Bangladesh Business Climate Index (BBX) 2021

MCCI Since 1904

POLICY ExCHANGE
Catalyzing Growth Solution

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ON THE EVE OF BANGLADESH'S GOLDEN JUBILEE AND IN CELEBRATION OF MUJIB BORSHO

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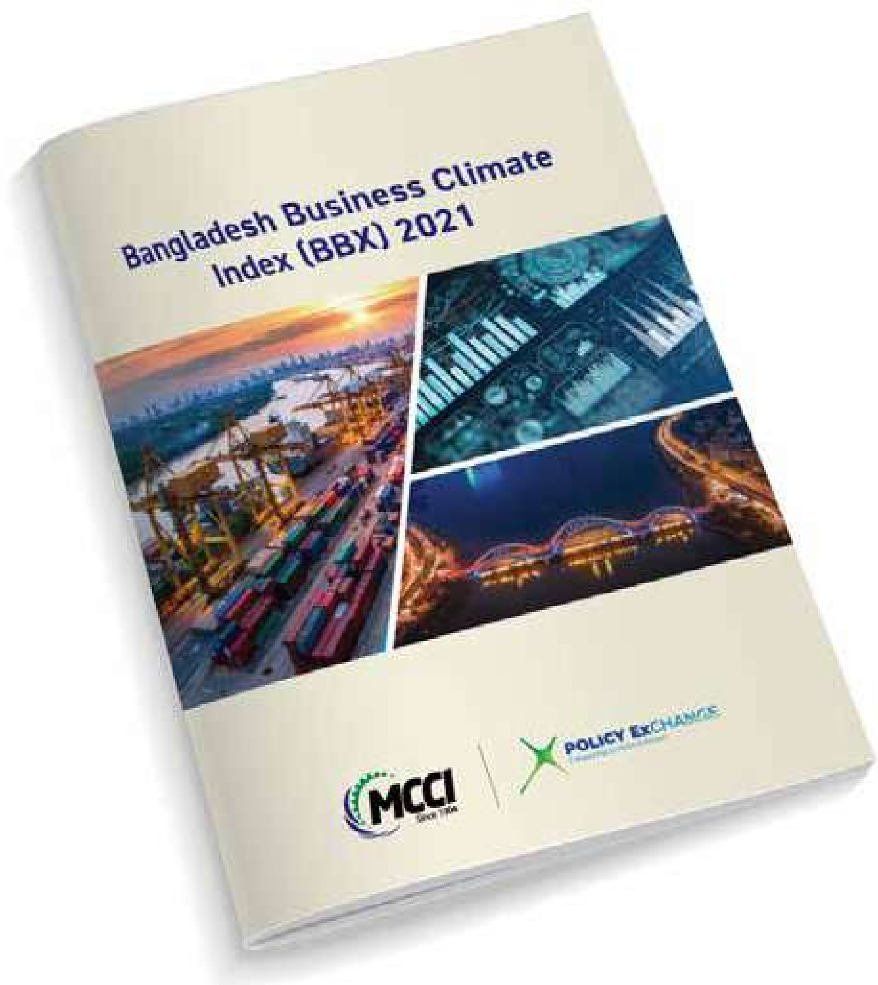

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Acknowledgement

This work introduces a new business index named the **Bangladesh Business Climate Index (BBX),** which is innovative and unique in providing private investors and government agencies with timely and detailed data on regulatory and other barriers to doing business within the country. As opposed to many global indicators including World Bank's heretofore annual publication Doing Business, the BBX is designed to capture the country-specific realities of Bangladesh. As such, it is focused, and sector and geography-specific. Overall, the report documents the significant improvements that Bangladesh has made over the years and the further improvements which need to be made to support the attainment of the status of an Upper Middle-Income country by 2031. The BBX uses a time-tested Stratified Multistage Cluster Sampling Approach drawing on detailed inputs obtained from questionnaires and interviews with 356 business owners and business intermediaries in Bangladesh. The initiative has been undertaken jointly by the Metropolitan Chamber of Commerce and Industry, Dhaka (MCCI) and Policy Exchange Bangladesh. The work has been carried out under the technical supervision of Dr. M. Masrur Reaz (Chairman and CEO, Policy Exchange). Anuj Chaudhary (Business Index Development Specialist), Faria Choudhury (Competitiveness Expert), S.M Hasibul Karim (Survey Expert), Dr. Ali Zafar (Macro/Trade Economist), and Rodoshee Tahsin (Research Associate, Policy Exchange) have played a critical part in developing the overall report. The team is grateful to the MCCI core group comprising Nihad Kabir, President, Syed Nasim Manzur, former President and Farooq Ahmed, Secretary-General & CEO, MCCI for their continued guidance and inputs that helped effectively complete this exercise and enhance the robustness of the work. The team would like to thank various private sector institutions, chambers and associations who have provided valuable inputs to the study and participated in interviews.

Contents

Acronyms

ADR- Alternate Dispute Resolution
BB- Bangladesh Bank
BBS- Bangladesh Bureau of Statistics
BBX- Bangladesh Business Climate Index
BEPZA- Bangladesh Export Processing Zones Authority
BEZA- Bangladesh Economic Zones Authority
BHTPA- Bangladesh High-Tech Park Authority
BIDA- Bangladesh Investment Development Authority
BIDS- Bangladesh Institute of Development Studies
BoI- Board of Investors
BSMSN- Bangabandhu Sheikh Mujib Shilpa Nagar
BSTI- Bangladesh Standard and Testing Institution
CM – Cutting Margin
DNCC- Dhaka North City Corporation
DoE- Department of Environment
EIU- Economist Intelligence Unit
EPZ- Export Processing Zone
EZ- Economic Zone
FDI- Foreign Direct Investment
G2B- Government to Business
GCI- Global Competitiveness Index
GDP- Gross Domestic Product
GII- Global Innovation Index
GTCI- Global Talent Competitiveness Index
GVC- Global Value Chain
HCI- Human Capital Index
HDI- Human Development Index
ICD- Inland Container Depots
IMF- International Monetary Fund
IPA- Investment Promotion Agency
IT- Income Tax
KYC- Know Your Customer
LDC- Least Developed Country
LIBOR- London Interbank Offered Rate
M&A- Mergers & Acquisitions
MCCI- Metropolitan Chamber of Commerce and Industry, Dhaka
MNE- Multinational Enterprises
MSME- Micro, Small and Medium Enterprise.
NBR- National Board of Revenue
NSW- National Single Window
OSS- One-Stop Shop
OECD- Organization for Economic Co-operation and Development
PEB- Policy Exchange Bangladesh
QR- Quantitative Restrictions
RMG- Readymade Garments
RIA- Regulatory Impact Assessment
RJSC- Registrar of Joint Stock Companies and Firms
SCD- Systematic Country Diagnostics
SME- Small and Medium-sized Enterprises
SOP- Standard Operating Procedure
UNCTAD- United Nations Conference on Trade and Development
UNDP- United Nations Development Programme
VAT- Value Added Tax
WBG- World Bank Group
WEF- World Economic Forum
WIPO- World Intellectual Property Organization
WTO- World Trade Organization

Highlights

- This report introduces a new innovative business environment index for Bangladesh, titled Bangladesh Business Climate Index (BBX), that is unique in providing private investors and government agencies with timely and detailed data on regulatory and other barriers to doing business.

- Tailored to Bangladeshi realities, granular in approach, and based on interviews with leading entrepreneurs, the BBX spans ten major areas identified in analytical and empirical literature as key to investor interest: 1) Starting a Business; 2) Access to Land; 3) Availability of Regulatory Information ; 4) Access to Infrastructure; 5) Labour Regulations; 6) Dispute Resolution; 7) Cross-border Trade Facilitation; 8) Paying Taxes; 9) Technology Adoption; and 10) Access to Finance.

- Unlike many global indices including World Bank's heretofore annual publication Doing Business, the BBX is designed to capture the country-specific realities of Bangladesh. As such, it is focused, and sector and geography-specific. Economists and industry experts have suggested that sectors that aggregately contribute to 75 percent of total GDP and employment in Bangladesh be considered in formulating the Index. Consequently, weighted average/mean value has been calculated on the contribution to GDP and employment by the broad sectors where 75 percent of weight has been assigned to contribution to GDP and 25 percent to employment. The proportion of the weights has been chosen based on the opinion of experts in this domain.

- From a methodological standpoint, the BBX uses a time-tested Stratified Multistage Cluster Sampling Approach and draws on detailed inputs obtained from questionnaires and interviews with 451 business owners and business intermediaries in Bangladesh.

- On the whole, the survey documents the significant improvements in Bangladesh over the years as it made its way to middle-income status. The aggregate composite Bangladesh score is 61.01 which falls under category of an 'Improving Business Environment: Progress Made But Significant Efforts Required" (Figure 1). However, the distance to optimum score 100 suggests that more needs to be done for Bangladesh to become a genuinely attractive emerging market. Most importantly, reforms to improve border clearance of goods, port congestion, financial intermediation, excessive administrative paperwork, legal framework, tax regulations, and institutional governance will be paramount.

- The survey demonstrates that most indicators have a mixed performance, with scores varying between 49.4 and 72.0 out of 100. There is significant dispersion between the best performer (infrastructure- owing to improvements in energy and roads, efforts to address availability of serviced land through SEZ) and the lagging indicators (cross-border trade facilitation and access to finance). None of the indicators is very high or very low, providing evidence both of Bangladesh's successful development path but also of the obstacles facing businesses. Areas with active major development program and digitalization efforts demonstrate greater strengths; Infrastructure (power and energy, roads and bridges; mobile/internet) ; Digitalization (business entry; part of taxation etc.).

- There were no regional patterns; different geographic areas were better in different dimensions of the BBX. Surprisingly, across many areas, Dhaka and Chattogram do not emerge as the best places to do business, particularly in paying taxes, suggesting that the urbanization process and over-centralization of regulatory authorities in Bangladesh have resulted in a better business climate for many firms outside the two major metropolises. Results indicate declining investment climate advantage of Dhaka as the primary growth center, and prospects of developing Chattogram as commercial and industrial center; also highlights prospects of traditionally-neglected parts of the country.

- Major challenges varied by sector: Wholesale and Retail Trade (Technology Adoption); Textiles, Food and Beverage, Electronics, Financial Intermediaries, and Real Estate (Access to Finance); RMG (Access to Land); Agriculture, Leather, Construction, and Pharmaceuticals (Dispute Resolution); Transport (Cross-border Trade Facilitation).

