance Act 2015, NBR, Accessed on 26.05.2019
56. National Board of Revenue, Accessed on 26.05.2019
57. NBR Tax Calculator, Accessed on 26.05.2019
58. Sonali Bank e-Payment Portal, NBR, Accessed on 26.05.2019

A company or NGO must submit income tax returns within July 15 of the following fiscal year. The last date for the submission of return may be extended by the Deputy Commissioner of Taxes by up to six months with approval from the Inspecting Joint Commissioner.

3.4 VAT registration+ obtaining VAT Return documents

Affiliated law(s): The Value Added Tax Act, 1991[59]

Affiliated agency: National Board of Revenue, (NBR)

Time required: 3 weeks

Required documents:

- Fill-up an application form
- Enterprise license
- Bank solvency certificate
- Recent passport sized photographs
- Identity card of owners
- IRC/ERC if enterprise is engaged in import and/or export
- TIN certificate
- Location map of enterprise premises
- Copy BIDA registration
- Deed of agreement

Note: If enterprise is Limited Company, Article and Memorandum of Association are also mandatory.

Obtaining VAT return documents:

A uniform VAT rate of 15% is applicable for both goods and services in Bangladesh. VAT is imposed on goods and services at each stage of import, manufacturing, supply, and trading. Services rendered from outside the country and services provided within the country are both subject to VAT.

59. Value Added Tax Act 1991, Accessed on 26.05.2019

All business or industrial units with an annual turnover of BDT 8,000,000 (~USD 95 thousand) and above are entitled to pay 15% VAT. If annual turnover is less than BDT 8,000,000 (~USD 95 thousand), a tax rate of 3% is levied as VAT.

Quick Tips It typically takes around 7 days to obtain the VAT certificate and the government charges no fees for the procedure

3.5 Trade license

Affiliated law(s):

- Legal Basis of the Certificate, the Companies Act-1994[60]
- Dhaka City Corporation Ordinance-1983[61]
- Municipal Taxation Rules-1986[62]

Affiliated agency: City Corporation, Municipal Corporation & Union Parishad Office

Time required: 7 Days

e- Trade license: It can be found on the e-Trade license website.[63]

Fees:

i. Application Fee: BDT 10 (~USD 0.12)

ii. License Fee: Ranges between BDT 1,000-20,000 (~USD 12-240) depending on the nature /type of business (Information can be collected from The City Corporation/Municipal Corporation/ Union Parishad)

For Limited company, license fee is determined based on paid up capital.

Required documents:

- Application form: If the investor wants to start a commercial firm, then s/he needs to procure the “K” form from one of the ten respective zonal offices. If the investor

60. Company Act 1994, BDLAWS, Accessed on 26.05.2019
61. Dhaka City Corporation Ordinance, 1983, BDLAWS, Accessed on 26.05.2019
62. City Corporations Taxation Rules 1986, Accessed on 26.05.2019
63. e-Trade License, Accessed on 26.05.2019

is interested in a manufacturing firm, then s/he needs to procure the "I" form in the similar way.

- ID card of the entrepreneur
- Holding tax payment receipt
- Recent passport size picture of the entrepreneur
- Declaration of non-judicial stamp to abide by the rules and regulation of City Corporation and Municipal Corporation
- A certified copy of MoA and AoA
- A copy of the certificate of incorporation
- Agreement of partnership
- Tax Identification Number (TIN) certificate
- A copy of the lease agreement of the registered office
- Work permit from Bangladesh Investment Development Authority (BIDA)

Steps in obtaining a trade license:

Step 1	Collect the proper form from proper zonal office
Step 2	Get the form validated by the local ward commissioner
Step 3	Application alongside support documents and license book needs to be submitted to the DCC Zonal Office
Step 4	Get the information verified physically by the license supervisor
Step 5	Upon verification, pay the fees based on the kind of business filed and collect the trade license
Step 6	Pay the signboard fee, which is equivalent to 30% of the trade license fees

Quick Tips

The entrepreneur will need to provide following supporting documents alongside the documents mentioned above:

- Three copies of passport sized photographs
- Premise ownership proof or rent receipt
- A written undertaking on non-judicial stamped paper. (Cost: BDT 150/ $2 approx.)
- NOC from neighbours
- Fire license from local fire department of the department of explosives

4

OPERATING A BUSINESS IN BANGLADESH

Land requirements and dispute mitigation of land, requirements for commercial leasing, types of importers and machinery import processes and finally, other regulatory and legal compliances are some of the factors that investors need to understand before investing in Bangladesh.The process of setting up a new business in Bangladesh is outlined below.