- Land appears a major constraint to the RMG sector given the importance of large factories in this labour-intensive industry, and their need to locate in clusters in Gazipur, Narayanganj and Chattogram, where land comes at premium prices. Access to Finance constraints span a number of sectors mostly centered on fast moving consumer sectors (FMCG) as well as real estate. It is not the major problem across a number of sectors. The regulatory regime appears most problematic for transporters who are burdened with significant administrative paperwork and documentation. Traders require new technologies to be able to survive in a competitive national and global market. Legal issues centered on disputes are problematic for a few sectors, including sensitive goods, such as agriculture and pharmaceuticals.
- The heterogeneity of responses suggests that binding constraints within Pillars are quite different for different issues (Table 1). The implications of these findings for entrepreneurs and policymakers alike are that across-the-board reforms must be complemented with sector-specific policy packages that release the binding constraints within each specific sector. A reform required in the RMG sector is different from one required in the construction or pharmaceutical sector.

Figure 1: Bangladesh Business Climate Index – Performance by Pillar

Bangladesh Composite Score	61.01	Improving Business Environment: Progress made however more needs to be done

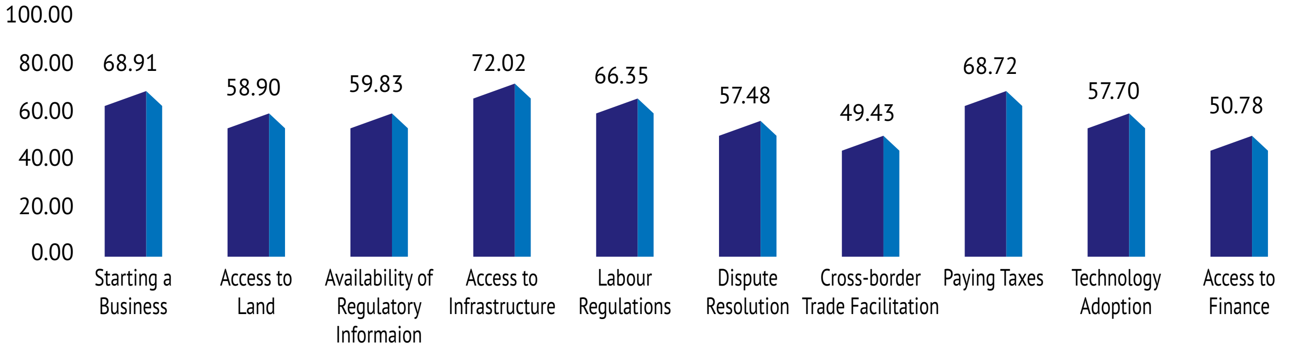


Table 1: Top Three Constraints Faced by Businesses per Survey Category in 2021

Starting a Business	Access to Land	Access to Infrastructure	Labour Regulations	Dispute Resolution	Cross-border Trade Facilitation	Paying Taxes	Access to Finance
Complex permission and license regime	Delay in mutation	High price of utility services	Compensation required to pay to labour	Delay in land related matters	High customs tariff	High corporate income Tax	Access to credit
Obtaining sectoral licenses	Speed money required	Challenges in obtaining gas and electricity connection	High cost for unskilled labour	Slow court proceedings	Inadequate customs policy	Significant documentary requirements	High interest rate
VAT and tax registrations and approval	Involvement of intermediaries	Difficulty in dealing with government agencies	Mandatory festival bonuses to be paid	Protection to uphold terms of international trade (e.g. dispute on CM, non-payment by RMG buyers)	Time delay with customs agencies		Complex documentary requirement

Key Messages

Pillar 1: Starting a Business

Pillar Score **68.91**

Key Findings

During the initial set up, entrepreneurs have to navigate through a maze of up to about 150 regulatory approvals/permits to set up their business in Bangladesh.

The time taken to obtain the Incorporation Certificate was highlighted as the easiest while registration for trade license was the most cumbersome process in starting a business in Bangladesh. The findings were consistent across all the 8 Divisions in the country.

Firms in the wholesale and retail trade sector found it easier to start their business in Bangladesh as compared to firms in the food and Beverage sector (this alludes to complex regulatory compliance pertaining to regulators such as BSTI, and trade regulation related to SPSS).

The respondents mentioned that the biggest regulatory challenge faced by them while starting a business in Bangladesh is obtaining the sectoral licenses.

Up to 77% of the respondents stated that they are required to visit up to 5 different agencies to obtain approvals This amount of red tape is a clear deterrent for many businesses.

The majority of the registration services are provided manually by the government agencies, and there has been little automation.

Some agencies have automated systems (RJSC and NBR), but they tend to be exceptions rather than the rule. They continue to work in silos and do not share data with other agencies.

As a result, most government agencies are having approvals provided by other agencies authenticated by sending official letters to the respective agencies.

Pillar 2: Access to Land

Pillar Score **58.90**

Key Findings

Dhaka and Chattogram worst performing Divisions on this Pillar while the Divisions of Rangpur and Khulna performed better with respondents informing of a better experience.

Firms in RMG sector find it most difficult to obtain land or register property.

This suggests that urbanization in Dhaka and Chattogram has been somewhat unplanned for the private sector, and the scarce availability of land prevents many potential entrepreneurs from setting operations in these two cities.

The majority of the respondents highlighted that delay in mutation of land/property is the biggest bottleneck faced by them while procuring land in the country.

Majority of the companies also stated that they were required to make an informal payment to government agencies during land procurement in Bangladesh.

Pillar 3: Availability of Regulatory Information

Pillar Score **59.83**

Key Findings

The majority (91%) of respondents noted that they are aware of all the numerous applicable registrations and renewals for setting up/operating business in Bangladesh.

However, they were unable to access the information regarding rules and regulations online that impact their business in Bangladesh.

More than 52% of the respondents stated that they are never informed in advance by the government agencies about any change/modification in regulations that affect their business.

It was observed that firms in Financial sector have a greater access to information regarding government regulations while firms in pharmaceuticals and chemicals sector have the least access to information.

Information pertinent to starting and operating a business – including the documentary requirements, government agencies to provide approvals and the necessary instructions to follow for applications – is not readily available.

Weak and opaque enforcement of laws and regulations leads to unfair competition among private sector actors and impacts potential growth opportunities.

Pillar 4: Access to Infrastructure

Pillar Score **72.02**

Key Findings

Access to Infrastructure is the best performing pillar on the Bangladesh Business Climate Index.

This pillar performed well due to the quadrupling of energy supply in Bangladesh in the last decade. More than 95 percent of population now has access to electricity. Improvement in road, mobile and internet network also helped.

However, disruptions in electricity supply and speed and cost of accessing mobile & internet services were the significant challenges faced by the firms regarding access to business Infrastructure in Bangladesh.

Firms in Pharmaceuticals and Chemicals sector find access to infrastructure easier than firms in other sectors. Given the need for smooth supply of power, scale, and short lead time, firms in RMG sector face biggest bottlenecks with respect to access to Infrastructure in the country. Much of this arises from the inefficiency in export logistics including inadequate port infrastructure and handling.

One of the positive feedbacks shared by the respondents was that majority of them (65%) were not required to make any informal payment to the utility for obtaining a new electricity connection.

Similarly, majority of the respondents mentioned that they find it easy to access internet and mobile network for their business operations.

Pillar 5: Labour Regulations

Pillar Score **66.35**

Key Findings

Majority of respondents mentioned that amongst the numerous labour regulations in Bangladesh, they find filing of labour returns the easiest.

However, firms face significant challenge in obtaining skilled workforce for their units and access to technology, training, and technical materials for up skilling of their employees. Labour compensation (high severance pay) was highlighted as the biggest bottleneck faced by businesses in Bangladesh.

Bangladesh's large labour pool is a key advantage for businesses looking to set up operations in the country, but a skills mismatch limits the productivity levels.

Low literacy rate restricts the domestic labour force to low-skilled jobs in the country. Over 25 percent of the labour force does not have formal education.

Pillar 6: Dispute Resolution

Pillar Score **57.48**

Key Findings

Majority of respondents mentioned that they still have significant confidence in the current judicial system of Bangladesh to uphold their property rights and contracts.

However, all of them highlighted that they have not experienced any reduction in the time for resolving commercial disputes in Bangladesh in the past two years. This implies a need for further strengthening and popularizing the alternate dispute resolution options in Bangladesh.

Currently, there is no court or division of a court in Bangladesh that is dedicated solely to hearing commercial cases.

The respondents shared that disputes related to land and property were the most cumbersome and took maximum time to resolve.

Pillar 7: Cross-border Trade Facilitation

Pillar Score **49.43**

Key Findings

Trade is the worst performing Pillar on the Bangladesh Business Climate Index.

This reflects growing pressures on trade infrastructure such as ports, and experience with border clearance. Chattogram's performance exceeds other divisions and this can be explained due to proximity of businesses to the port facilities, reducing transport logistics cost and complexities, and greater access to border clearance agencies compared to other divisions.

The majority of respondents noted that they still find significant bottlenecks in obtaining clearance from customs agencies to import/export goods and services.

The respondents also highlighted that the time and cost incurred to obtain clearances for export is less than the time and cost required to obtain import clearances in Bangladesh.

Congestion at the ports and bureaucratic delays are impacting the lead time for exporters and importers in Bangladesh.

Pillar 8: Paying Taxes

Pillar Score **68.72**

Key Findings

Majority of respondents mentioned that they still find significant bottlenecks in filing and paying both Income Tax and VAT in Bangladesh.

The respondents also highlighted that it takes a fewer number of days to file & pay VAT than Income Tax in Bangladesh.

As per the survey respondents, high rate of corporate tax is the biggest tax bottleneck faced by the industry in Bangladesh.

The firms in the Construction sector found the current tax regime easier than the rest of the sectors in Bangladesh. Though tax rates are lower compared to many other sectors, RMG sector faces the biggest challenge amongst all the other sectors in Bangladesh when it comes to paying taxes perhaps due to the large numbers/types /frequency of taxes to be paid.

Dhaka and Chattogram Divisions face the biggest challenge- this can be attributed to the long-standing complaints and concerns by the private sector and experts that the tax officials cherry pick compliant and large tax-payers, majority of whom are located in and around Dhaka and Chattogram, to squeeze out more tax repeatedly rather than enhancing collection by expanding the tax net, and reducing evasion.

Pillar 9: Technology Adoption

Pillar Score **57.70**

Key Findings

The majority (more than 80%) of the respondents mentioned that they invested in a new technology equipment, software, or digital solution for their business functions in the past 24 months.

However, they still find significant bottlenecks in accessing/availing technology solutions/platforms they need to use in their business Bangladesh.

One of the key challenges is the lack of availability of domestic technology solutions. More than 70% of survey respondents informed that they use social media sites and e-commerce portals to sell their goods & services in Bangladesh, highlighting a high degree of technology adoption.

Pillar10: Access to Finance

Pillar Score **50.78**

Key Findings

Majority of the respondents mentioned that they still find significant bottlenecks in access to finance in Bangladesh. The country's main growth centers, Dhaka and Chattogram, performs poorly primarily due to complexity of dealing with collaterals in the form of real estates which are expensive and hard-to-mobilize in these locations.

Retained earnings are still the major source of finance for their company's total purchase of fixed assets/capital in the past 24 months.

Many smaller firms have difficulty finding the sufficient collateral to qualify for a loan.

Majority of the respondents shared that prevailing high interest rates by the banks are the biggest hurdle to private sector in access to finance.

Banking process is extremely time consuming in Bangladesh and small enterprises are unable to produce the adequate documents when applying from financial support.

How Do the Pillars Fare for Different Sectors:

Name of Pillar	Most Conducive In	Most Difficult In
Starting a Business	Wholesale and Retail Trade	Food and Beverage
Access to Land	Leather and Tannery	Readymade Garments
Availability of Regulatory Information	Financial Intermediaries	Pharmaceuticals and Chemicals
Access to Infrastructure	Pharmaceuticals and Chemicals	Readymade Garments
Labour Regulations	Pharmaceuticals and Chemicals	Textile
Dispute Resolution	Textile	Leather and Tannery
Cross-border Trade Facilitation	Leather and Tannery	Transport, Storage and Communication
Paying Taxes	Construction	Readymade Garments
Technology Adoption	Food and Beverage	Wholesale and Retail Trade
Access to Finance	Pharmaceuticals and Chemicals	Food and Beverage

Implications of Index Scores for Dhaka and Chattogram as Growth Locations:

Name of Pillar	Dhaka's Position	Chattogram's Position	Top Performer
Starting a Business	3	4	Khulna
Access to Land	3	4	Khulna
Availability of Regulatory Information	5	1	Chattogram
Access to Infrastructure	5	1	Chattogram
Labour Regulations	4	2	Mymensingh
Dispute Resolution	4	3	Rangpur
Cross-border Trade Facilitation	4	1	Chattogram
Paying Taxes	8	7	Sylhet
Technology Adoption	4	1	Chattogram
Access to Finance	7	6	Barishal

Business Environment Score: Where Do Sectors Stand (Sectors' Perception)

	Pillar Score
Leather and Tannery	71.34
Financial Intermediaries	68.37
Electronics and Light Engineering	68.43
Real Estate	67.01
Agriculture and Forestry	63.73
Food and Beverages	63.67
Construction	62.69
Pharmaceuticals & Chemicals	62.65
Transport and Storage	60.04
Wholesale and Retail Trade	59.33
Textile Sector	56.44
Readymade Garments	48.92

Sector Experience: The Highs and Lows Across Pillars

Name of Sector	Top 3 Pillars	Bottom 3 Pillars
Wholesale and Retail Trade	Paying Taxes	Technology Adoption
	Starting a Business	Access to Finance
	Access to Infrastructure	Dispute Resolution
Food and Beverage	Technology Adoption	Access to Finance
	Access to Infrastructure	Dispute Resolution
	Labour Regulations	Availability of Regulatory Information
Readymade Garments	Starting a Business	Access to Land
	Dispute Resolution	Paying Taxes
	Availability of Regulatory Information	Access to Finance
Textile	Dispute Resolution	Access to Finance
	Access to Infrastructure	Cross-border Trade Facilitation
	Access to Land	Labour Regulations
Transport and Storage	Paying Taxes	Cross-border Trade Facilitation
	Access to Infrastructure	Access to Finance
	Starting a Business	Technology Adoption
Financial Intermediaries	Availability of Regulatory Information	Access to Finance
	Access to Infrastructure	Labour Regulations
	Dispute Resolution	Technology Adoption
Electronics & Light Engineering	Cross-border Trade Facilitation	Availability of Regulatory Information
	Paying Taxes	Access to Finance
	Access to Infrastructure	Access to Land

Name of Sector	Top 3 Pillars	Bottom 3 Pillars
Real Estate	Dispute Resolution	Access to Finance
	Access to Infrastructure	Access to Land
	Availability of Regulatory Information	Paying taxes
Agriculture and Foresty	Starting a Business	Dispute Resolution
	Paying Taxes	Cross-border Trade Facilitation
	Access to Infrastructure	Availability of Regulatory Information
Leather and Tannery	Cross-border Trade Facilitation	Access to Finance
	Access to Infrastructure	Paying taxes
	Access to Land	Dispute Resolution
Construction	Paying Taxes	Dispute Resolution
	Access to Infrastructure	Access to Land
	Technology Adoption	Availability of Regulatory Information
Pharmaceuticals & Chemicals	Labour Regulation	Dispute Resolution
	Access to Infrastructure	Availability of Regulatory Information
	Paying taxes	Technology Adoption

Chapter 1:
Introduction

1.1 Bangladesh at 50: A Remarkable Story of Development Outcomes and Economic Transformation

Bangladesh in only fifty years of independence has transitioned from fragility to middle-income status and is now considered to be a developmental success story. The country has transitioned to a lower middle-income country in less than 50 years after having the second lowest per capita income in the world. Over the last 15 years, the success of its economic growth has been fueled largely by the manufacturing sector, which created several million low-skilled jobs; as well as private consumption primarily driven by remittances and a growing middle-class. Annual real growth in Gross Domestic Product (GDP) averaged 3.2 percent in the 1980s, 4.3 percent in the 1990s, 5.6 percent in the 2000s and reached a new growth trajectory of 8.2 percent in 2019. Despite the challenges of the COVID-19 pandemic, Bangladesh still managed to record a growth rate of 5.2 percent in fiscal year 2020, which is higher than its South Asian peers, and most other countries in the world.

Table 2: High Level Success of Bangladesh from Independence to Present

Indicators	1971	2021
Gross Domestic Product (in US$ billion)	9	320
Per Capita Income (in US$)	137	2227
Life Expectancy (in years)	46.59	72.32
FOREX Reserve (in US$ billion)	Nil	44
Fertility Rate (in number of children)	7	2
Agricultural Output (in tonnes per hectare)	1	5

Source: World Bank data, Bangladesh Bank

This broad-based growth resulted in halving the poverty rate from 49 percent in 2000 to 20.5 percent in 2019, which has resulted in reduced inequality. Progress on non-monetary indicators of well-being was also rapid. Today, the average life-expectancy of Bangladeshis is 72.32 years, compared to 69.42 years for India and 67.11 years for Pakistan. The country has also fared well in education indicators. In 2015, net enrolment rate for primary education was 98 percent, and girls did better than boys with an enrolment rate of 99 percent. Bangladesh has been more successful in recent years in empowering women and transforming communities. It has met most of the education and health targets of the Millennium Development Goals, one of the few countries to do so. These achievements occurred despite several natural disasters and other external and domestic shocks.

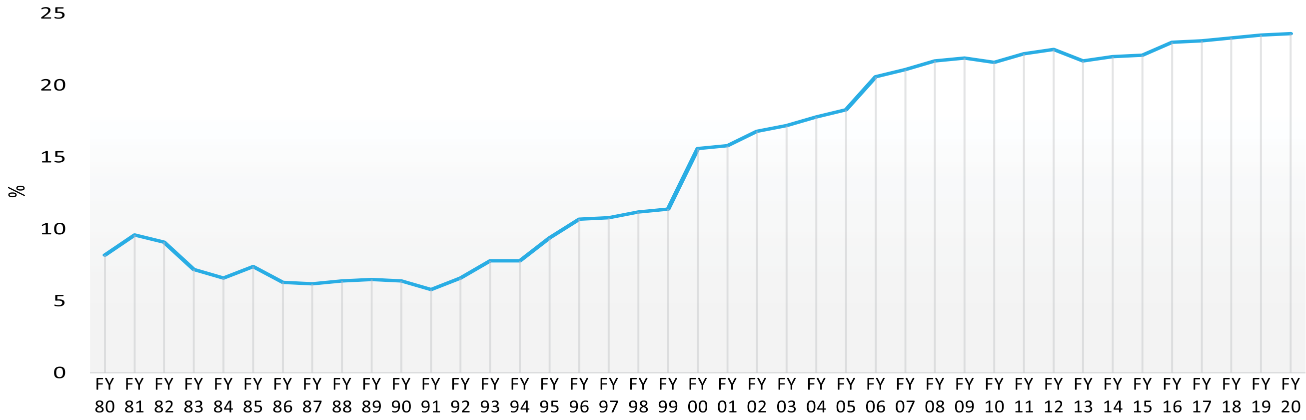
Table 3: Bangladesh's Performance in Select Indicators with Comparators

Indicators	Bangladesh	Vietnam	Thailand
Average GDP growth rate 2015-2019 (%)	7.4	6.8	3.4
Life Expectancy (years)	72	75	77
Seats held by women in national parliaments (%)	21	27	16

Source: World Bank data

Prudent macroeconomic management, higher private sector engagement in policy dialogues, trade integration, economic liberalization and large inflows of remittances have been the underlying drivers of resilience and growth in Bangladesh. Prudent fiscal management has resulted in inflation being in single digits in the last decade, and public debt being low, the latter at 36 percent of GDP in 2019. Private investment as a share of GDP has depicted an upward trend in the last three decades – from close to 10 percent in 1985, it has reached more than 23 percent in 2020. The private sector more than doubled in volume and became the key driver in the economy in the years between 1990 and 2010. This stimulated the rise of the manufacturing sector which has been the single largest contributor to growth. Its share in GDP has increased from 13 percent in 1981 to 20 percent in 2019.