4.1 Land requirements and dispute mitigation related to land

Land requirements

Foreign investors or entities are only allowed to own real estate properties in Bangladesh under the following special arrangements:

- Foreign investors may acquire a local company with 100% foreign ownership and use the company as a vehicle for real estate acquisition
- Foreign investors can establish Joint Venture based companies for purchasing real estates
- Foreign investors can purchase shares of a local company that owns the real estate
- Investors can lease land in certain specialized areas such as Export Processing Zones (EPZs) and Economic Zones (EZ).

Dispute related to land

Any dispute in relations to land rights is normally resolved by the courts. The government assures foreign investors protection against nationalization and exploitation through the Foreign Private Investment Act of 1980.[64]

However, the FDI laws of Bangladesh do not have one specific formula to deal with dispute settlement. The national investment policies 2005 refers to "international norms and system in conflict resolution" (Chapter 14) as a medium to mitigate FDI disputes. However, the reference is very ambiguous in nature as there are no internationally standardized norms and systems which adhere to a diverse nature and scope. Therefore, FDI disputes in Bangladesh normally rely on Bilateral Investment Treaties (BIT). As of today, Bangladesh has about 30 BITs which provide international arbitration to FDI disputes. There are strong critics in Bangladesh who claim that these BITs are inclined

64. The Foreign Private Investment (Promotion and Protection) Act 1980 (Act XI), BDLAWS, Accessed on 26.05.2019

more towards protecting corporate interests than the national interest and such an outcome is possible because of unequal bargaining power from Bangladesh's perspective.[65]

Quick Tips

Bangladesh Economic Zones Authority (BEZA) currently has 75,000 acres of land and has provided licenses for six economic zones to the private sector. BEZA plans on an additional acquisition of 100,000 acres of land to establish around hundred economic zones across Bangladesh. Meanwhile, the Bangladesh Export Processing Zone Authority (BEPZA) has 8 EPZs across Bangladesh and is eyeing on opening the ninth one in the near future.

4.2 Commercial leasing

Executing a lease contract involves conducting a title verification to determine the existence of any material or title defect of the land to be leased. Once the title clearance is obtained, the terms of the lease need to be ascertained. Certain clauses must be considered carefully by both parties:

- Rent free period
- Sole renewal option for lease
- Lock-in period
- Force majeure
- Termination

Quick Tips

Title verification of the land can primarily be done in three ways. The first option is to confirm the records of rights from the Land Office, which falls under the Directorate of Land Records and survey, Ministry of Land. The second option is to check the Khatiayan records (C.S, S.A, R.S, B.S. /City Jarip) and get it verified by lawyers and confirm the legitimacy of the papers. Lastly, a physical survey of the land is necessary to ensure the current conditions of the prospective land.

65. BITs of Bangladesh, The Daily Star, Accessed on 26.05.2019

4.3 Type of importers and machinery import process:

Types of importers can primarily be categorized into three groups:

1. **Direct commercial importers:** Import of goods for sale without further value addition

2. **Private industrial consumers in Export Processing Zones (EPZs):** This group of importers brings in tax free imports of any quantity of non-restricted items

3. **Private Industrial Consumers (Not located in EPZs):** These entities bring in raw materials and machinery to produce goods and services for sale in both the local and domestic markets. Import Registration Certificate specifies the maximum value for each product that the industrial consumer may import each year.

4.4 Machinery import process

An entity willing to import equipment and machinery to Bangladesh must obtain an Import Registration Certificate (IRC) from the Ministry of Commerce. The process requires an approximate of 10 days to obtain the certificate and the steps towards getting IRC are mentioned below:

Required supporting documents to get an IRC

- Attested photocopy of valid trade license
- Tax identification number (TIN)
- Attested photocopy of membership certificate from local chamber of commerce and industry or relevant trade association
- Original copy of treasury chalan
- Attested partnership deed in case of a partnership business
- In case of a limited company, certified attested copies of certificate of incorporation, articles of association and memorandum of association is required

Steps to obtain an IRC

Step 1	IRC form needs to be collected from the office of Controller Import and Export
Step 2	Deposit the processing fees at Bangladesh Bank or designated branches of Sonali Bank
Step 3	Submit the application form alongside a recent passport size photo

Quick Tips The initial registration fee for an IRC may vary from BDT 5,000 ($ 60 approx) to BDT 60,000 ($700 approx) depending on the ceiling value of annual import.

Once the IRC is obtained, an entity willing to import equipment and machinery will need the following documents:

- Letter of credit authorization form
- Bill of lading or airway bill
- Commercial invoice or packing list
- Certificate of origin

Note: For certain imported items, additional certifications or import permits relating to health security or other relevant matter have been made mandatory. Companies established in EPZs have separate guidelines for import.

4.5 Legal compliance and other regulations

Bangladesh has a common law-based judicial system. The country's basic laws such as penal code, civil and criminal procedural codes, contract laws and company law are used to absolve local disputes. In cases of disputes, alternative dispute resolutions are viable under the Arbitration Act of 2001 and 2004. Bangladesh is a signatory of the International Convention for the Recognition and Enforcement of Foreign Arbitral Awards and a member of International Centre for Settlement of Investment Disputes (ICSID). Bangladeshi law allows contracts to refer dispute settlement to third country forums (e.g. in Singapore) for resolution. Bangladesh is also a party to the South Asia Association for Regional Cooperation (SAARC) Agreement for the Establishment of an Arbitration Council since November 2005. This association aims to establish a permanent center for alternative dispute resolution in one of the SAARC member countries.

Other regulations

- Bangladesh is a signatory of the New York Convention and recognizes the enforcement of international arbitration awards

- Domestic arbitration is under the authority of the district judge court bench and foreign arbitration is under the authority of the relevant high court bench

- The Bangladesh Arbitration Act of 2001 and amendments in 2004 reformed alternative dispute resolution in Bangladesh. The Act consolidated the law relating to both domestic and international commercial arbitration.

- The Bangladesh International Arbitration Centre (BIAC) is available for dispute resolution. The center operates under the Bangladesh Arbitration Act of 2001. BIAC is an independent arbitration center established by prominent local business leaders in April 2011 for commercial dispute resolution. The council committee is headed by the President of International Chamber of Commerce – Bangladesh (ICCB) and includes the presidents of other prominent chambers including Dhaka Chamber of Commerce and Industry (DCCI) and Metropolitan Chamber of Commerce and Industry (MCCI).