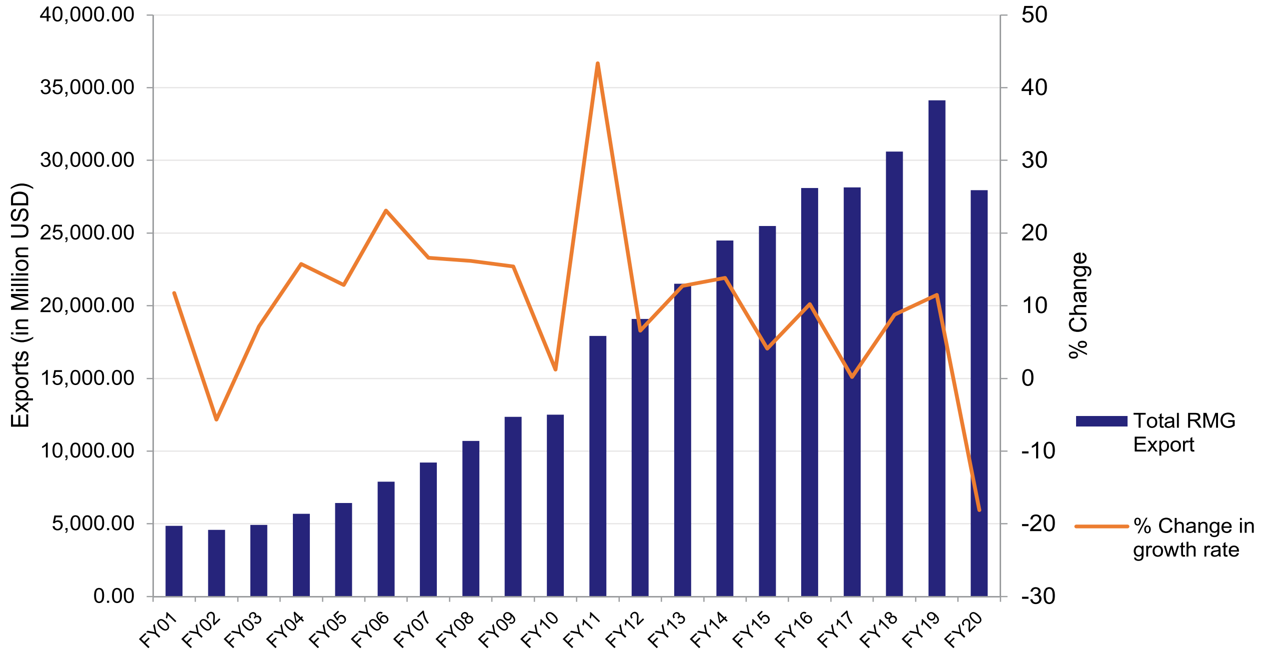
Figure 2: Private Investment as % of GDP over time



Source: BBS

The deregulation and economic liberalization process that started in the mid-1980s has been consolidated and extended. Since that period, tariff and non-tariff barriers have fallen substantially. The export-led readymade garment (RMG) industry has played a pivotal role in the country's economic and social structural transformation. The industry leveraged on low labour cost and grew at an impressive rate of 13 percent annually between 2001 and 2016. Bangladesh is currently the second largest exporter of RMGs in the world, after China, and the country's share in world exports almost tripled from 0.11 percent in 2000 to 0.29 percent in 2017. The RMG industry covered more than 80 percent of the export basket and fetched US$ 34.1 billion in exports in 2019 and US$ 27.9 billion in 2020, the latter amid the grave challenges of the COVID-19 pandemic. These efforts were complemented by social changes and grassroots initiatives for economic inclusion. Moreover, large inflows of remittances, over US$ 18 billion in 2020 and a foreign exchange reserve of US$ 44.9 billion in April 2021 also supported resilience and welfare improvements.

Figure 3: Total RMG Exports and Percentage Change in Growth Rate



Source: Export Promotion Bureau, 2021

Building on this success, Bangladesh rightly aspires to be an Upper Middle-Income Country by 2031 and a Developed Country by 2041; however, it needs to overcome key high-level constraints hindering a faster economic growth. The country's 8th Five Year Plan aims to accelerate economic development and align it with its ambitions through stronger trade and investment. It includes key targets such as: (i) increase in gross investment from 31.8 percent to 36.6 percent of GDP; (ii) increase in private investment from 23 percent to 27 percent of GDP; (iii) increase in FDI from 0.5 percent of GDP to 3 percent of GDP and (iv) increase in exports from US$ 33.6 billion in 2020 to US$ 56 billion by 2025. Achieving these targets will require Bangladesh to enter a more coordinated phase of policy agenda and necessary reforms to sustain and increase its recent growth trajectory and improve overall competitiveness.

Table 4: Achieved Numbers for FY20 and Targets for FY25 as Reflected in the 8th Five Year Plan

Indicator	FY20	FY25
Gross Investment as % of GDP	31.8	36.6
Private Investment as % of GDP	23.6	27
FDI as % of GDP	0.5	3
Exports (in billion US$)	33.6	56

Source: 8th Five Year Plan, General Economics Division, Bangladesh Planning Commission, GoB

Significant expansion of the economy is necessary as Bangladesh needs to provide gainful employment to an average of 2.2 million workers that are joining the workforce every year. However, certain constraints are hindering the country from reaching its potential targets. For instance, the share of private investment of GDP has remained more or less stagnant over the past decade, and FDI as a proportion of GDP has been low at less than 1 percent of GDP. Tax revenue remains low at less than 10 percent of GDP, making it one of the lower performers in South Asia. The pace of export diversification has been limited, and employment in the formal sector has not been growing fast enough. Moreover, inadequate logistics and infrastructure hinder competitiveness and private investment; The country also suffers from weak legal and regulatory frameworks, faces constraints in access to finance and has a deficiency in skills in its labour force.

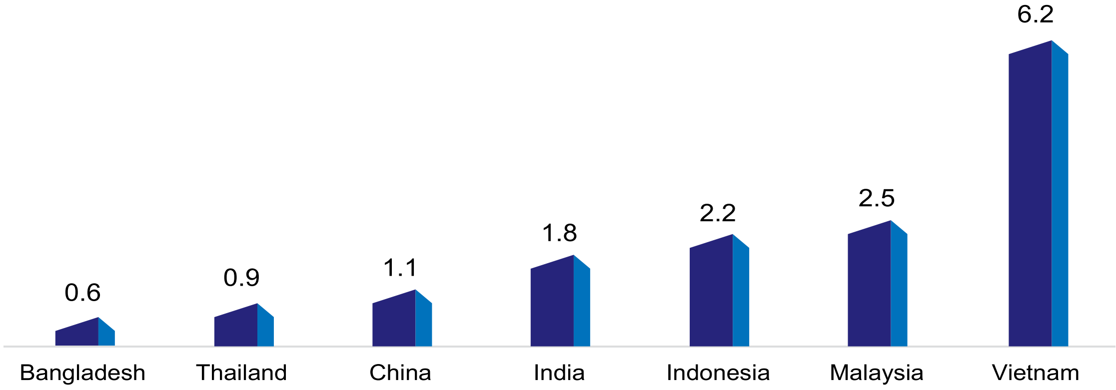
1.2 The Criticality of Private Investment for Realizing Bangladesh's Development Aspirations

Private investment is a critical component for propelling Bangladesh into an accelerated prosperity status; however private investment as a proportion of GDP has been almost stagnant over the last decade. Private sector investment as a percentage of GDP has been hovering between 21 to 23 percent over the past decade. The ratio of private investment to GDP rose only by 0.3 percentage points between FY2017-18 and FY2018-19. In FY2018-19, public sector investment reached 8.0 percent and private sector investment was 23.5 percent of GDP. However, in FY 2019-20 which was hit by the COVID-19 pandemic, both private sector and public sector investment increased by 0.1 percentage point compared to its preceding year. Several high-level constraints have resulted in a lack of dynamism in private sector investment in Bangladesh. For instance, the regulatory environment for business in Bangladesh, characterized by over-regulation and challenges in transparency and accountability, remains costly both in terms of time and money.

Despite notable improvements in specific areas, the existing regulatory system still poses significant risks for business operations and lowers the overall investment attractiveness and competitiveness of the country. Bangladesh's regulatory environment is a complex maze with 23 government agencies providing investor services. To start and operate a business, an investor may need to secure up to 150 approvals, registrations, certificates or clearances from various agencies including Bangladesh Investment Development Authority (BIDA), Registrar of Joint Stock Companies and Firms (RJSC), Bangladesh Bank, National Board of Revenue (NBR), City Corporations/Municipalities, Department of Environment (DoE), and the like. (An indicative list for a manufacturing enterprise is given in Annex 1). Moreover, the lack of coordination among these agencies results in duplication of information for several requirements, as well as circularity where document A is required for document B, but document B is required to obtain document A. This leads to an increase in cost and time for receiving approvals and thus adversely affects growth in private investment. Investors also complain about not receiving an answer expeditiously, be it affirmative or negative.

Foreign Direct Investments (FDI) can help to promote private investment and economic growth in Bangladesh; however, FDI performance has been muted as it averaged 1.2 percent of GDP over the last decade. FDI can promote economic growth and private investment by augmenting domestic capital, helping transfer of technology and new products, facilitating access to new and large foreign markets, providing training for the local workforce, and upgrading technical and management skills. FDI as a proportion of GDP was less than 1 percent in the last four years and is expected to decline further in the immediate future due to the COVID-19 pandemic and its aftermath. This is in sharp contrast to comparator countries like Vietnam, Malaysia, Indonesia and Thailand which have fared better than Bangladesh in FDI performance. For instance, FDI as a proportion to GDP in Vietnam was over 6 percent in the past four years.

Figure 4: FDI as Percentage of GDP by Countries, 2019

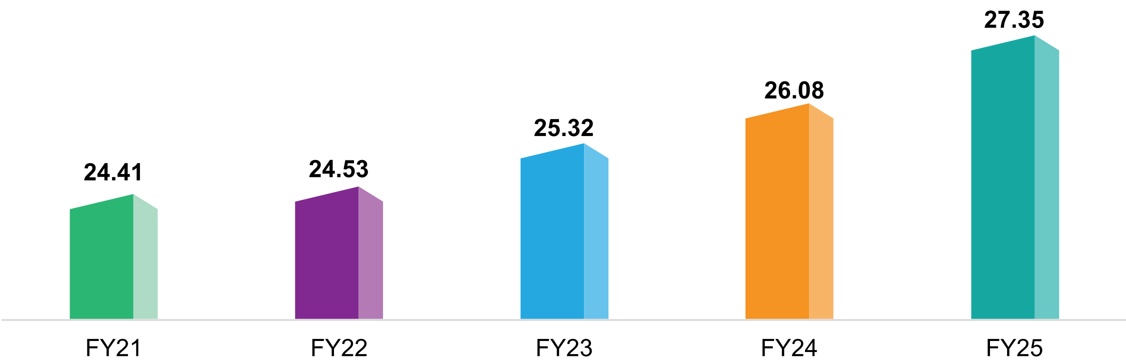


Source: World Bank

Sectoral distribution of FDI tilts towards market and resource seeking businesses. Figures for FY2019-20 show Manufacturing comprised 29.1 percent, Power and Energy comprised 26.7 percent and Trade and Commerce comprised 18.9 percent of total FDI. Similarly, FDI sources are limited to only a few countries. The top five sources made up about 55 percent of the total FDI inflows in FY2019-20 and there have been no new entrants in the top 10 sources in the last decade. The sustained economic growth trajectory fueled by increased private investment calls for an efficiency-seeking FDI policy regime with instruments for firm linkages, investment incentives, preferential trade agreements, and efficient services provided by Investment Promotion Agencies (IPAs). It is argued that the absence of such an efficiency-seeking FDI policy regime hinders access to the technology and knowledge transfer required for developing high-potential new sectors in the economy, and thus hampers the drive for economic growth.

For Bangladesh to move to upper middle-income country status, it will have to address key high-level constraints deterring private investment and increase investment from 23 percent to 27 percent of GDP. According to a growing body of international evidence, especially in the context of the East Asian miracle, one of the outstanding features of the high-performing East Asian economies has been the large rates of savings and investment, which have helped accelerate the long-term rate of economic growth. To grow in the next decade, Bangladesh will need to increase domestic private investment as well as FDI. According to the government's medium macroeconomic projections and framework, private investment must be increased by several percentage points to create jobs and sustainable growth. By FY2024-25, the government aims to raise the ratio of private investment to GDP to above 27 percent to achieve the targeted growth rate and employment rate. However, to do this successfully, certain constraints need to be addressed.

Figure 5: Targets for Private Investment as % of GDP as Projected in the 8th Five Year Plan



Source: 8th Five Year Plan

Private investment including FDI is constrained by a multitude of factors including difficulty in accessing finance and inadequate logistics. Financial institutions are often more interested in short-term financing because of liquidity risks arising from funding of long-term loans with typically shorter-term deposits. The regulatory framework regarding compliance by both the lender and borrower for granting credit facilities is not conducive to long-term lending. High interest rates and collateral requirements pose challenges for businesses to expand. Access to foreign funding sources is a challenge as applicants are reviewed on a case-by-case basis which can take more than a year, before permission is granted by Bangladesh Bank. Inadequate logistics and infrastructure reduce competitiveness of firms and hinder private investment including FDI.

Other factors dampening private investment are a lack of a conducive business climate and a protectionist trade regime promoting anti-export bias. The business environment in Bangladesh is yet to support its vision for an upper middle-income country by the next decade. Although Bangladesh has moved up by eight notches to 168th position out of 190 countries in World Bank's Ease of Doing Business (EoDB) Report, 2020, there is still a large unfinished reform agenda. The World Bank's decision in September 2021 to discontinue the EoDB report from henceforth creates an added challenge for the policy makers and private sector with regard to availability of timely, structured data, analysis, and feedback regarding the business environment and the reform agenda. Moreover, trade reforms are needed for economic and export diversification. Currently, the country experiences a high protection regime towards non-RMG goods that creates an anti-export bias, where producers are more inclined to sell to the domestic market. This results in reduced competitiveness and deters economic and export diversification.

1.3 The Need for a Home-grown Index in Bangladesh

In today's global and fast-moving economy, it is important for both investors and policymakers to have at their disposal concrete metrics that allow them to make balanced investment or policy decisions. The microeconomic factors for the establishment and day to day operation of businesses are just as relevant as macroeconomic variables such as inflation, exchange rate stability, security environment in a country, and growth prospects. Over the years, there has been a sharpening of analysis and a quantification of factors influencing the business environment of countries. While metrics vary, organizations such as the World Bank, the World Economic Forum (WEF), and the International Monetary Fund (IMF) use this microeconomic data to be able to understand the regulatory factors affecting businesses.

From the investor perspective, there are many factors that are considered before an investment decision. The taxation regime, the administrative paperwork, and the rules and regulations are variables that can make or break a decision to invest in a country. As a result, for a country like Bangladesh it is important to develop sophisticated metrics that allow investors to obtain a fairly disaggregated understanding of the country's barriers – by sector and by geographical regions. This allows a quantitative benchmark to supplement qualitative factors that may influence an entrepreneur.

Understanding the constraints that adversely affect the business environment would help in resolving them and promote private investment accordingly; however, availability of structured data and analysis of the business environment is very limited in Bangladesh. The emergence of global value chains has transformed the production of goods and provision of services, and increased the relevance of private investment. Creation of a favorable business environment comprising transparent regulations, low costs of doing business and open markets would lead to the creation of opportunities and incentivize firms to invest productively, generate jobs, and grow. Given these considerations, development outcomes (such as job creation, productivity growth and poverty reduction) are inextricably linked with private sector development. Therefore, creating conditions to promote private sector development and facilitate the crowding-in of private sector capital becomes imperative for the achievement Bangladesh's growth targets. In this regard, it is essential to understand the constraints that are deterring a highly conducive business environment from being in place. However, structured data in this context is not available which strictly limits understanding and analysis of the constraints to improving the business environment in Bangladesh.

In this context, Metropolitan Chamber of Commerce and Industry, Dhaka (MCCI) and Policy Exchange Bangladesh (PEB) in Bangladesh have taken the initiative to roll out the Bangladesh Business Climate Index (BBX, also reffered hereinafter as Index) that measures the business environment of

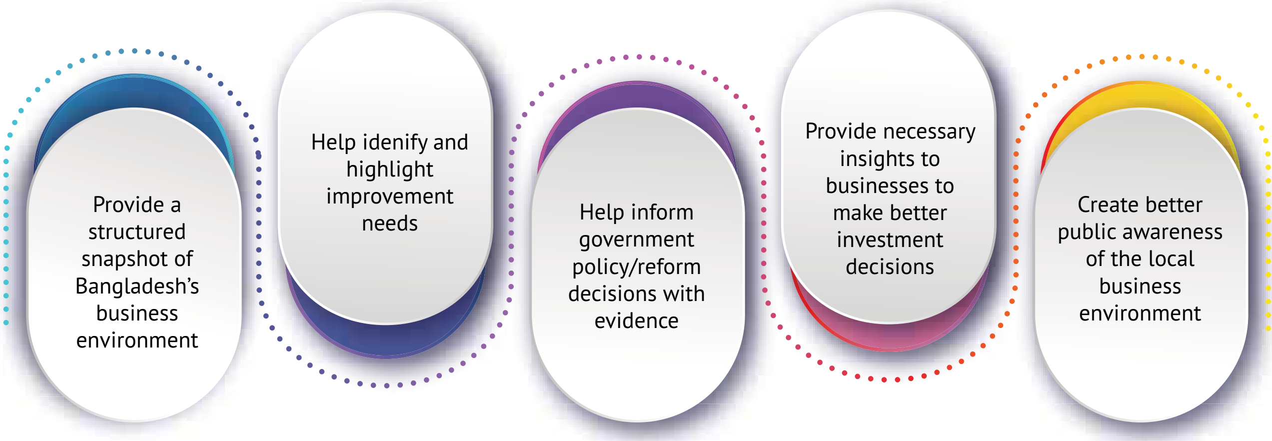
the country. The Index aims to capture the voice of the Bangladeshi private sector, especially in relation to the biggest regulatory and business environment constraints in Bangladesh. The Index seeks to create an empirical overview of the business-related challenges in Bangladesh, while simultaneously providing the government with a prioritized set of reforms that the private sector seeks. Unlike other cross-country indices, the Bangladesh-specific Index will look to capture contextual factors affecting businesses in Bangladesh and develop a set of locally denominated problems. The BBX will provide a comparative picture of the regulatory landscape across all 8 Bibhags or Divisions (administrative) across Bangladesh. The BBX is composed of 10 Pillars which have been modified from internationally recognized academic literature, to suit the local context of Bangladesh. These Pillars aim to capture elements of the local business environment and the issues faced by businesses and intermediaries in engaging with regulations.

1.4 Objective of the Bangladesh Business Climate Index (BBX)

The key objectives of the Bangladesh Business Climate Index (BBX) are to provide an understanding of the quality of the country's business environment, identify required improvements for the government to consider and provide insights to businesses to enable them to make better investment decisions. Prime objectives of the Bangladesh Business Climate Index (BBX) include developing a local and context relevant Index, informed by the views of the private sector, which captures the challenges of the business environment in Bangladesh, across the business cycle. The BBX aims to provide evidence-based inputs to local and national government agencies which will assist and enthuse them to improve their service delivery and develop actionable policy agendas that benefit local businesses.

By ensuring that the ranking is benchmarked within the country, the BBX aims to identify best performers and showcase practices and initiatives implemented locally, that can be examples for other government agencies. MCCI and PE believe that such an Index will facilitate dialogue between government and businesses, allowing more participation of stakeholders in policy reform. Broadly, the BBX aims to (i) provide a structured snapshot of the quality of Bangladesh's business environment; (ii) help identify and highlight improvement needs; (iii) help inform government policy and reform decisions with evidence; (iv) provide necessary data and insights to businesses to make better investment decisions and, (v) create better public awareness of the local business environment.

Figure 6: Objectives of Bangladesh Business Climate Index (BBX)



The BBX embodies sound methodology and reflects business environment conditions across all Divisions and sectors. The BBX has been derived from a survey of 356 firms across all 8 Divisions in the country. The survey sought responses from the firms on the following 10 topics- Starting a Business, Access to Land, Availability of Regulatory Information, Access to Infrastructure, Labour Regulations, Dispute Resolution, Cross-border Trade Facilitation, Paying Taxes, Technology Adoption and Access to Finance. Rigorous consultation with experts resulted in recommended weights to be assigned to each industry based on its contribution to GDP and contribution to employment, whereby 75 percent weight has been assigned to contribution to GDP and 25 percent given to contribution to employment in each sector. The survey took place in January through March 2021.

Chapter 2:

Measuring Business Environment and the Need for Business Indices

Economic growth in Bangladesh is largely hinged on private sector investment for which a conducive business environment is critical. The business environment is simply a blend of prospects and impediments that firms or companies face in a country in their day-to-day activities. The number of businesses that enter the market each year and the share of high growth businesses depend on a myriad of factors in the business environment. Evidence shows that the creation of a favorable business environment leads to an increase in private sector investment both from domestic and foreign firms.

The economy may be governed by certain regulations which may inadvertently or otherwise constrict the economic activities of the private sector. Whether by intent or otherwise, such regulations limit a firm's ability to freely operate its business. As a result, entrepreneurs resort to informal activity, away from the oversight of regulators and tax collectors, or seek opportunities abroad—or join the ranks of the unemployed. Foreign investors avoid countries that impose onerous regulatory requirements on the private sector.