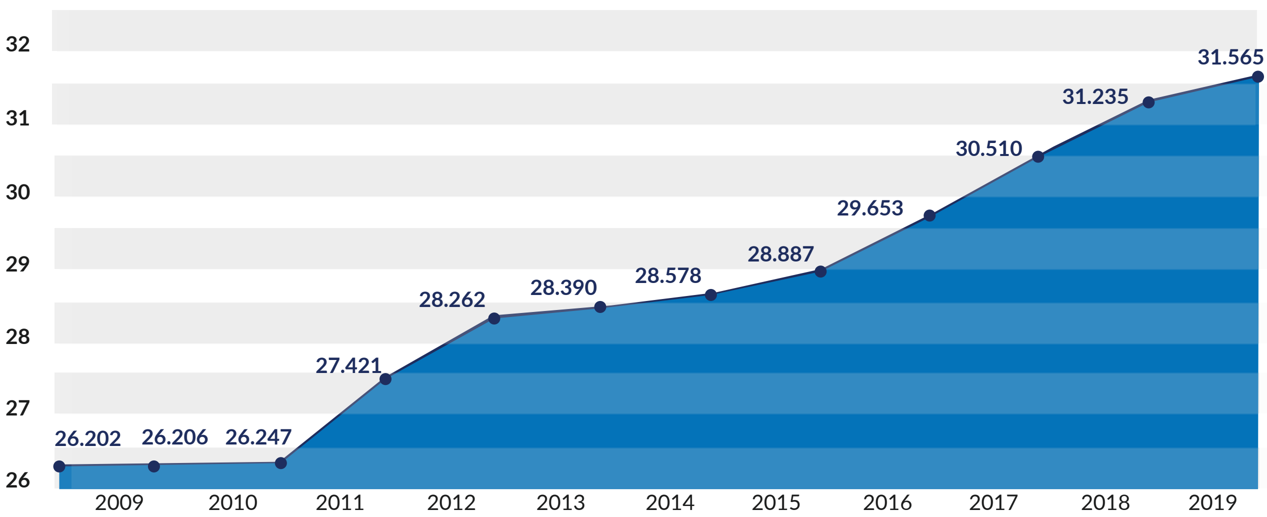
5

THE FUTURE OF BUSINESS IN BANGLADESH

Despite steady economic growth of the country over the past decade, investment has been comparatively low in Bangladesh compared to regional peers. The investment to GDP ratio[66] stood at 31.2% as of FY 2017-18, which is significantly lower than the level expected for catapulting the economy forward. Although policymakers have devised policies for attracting FDIs in an effort to cover shortfalls in investments, Bangladesh's FDI stood at a paltry USD 2.6 billion[67] as of FY 2017-18, while for a regional peer like Myanmar, annual FDI for FY 2017-18 cumulated to USD 5.7 billion.

A further breakdown of the FDI composition of FY 2017-18 reveals figures that are unrealistic, as almost 75% of reported investments can be attributed to reinvestment earnings and intra-company loans. However, the FDI composition has changed in FY 2018-19 based on the recent investment by JTI of USD 1.5 billion.

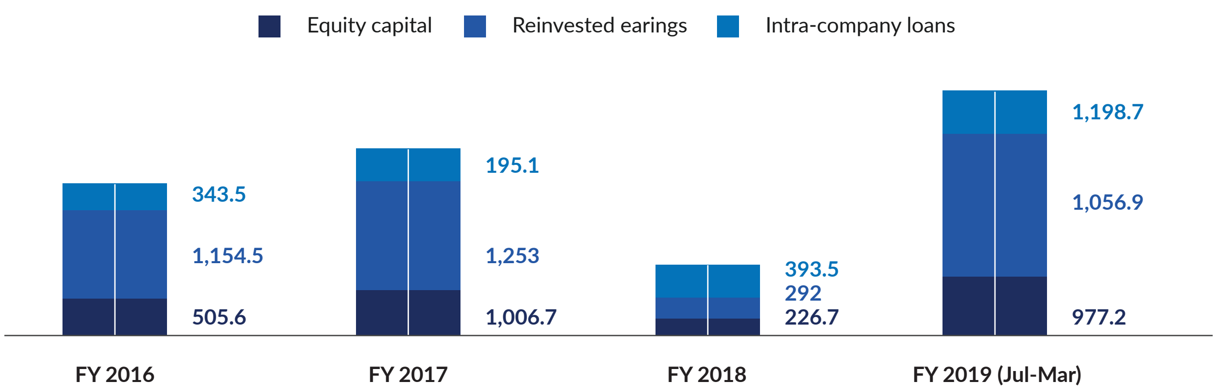
Bangladesh investment (% of GDP)



Investment: % of nominal GDP Annual Bangladesh

Source: CIEC Data

FDI breakdown by component (USD million)