Figure 7: Homegrown Business Climate Indices in Comparator Countries

Country	Name of Business Index	What it measures
China	China Business Climate Index	This is a quarterly index which can directly reflect the real situation of the economy and business enviroment. Nationally representative samples are used. The index ranges from 0 to 200 and 100 is taken as the critical value. An index higher than 100 indicates improvement in economic performance, whereas an index lower than 100 depicts that economic performance is declining.
Malaysia	Business Condition Index	This bi-annual index measures business sentiments and gauges expectations on areas such as cost of production, employment, local and export sales, production, capacity utilization and capital investment.
Vietnam	Business Climate Index	This yearly index serves as a barometer for business in Vietnam. It gauges expectations regarding companies' investment, revenue relevance and understanding of trade agreements and administrative procedure of setting business and operations.

Source: China Business Climate Index, Business Conditions Index and Business Climate Index

Measuring the business environment on various parameters is a common practice across the world. Many large countries, for example Russia and Mexico, rank states or provinces on various criteria, with fiscal transfers serving as incentives for states to implement reforms. The evidence from India shows that simply measuring the regulatory performance of a country can serve as a significant incentive to implement reforms. Over time, several countries including Bangladesh have implemented reforms based on the Doing Business ranking. While global cross-country business environment report, particularly the World bank's Doing Business Report were a starting point for reforms, these reports did not measure the overall business environment in a country including access to finance, access to technology and infrastructure, and acquiring land, among others. It has also since been shown to be methodologically flawed. Multi-country indices also suffer from problems inherent in trying to measure many countries of different natures, size of economy, social development, etc., on one scale, thereby having to reduce complex issues to simple lowest common denominators; as well as applying weightage to issues which may or may not be significant in any one country's regulatory or economic framework. This may lead to some countries being rated favorably but others not, on matters which are not common to all the countries, or which are of much less importance in some than others. Thus, a single-country index is a much better measure of a country's business environment's development and improvement over time.

The BBX will provide a holistic view of the prevailing investment climate and respective constraints in the country, at this point, and over time as the Index continues to be published. The formation of a single country business index assists in identifying the critical areas of the business environment for each Pillar or driver of growth and in identifying effective micro-policies, from the point of view of one of the principal groups of stakeholders, the investors. It is a tool that the Government can use to design sound business regulatory policies. Most importantly, an index approach leads to a policy debate both by exposing potential challenges and by identifying good practices and lessons learned. Despite the narrow focus of the Index, the initial debate on the results typically turns into a deeper discussion on areas where business environment reforms are required. It is intended that the BBX will serve these purposes for Bangladesh.

The analysis of regulatory policies and business environment has direct relevance for policy reform. It reveals the relationship between business regulation indicators and economic and social outcomes, allowing policymakers to see how particular laws and regulations are associated with poverty, corruption, employment, access to credit, the size of the informal economy and the entry of new firms.

Table 5: Bangladesh's Performance on Global Indices

S. No.	Global Indices	Bangladesh's Rank
1.	Human Development Index, United Nations Development Programme, 2020	133/189
2.	Global Competitiveness Index, World Economic Forum, 2020	105/141
3.	Global Innovation Index, World Intellectual Property Organisation, 2020	116/131
4.	Global Talent Competitiveness Index, World Economic Forum, 2020	124/132
5.	Democracy Index, Economist Intelligence Unit, 2020	80/165
6.	Sustainability Index, Sustainable Development Report, 2020	109/166
7.	Passport Index, 2020	98/107
8.	Human Capital Index, World Bank, 2020	123/174
9.	Doing Business, World Bank, 2020	168/190

A focused assessment of Bangladesh Business Climate will allow reflections on country specific context and priorities that none of the global indices currently measure. BBX allows the flexibility to define parameters that are critical and relevant to the business environment of Bangladesh. It will also lead to a greater acceptance amongst the policy makers regarding the findings of the Pillars. Further, it captures the differences in business environment including regulations and their enforcement across locations and critical economic sectors within the country. The Index will provide data on each selected location and sector as well as provide recommendations to improve the performance. For any country to achieve consistently higher economic growth, it must address the challenges of low productivity in critical economic sectors and unequal development among regions.

BBX is relevant to Bangladesh for several key reasons:

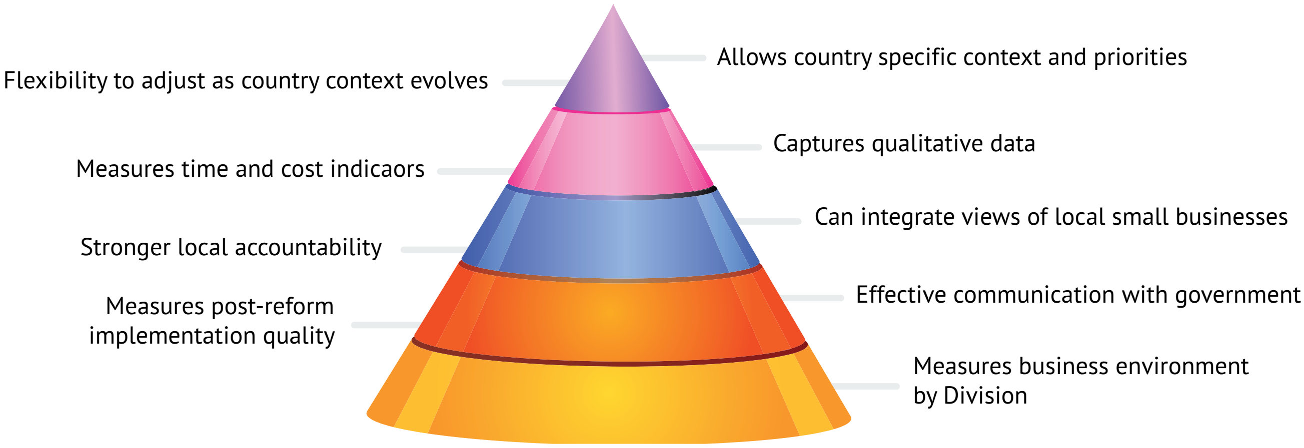
- It is congruent with Bangladesh's development priorities and aspirations of becoming an upper middle-income country with more diversified export industries and a more productive industrial sector. The country is now poised for a new growth model with an updated policy regime, that draws on the success of its earlier economic takeoff.
- It reflects the multiple business and economic obstacles faced by Bangladesh as it addresses competitiveness challenges amid its post-LDC preparation. As Bangladesh modernizes its RMG sector and targets US $50 billion in exports, as it seeks to grow and diversify its non-RMG manufacturing sector, and as it modernizes its agribusiness sector with stronger standards, the country is moving forward. Each nascent high growth-potential sector can benefit from tailored special incentive regimes that benefit RMG. The BBX survey can chart a map based on sector-specific challenges.
- It addresses the need for institutional strengthening, especially in terms of government /policy responsiveness and coordination. As Bangladesh becomes an upper middle-income economy, the institutional factors will be the major differentiating factor with the higher income countries. No country has become rich with weak institutions. The East Asian experience shows that a combination of strong institutions and a meritocratic bureaucracy helped guide these economies to prosperity.
- It provides clear empirical benchmarking that can allow policymakers to gauge the constraints per industry and region. The BBX is quantitative and comparable to other indicators. It measures several of the same things as

other indicators do but digs deeper. It allows a granular analysis of industries and activities that differs from more generic surveys and it benefits from a large sample size and methodological rigor. It does not set its sights at lowest common denominators, unlike global indices which have to measure more than one hundred countries with the same scale, regardless.

Figure 8: Relevance of BBX for Bangladesh

BBX offers a wealth of granular details on regulations across the measured areas that either enhance or hinder business activities. The BBX will help in identifying the most significant bottlenecks causing bureaucratic delays and the cost of complying with regulation. This will enable the government agencies to identify and prioritize the most challenging factors that are hindering business activities and hence they can mobilize reform activities accordingly.

Figure 9: Why a Home-Grown Policy Index is Critical for Bangladesh



A continuous assessment of the business environment provides a structured snapshot of an otherwise indefinite policy environment. It allows policy makers to measure progress, review the effects of policy reforms and exchange information about effective policies. The Index will indicate actionable policy measures that may be introduced, nudged, or improved to create a favorable business environment in the country. It provides policy makers with a prioritized list of interventions needed to enhance economic productivity and growth. It also supplies a framework that allows policy makers to identify strong and weak areas in Bangladesh's business environment.

Business indices help identify good practices that can be replicated across the entire business environment. By providing clear evidence-based improvement opportunities, indices help identify opportunities of ICT-led regulatory service deliveries, and transparency. Business indices enable policy makers to objectively measure the impact of their interventions to a certain extent. They also provide a simplified means to communicate the motivations for these reforms to a larger audience including the country's citizens.

Policymakers, investors, and researchers can use business climate data and analyses to assess Bangladesh's performance on a spectrum of issues. Policymakers can evaluate the regulatory environment for local business, assess the impact of laws and regulations on business activity, make informed decisions regarding policy reform and private investment, identify good practices in regulatory reform and support research on institutions and regulation.

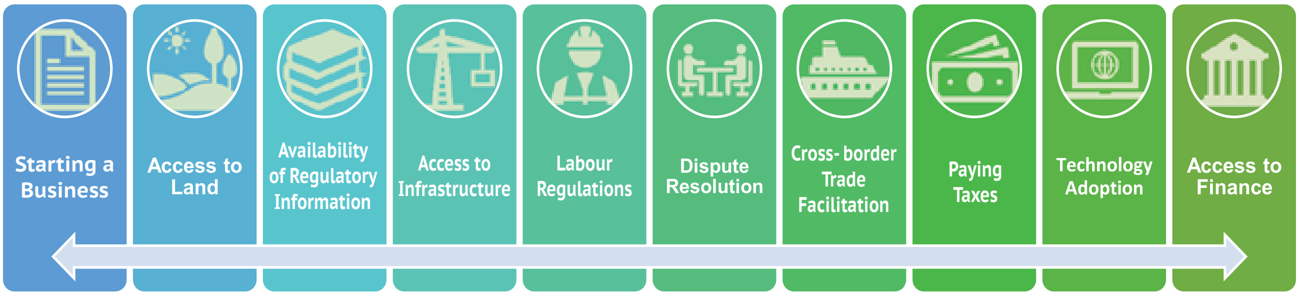
Evidence suggests that non-conducive and inefficient business environments and rent-seeking go hand in hand. There are significant opportunities for exploitation in countries where excessive red tape exists, and extensive interactions are required between the private sector and the government to move things forward. The 20 worst-performing countries in Transparency International's Global Corruption Perceptions Index average 8 procedures to start a business and 15 to obtain a building permit. Conversely, the 20 best-performing countries complete the same with 4 and 11 procedures, respectively. Additionally, countries that have introduced electronic means of compliance with regulatory requirements— such as obtaining licenses and paying taxes—experience a lower incidence of informal payments.

Chapter 3:

Methodology

The Bangladesh Business Climate Index (BBX) is an index which seeks to measure the business environment in the country and provide a comparative picture of the regulatory landscape across 8 Bibhags or Divisions across Bangladesh. The BBX is composed of 10 Pillars which have been modified from internationally recognized academic literature, to suit the local context of Bangladesh. These Pillars aim to capture elements of the local business environment and the issues faced by businesses and intermediaries in engaging with regulations. The BBX is composed of the following 10 Pillars – Starting a Business; Access to Land; Availability of Regulatory Information; Access to Infrastructure; Labour Regulations; Dispute Resolution; Cross-border Trade Facilitation; Paying Taxes; Technology Adoption; and Access to Finance.

Figure 10: The 10 Pillars of the Bangladesh Business Climate (BBX) Index



Each of the 10 Pillars comprise a total of 35 sub-indices which are shown below.

Pillar 1: Starting a Business

This Pillar measures the ease of incorporation of a new business in Bangladesh and the associated registration regime, focusing on the overall time taken by a business to register and receive approval to start a business, the official costs of licensing, and the ease of engaging in these regulatory processes.

S. No.	Sub-indices
1.	Time and cost to obtain Incorporation Certificate
2.	Time and cost to obtain VAT Registration
3.	Time and cost to obtain Trade License
4.	Time and cost to obtain e-TIN Certificate

Pillar 2: Access to Land

This Pillar measures the ease of access to formal ownership of land, and the security of title to land.

S. No.	Sub-indices
1.	Ease of dealing with land related agencies
2.	Ease of access to land ownership details and associated encumbrances
3.	Time and cost to transfer land title

Pillar 3: Availability of Regulatory Information

This Pillar measures the ease of access to regulatory information and documentation required to set up and run a business as well as the extent to which new regulatory and policy changes are communicated to businesses in a predictable manner.

S. No.	Sub-indices
1.	Access to existing regulatory information regarding setting up and operating business
2.	Certainty of regulations impacting business
3.	Online access to regulatory information
4.	Information regarding new regulatory policies

Pillar 4: Access to Infrastructure

This Pillar measures the extent of availability of quality infrastructure and industrial utility services.

S. No.	Sub-indices
1.	Access to utility services (electricity & water)
2.	Access to transport & logistic services
3.	Access to internet and mobile connectivity
4.	Transparency of formation of new regulatory policies

Pillar 5: Labour Regulations

This Pillar measures the ease of hiring skilled and unskilled labour and the ease of engaging in the formal labour regulation system.

S. No.	Sub-indices
1.	Ease of compliance with labour regulations
2.	Ease of labour returns and filings
3.	Access to skilled labour
4.	Access to skill development resources for labour

Pillar 6: Dispute Resolution

This Pillar measures the efficiency of the judicial system and access to alternate dispute resolution mechanisms.

S. No.	Sub-indices
1.	Confidence in judicial system to uphold contracts and property rights
2.	Improvement in resolution of commercial disputes
3.	Access to alternative dispute resolution mechanisms

Pillar 7: Cross-border Trade Facilitation

This Pillar measures the ease of dealing with the trade regulatory agencies during export and import of goods and services.

S. No.	Sub-indices
1.	Time and cost to obtain customs clearances for exports
2.	Time and cost to obtain customs clearances for exports
3.	Ease of dealing with government agencies at the port

Pillar 8: Paying Taxes

This Pillar measures the ease of paying taxes in Bangladesh.

S. No.	Sub-indices
1.	Time to file and pay VAT
2.	Time to file and pay Income Tax
3.	Ease of filing returns for VAT and Income Tax
4.	Stability of tax environment

Pillar 9: Technology Adoption

This Pillar provides an assessment of the access to and the use of technology to conduct business activities.

S. No.	Sub-indices
1.	Ease of access to sell products or services online
2.	Level of technology adoption for business functions
3.	Procurement of new technology equipment for business

Pillar 10: Access to Finance

This Pillar measures the avenues and efficiency of access to finance for firms in Bangladesh.

S. No.	Sub-indices
1.	Access to credit
2.	Key source of financing for businesses
3.	Access to Non-Banking Financial Institutions

3.1 Data Collection

Based on a review of literature and prior experience with enterprise surveys, an interview length of more than 45 minutes leads to respondent fatigue, places a burden on the respondent, and affects quality of response.

The questionnaire for this exercise has been developed keeping these considerations in mind. A bespoke strategy has been developed for data collection, responding to the limitations posed by the COVID-19 pandemic, which has allowed the capture of data through various mechanisms, and prioritization of both the quality and the coverage of the interviews. Following are the methods which have been deployed:

1. Face to face interviews;
2. Phone interviews; and
3. Online questionnaires.

Regardless of the mode of data collection, the base questionnaire remains common across methods to ensure consistency in the data that is collected.

3.1.1 Questionnaire

The team has developed robust questionnaires which cover all 10 Pillars capturing both objective yes/no responses, and more subjective interpretations from businesses and intermediaries. The experts in the team have ensured that all relevant indicators for the study are captured and that the wording, logic and flow are appropriate. The questionnaires were translated into Bangla by qualified professional translators.

The questionnaires have undergone a robust pre-test to ensure that the logic is accurate. The pre-test checked the questionnaires for the following:

- **Appropriateness** – whether survey items are appropriately phrased and understood by the study respondents.
- **Acceptance** – whether items are relevant to the local context and are acceptable to study respondents.
- **Consistency** – whether items are consistent with preceding and succeeding items.
- **Sequencing** – whether items are correctly placed in the questionnaire.

The questionnaire has a set of questions at the beginning of the interview that aims to capture basic firm level data for each interviewed firm. This includes the size of the investment, the number of employees, and the sector the firm operates in.

3.1.2 Training

Intensive training has been undertaken for interviewers and supervisors for the interviews, which have included both classroom training and mock sessions. The training has been led by team leader, business environment lead, survey manager and survey specialists along with review by and inputs from MCCI.

3.1.3 Quality Assurance

Survey implementation focuses on collecting high quality data through efficient resource utilization, following three main principles:

1. Quality control: Quality assurance at every stage (starting from study design, sampling, tool development, translation to final data delivery);

2. Risk management: The team worked closely with the project stakeholders for the entire duration of the project through careful and extensive planning to avoid unforeseen events or to mitigate challenges, that may have disrupted data collection;

3. Effective stakeholder dialogue: To ensure all the steps of data collection reflects the needs of the stakeholders, the team engaged in continuous and effective dialogue through every phase of the project.

3.2 Data Analysis

The final Index score is constructed using the following key steps:

1. In the first step, the responses on individual sub-indices were re-scaled using the linear transformation (worst – y)/ (worst – best) (Distance to Frontier Method). The highest score represents the best performance on the sub- indices across all Pillars.

2. Data is analysed by Divisions, and the next step was to prepare the absolute scores across 35 sub-indices for each Division. This gave 35 x 8 = 280 data points to begin with.

$$B_i = \sum_{i=1}^{n} x_{j,k}$$

Where, B is the value of the sub-index; i is the sector and k is the sub-index; Xjk is the score of the ith term in j sector and k sub-index and n is the total number of firms surveyed.

3. Then absolute scores across the 10 Pillars were calculated. The score for each Pillar is calculated as a weighted average of the scores assigned to the 8 Divisions under each pillar.

4. The last step was to calculate the combined overall score. This score was calculated using absolute scores for each Pillar for each Division, with each Pillar carrying equal weight.

$$I = \sum_{j=1}^{n} \sum_{k=1}^{n} w_i x_{j,k}$$

Number	Pillar	Weight
1	Starting a Business	10%
2	Access to Land	10%
3	Availability of Regulatory Information	10%
4	Access to Infrastructure	10%
5	Labour Regulations	10%
6	Dispute Resolution	10%
7	Cross-border Trade Facilitation	10%
8	Paying Taxes	10%
9	Technology Adoption	10%
10	Access to Finance	10%
	Total	**100%**

5. The final metric is an aggregate score for Bangladesh that provides a sense of the overall quality of the business environment in Bangladesh. This has been developed by compiling all the sub-indices of the Index.

3.3 Survey Respondents

The BBX is based on the survey inputs obtained from Bangladesh business owners and business intermediaries such as lawyers and chartered accountants. Business owners and management responded to the survey questions in the following Pillars – Starting a Business , Access to Land, Availability of Regulatory Information, Access to Infrastructure, Labour Regulations, Cross-border Trade Facilitation, Technology Adoption, Paying Taxes and Access to Finance. For the purpose of this survey, respondents were from the top management of businesses or 'the most knowledgeable employees' of the respective businesses. When feasible, priority was given to the representative who has the most knowledge of the firm, approved by the business owners.

Respondent Type	Pillars covered
Business Owners	• Starting a Business • Access to Land • Availability of Regulatory Information • Access to Infrastructure • Labour Regulations • Dispute Resolution • Cross-border Trade Facilitation • Technology Adoption • Paying Taxes • Access to Finance
Business Owners / Intermediaries	• Starting a Business • Paying Taxes • Dispute Resolution

Business intermediaries such as lawyers and chartered accountants are usually engaged by business owners for incorporation of new business, complying with tax regulations, and resolution of legal disputes. Therefore, inputs from such intermediaries were undertaken for the following Pillars – Starting a Business, Paying Taxes and Dispute Resolution.

3.4 Sampling Design and Sample Size

The Bangladesh Business Climate Index (BBX) will be an annual Index that reflects a multitude of challenges present in the business environment that firms operate in. BBX aims to select a nationally representative sample by delving into all eight Divisions of the country. The following key principles provide guidance to draw a rigorous sampling unit from the sampling frame:

- **Statistical robustness:** Ensure that data reliability and consistency satisfy all statistical significance test criteria and that the survey data provides unbiased and consistent estimates. As a measure of precision, we also calculate survey weights.
- **Diversity of population group:** The survey is being administered on the industries that have significant contribution to GDP and employment in the economy. To capture the diversity, we form strata which are internally homogeneous by nature; consequently, clusters are formed to capture heterogeneity arising from confounding factors.