Source: Bangladesh Bank

66. Bangladesh Investment % of GDP, CEIC, Accessed on 23.09.2019

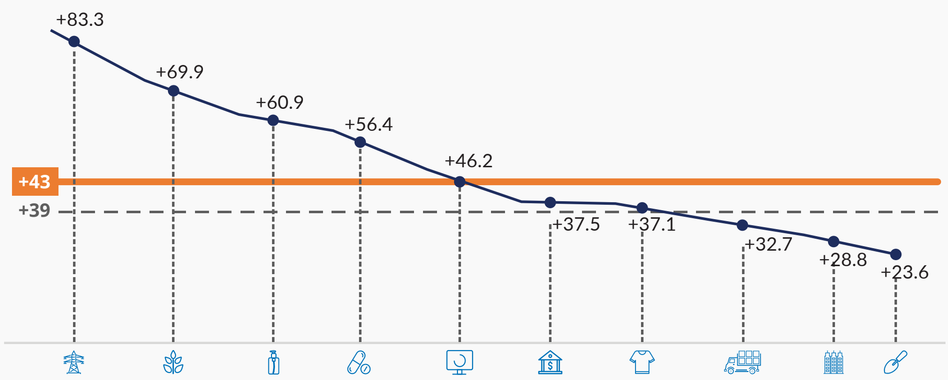
67. Bangladesh Bank FDI Table, Accessed on 17.09.2019

In a recent Business confidence Index survey (2018) of 107 companies by LightCastle, it was found that the overall business confidence of business leaders has increased from the previous year. The business confidence rose to +43 from +39 of previous year and business leaders have cited five key factors that contributed to the rise in confidence. These are: increased investment in power generation, green revolution & mechanization in the agriculture sector, higher disposable income and consumer spending, growing health awareness, and the government's increased focus on ICT.

Industry experts opine the following set of actions will help improve the current drawbacks – along with investor confidence:

- Diversifying export basket and reducing dependence on RMG; facilitating the ease of starting and conducting business; improving infrastructure and logistics; full repatriation of investments and dividend; and reinvestment of profit considered as new investment
- Enhancing the skill of human resources
- Streamlining the financial sector and scaling up the use of alternative capital avenues

Vertical Wise Business Confidence Index



(Values are on a scale of -100 to +100)

2017-18 | Overall Confidence (2017-18) | Overall Confidence 2016-17

Power and Energy :	Lower energy; difficult due to increased investment on power generation
Agriculture and Agro-Processing :	Green revolution in the agriculture sector
FMCG :	Higher disposable income and consumer spending on FMCG
Pharmaceuticals :	Growing health awareness
ICT and ITES :	ICT being the thurst sector through major policy discourse
Banking and Finance :	Classified loans condition
RMG and Textiles :	Slump in RMG price
Logistics :	Infrastructure issues such as port congestions and problem related to transportation
Real Estate :	Oversupply of apartments and stricter bank loan regulations
Cement :	Over capacity in cement sector

Source : LCP Survey of 102 CXOs of Bangladesh based companies

Institutional bottlenecks and doing business ranking

A deeper analysis of the country's investment climate reveals some fault-lines, which are proving a dampener for investor optimism. The country's low rankings in the annual investment climate assessment reports reveal some stark challenges potentially damaging for the country's medium term growth prospects.

The World Bank's publication[68] Doing Business 2020: Training for Reform—Bangladesh ranked 168 out of 190 countries in terms of operating businesses in Bangladesh. The ranking went eight steps up from the previous ranking in 2018-19. According to a recent World Bank report, Bangladesh carried out three business reforms since the last publication and would need to accelerate the reform pace to further improve its regional and global competitiveness.

A major challenge impeding improvement in business climate include perennial red tapes and bureaucracy, which are stunting prospects of obtaining company documents, permits and licenses in a timely manner. Other bottlenecks include difficulty in accessing credit, lack of protection for minority investors and infrastructure deficiencies.

According to Global Competitiveness Index[69] 4.0, published by World Economic Forum (WEF), Bangladesh ranked 103 out of 140 countries. World Economic Forum's Executive Opinion Survey-2017 ranked corruption (15.7 out of 16), inadequate infrastructure (14.4 out of 16) and inefficient government bureaucracy (11.7 out of 16) as the major challenges for operating in Bangladesh. These challenges are inherent to the most least developed countries and are gradually being superseded by the urgency of higher foreign investment in Bangladesh. Since the business confidence in the economic climate has improved post-election, the government is taking remedial measures to deter bureaucracy and corruption and facilitate investment processes. BIDA's plan to implement a one-step-online solution, the OSS site, is one such step taken in the process.

Facilitative initiatives by the government for encouraging investments

The government has identified the importance of infrastructure for attracting investments. Taking lessons from the Chinese economic success story, the government is promoting industrialization by setting up Special Economic Zones across the country, while attracting investments through investment friendly policies like tax holidays. Bangladesh Economic Zone Authority (BEZA), a semi-autonomous body under the Prime Minister's office, is primarily responsible for managing development of these zones, with the mandate to eliminate any bureaucratic bottlenecks hindering the flow of incoming investments. Inspite of the goodwill from the top policymakers, implementation of some of these zones have slowed down considerably due to red tapes and external challenges like difficulty in acquiring required land.

68. Doing Business in Bangladesh, UHY, Accessed on 23.09.2019

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70. Access to electricity (% of Population), World Bank Data, Accessed on 23.09.2019

The government is investing heavily in power and electrification rate[70], which has gone up from 50.5% in 2006 to 75.9% in 2016. The time required for businesses to obtain new electricity connections has come down from 400 days in 2014 to less than 150 days in 2018, according to a World Bank publication. However, considering galloping demand for power for an energy hungry economy like Bangladesh, continuous investments are required for meeting energy demand of 30,000 MW in 2030 (Source: PSMP). PPP based investments and greater private sector participations are imperative for scaling up the sector further, apart from infusion of G2G based investments and more power and natural gas import.

Infrastructure development of the country has been driven by both national and international (G2G and multilateral agencies) funding. Recently, both China and India have committed to investing in Bangladesh to the tune of USD 24 billion and USD 4.5 billion respectively. Majority of these investments have been earmarked for road, rail and port infrastructure development, as part of implementing China's "One belt, one road" initiative and India's bid for securing transit through Bangladesh. However, further investments are required in terms of building and repairing new highways and expanding existing port capacities as well as building a deep sea port and new power plants.

For averting red-tapism and corruption while registering a company, BIDA is in the process of setting up a One Stop Service (OSS) online portal for foreign investors, with a mandate to securing all necessary documentation for setting up a company within 45 working days. Investors can track progress of the registration process using the online portal. While it's too early to assess the impact of this initiative, even a moderate improvement in lead time for obtaining necessary documents can improve the likelihood for obtaining more foreign investments.

The future of foreign investment in Bangladesh

Although, in the recent World Bank report, Bangladesh has seen minor improvement in providing electricity (ranked 179 from last year's 185), for paying taxes (from 152 to 151 in 2019) and for registering property (183 from a previous 185), the country's ranking saw a fall in key indicators such as getting credit, starting a business, protecting minority investors, dealing with construction permits, and trading across borders. The World Bank recommends regulatory reforms and the prime minister has given a mandate to the chairman of BIDA to bring the position of Bangladesh to the top 100 countries in terms of ease of doing business. Based on this, a lot of new initiatives by BIDA is specifically directed towards improving the ease of doing business ranking in Bangladesh.

Overall, the government is keen on implementing its election promise of digitizing the government by making public services more accessible. As part of the digitization process, government has digitized the tax payment procedure, introducing e-tins for simplifying payment cycle.

Bangladesh's graduation to the middle-income status would negate existing preferential trade benefits currently enjoyed by the country, including GSP plus facilities from EU. However, the government is well aware of the forthcoming challenges after 2024 and has started engaging in bilateral trade agreements with major trading partners. The economic impact of the government's diplomatic detour would be better understood within the next couple of years. According to Centre for Policy Development (CPD), strengthening of public sector institutions is of paramount importance, which can be achieved through more efficient, transparent and accountable administration. Investment climate can be improved by dealing with bureaucratic inertia, developing infrastructure, digitizing government services, training workforce, strengthening institutional capacity and devising effective policies.

For a country with a growing working age population and large unemployment rates, it is imperative to create employment opportunities for workers in the secondary sector. Although the primary goal would be to foster companies pursuing export markets, growing per capita income would eventually lead to a domestic market driven growth. Incoming investors must therefore keep tabs of the growing domestic market, parallel to serving the export market.

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DATABD.CO

DATABD.CO, an initiative of LightCastle Partners, is a one-stop source for business data in Bangladesh. The platform is aimed at facilitating access to industry datasets in meaningful formats.

"*Bangladesh Doing Business Blueprint 2019-20*" is available for download at DATABD.CO.

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