3.4.1 Sampling Design

A Stratified Multistage Cluster Sampling Approach has been used to provide an adequate and acute representation of diversified industries nationwide. By principle, stratification of the strata should be non-overlapping and exhaustive so that it provides a highly accurate representation of the whole population; it is important that strata are formed based on some known characteristics that ensures homogeneity within a particular stratum and exudes heterogeneity in the sampling units among the strata. Primarily, stratification should be done among the businesses' firms by the broad Sectors identified by Bangladesh Bureau of Statistics (BBS). The following reasons validate our approach of stratification for the study:

- By mode of operation of the business, they are homogeneous within the broad sector.
- Proportional allocations of the samples among the strata have been done based on their proportion of contribution to GDP and employment in the country.

In the second stage, the administrative Divisions are considered as clusters. The clusters are chosen in a way that a single cluster represents a mini version of the entire population. Each Division contains a variety of sectors and within each sector there are numerous businesses/firms. Weights have been provided to the clusters based on the proportion of the total number of business establishments by Division, which have been taken from Bangladesh Economic Census, 2013.

Total Number of establishments has been used as proxy for Divisional contribution to GDP in Bangladesh. As there is no formal data available on the Divisional contribution to GDP in Bangladesh, we have considered the total number of establishments as a proxy, taken from the Bangladesh Economic Census 2013, which contains data for 7 Divisions. As the Census was carried out in 2013, it did not include Mymensingh as a Division since it was only declared as a separate Division in 2015. As Mymensingh contains the same number of districts as Sylhet, the same weight as Sylhet has been used.

Disaggregation of the manufacturing industries has been done by sub-sectors according to their proportion of contribution to gross value addition and employment in the economy, from the latest publication of Labour Force Survey 2016-17, 2012 and Survey of Manufacturing Sectors 2012. The size of industries was also considered; for instance, samples of SMEs and large industries were used in the proportion of 80:20 (Survey of Bangladesh Manufacturing Industry, 2013). At the final stage, randomization was ensured in selecting samples.

Those sectors have been considered that in aggregate contribute to 75% of total GDP and employment in Bangladesh. Consequently, weighted average/mean value has been calculated on the contribution to GDP and employment by the broad sectors where 75% of weight has been assigned to contribution to GDP and 25% to employment. The proportion of the weights has been chosen based on the opinion of experts in this domain.

Table 6: Weight of Sectors

S. No.	Sector	Weight by GDP	Weight by Employment	Combined Weight (75 %of GDP weight + 25% of Employment weight)
1	Manufacturing	0.24	0.144	0.218
2	Agriculture & Forestry	0.10	0.334	0.159
3	Wholesale and Retail Trade	0.14	0.142	0.140
4	Transport, Storage & Communication	0.11	0.086	0.104
5	Construction	0.08	0.056	0.071
6	Real Estate, Renting and Business Activities	0.06	0.002	0.046
7	Financial Intermediaries	0.04	0.007	0.028

Table 7: Cluster Weight of each Division by the Proportion of Establishments

S. No.	Division	Weight
1	Dhaka	0.274
2	Chattogram	0.170
3	Rajshahi	0.148
4	Rangpur	0.131
5	Khulna	0.128
6	Sylhet	0.051
7	Barishal	0.047
8.	Mymensingh	0.051
	Total	**1.00**

Source: Economic Census, 2013

Table 8: Distribution of Manufacturing Industries by Sub-sector

S. No.	Manufacturing Sectors	Weight by GVA	Weight by Employment	Average weight
1	RMG	0.507	0.488	0.498
2	Textiles	0.2	0.248	0.224
3	Food and Beverage	0.171	0.072	0.122
4	Electronics & Light Engineering	0.038	0.101	0.070
5	Pharmaceuticals & Chemicals	0.065	0.036	0.051
6	Leather & Tannery	0.02	0.055	0.038

Source: BR2009; BAPI, BCI

3.5 Sampling Frame

We have considered the database for Bangladesh Economic Census 2013 as the sampling frame for the study. From the database we have only considered permanent establishments as our ultimate target and excluded the data of temporary and household economic units.

3.6 Estimation of Sample Size

According to the proposed design the following formula is applied to get the approximate sample size.

$$N = \frac{Z^2 p(1-p)}{\epsilon^2} \times de$$

It is to be noted that to adjust the loss of precision due to clustering the sample size was adjusted by a moderate design effect of 1.2 which implies that an additional 20% sampling units have been included in a single stage sampling.

N = Sample size

Z = 1.96, Z value at 5% level of significance

p = Population proportion = 0.5, as it provided maximum sample size

q = 1 – p

ϵ^2 = Maximum error consideration = 5% or 0.05

de = Design effect = 1.2

$$N = \frac{1.96^2 p(1-0.5)}{0.05^2} \times 1.2 \approx \mathbf{353}$$

Note: Final sample size was according to the proportion of sectors that in aggregate constituted 75% contribution to GDP and employment.

3.7 Allocation of Samples

As described, the survey followed a proportional allocation method according to available nationally representative weights. The allocation is depicted in the following table. Furthermore, samples were allocated for the manufacturing sector according to Table 9.

Table 9: Allocation of Samples

Sectors	Allocation of Samples by Administrative Divisions								
	Samples per Strata	Dhaka	Chattogram	Rajshahi	Rangpur	Khulna	Sylhet	Barishal	Mymensingh
Manufacturing	100	27	17	15	13	13	5	5	5
Agriculture & Forestry	73	20	12	11	10	9	4	3	4
Wholesale and Retail Trade	64	18	11	10	8	8	3	3	3
Transport, Storage & Communication	48	13	8	7	6	6	2	2	2
Construction	33	9	6	5	4	4	2	2	2
Real Estate, Renting and Business Activities	21	6	4	3	3	3	1	1	1
Financial Intermediaries	13	4	2	2	2	2	1	1	1

Note: During the survey, if the calculated number of establishments for each Division were not available, it was substituted by available industry from a nearby Division.

Table 10: Distribution of Samples under Manufacturing Industry

Sectors	Allocation of Samples by Divisions								
	Samples per Strata	Dhaka	Chattogram	Rajshahi	Rangpur	Khulna	Sylhet	Barishal	Mymensingh
RMG	50	14	8	7	7	6	3	2	3
Textiles	22	6	4	3	3	3	1	1	1
Food and Beverage	12	3	2	2	2	2	1	1	1
Electronics & Light Engineering	7	2	1	1	1	1	0	0	0
Pharmaceuticals & Chemicals	5	1	1	1	1	1	0	0	0
Leather & Tannery	4	1	1	1	0	0	0	0	0

3.8 Data Collection and Quality Assurance Process of BBX

Information on companies/firms/establishments have been collected from various sources and they are: BBS business directory, business chambers and associations and organizations that conducted similar surveys on firms/companies/establishments

An initial list of around 45,000 firms were prepared that represented the whole country

From the initial list of the firms that was defined as the universe or population, a list of 9,524 entities was prepared considering the target sectors as per concept note. Entities that had valid communication information like address, cell number, email address etc. were selected

From the target list of 9,524 firms around 1000 firms/companies were contacted over telephone and emails to participate in the survey

The survey was able to collect 451 responses from the intended firms. About 20% of the responses were collected through in person visits to the entities

After data collection was done, the survey expert randomly picked 5% of the responses and double checked them to ensure validity of responses

Responses were dropped in a sample/sector category which exceeded target numbers. In addition, responses were dropped if they missed more than one question in each indicator. Finally, 356 firms were included for analysis

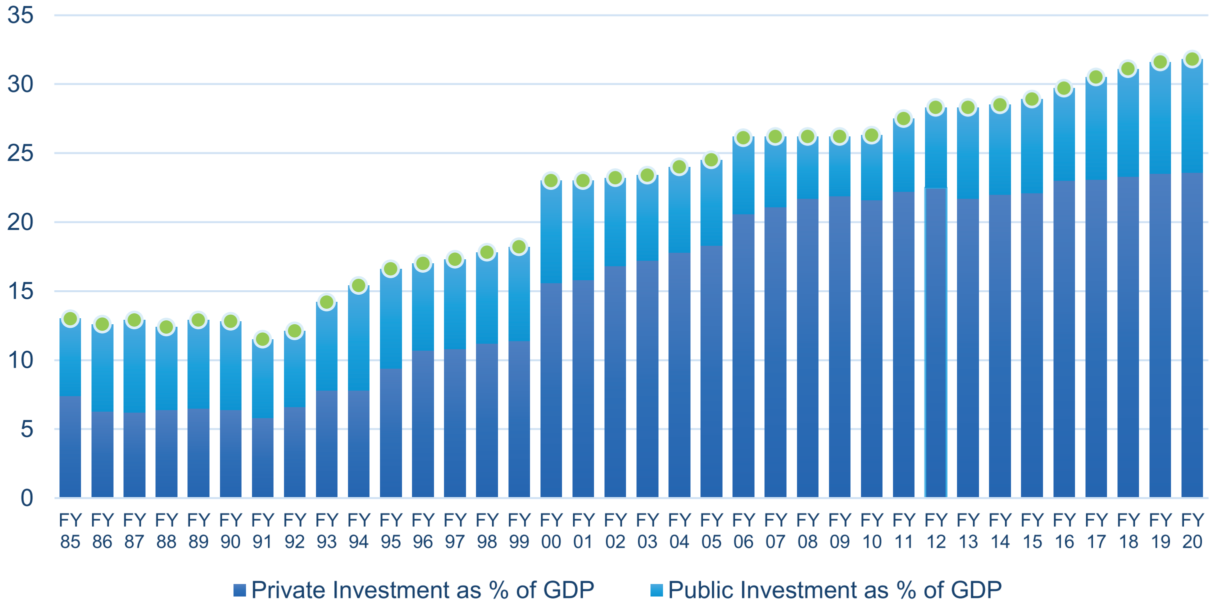
Chapter 4:

Bangladesh's Business Environment: A Work in Progress that Needs to be Strengthened to Support Vision 2041

4.1 Private Investment has been Critical in Inducing Economic Growth in Bangladesh

A synergy between higher private sector engagement and prudent government initiatives such as economic liberalization, strong macroeconomic management and trade integration have been critical in Bangladesh's successful transition from an LDC to a developing country. Private investment as a proportion of GDP has reflected an upward trend since the independence of Bangladesh in 1971. Private investment to GDP ratio was 2.9 percent in 1973, more than doubled to 7.2 percent in 1983 and remained somewhat stagnant in the next one decade. It reached more than 22 percent by 2011, but has been hovering between a narrow band of 22-23 percent of GDP ever since. For unambiguous understanding, the performance of the private sector can be segregated into three phases. In the first phase, between 1985 and 1991, private investment remained flat as the country was finalizing denationalization and structural reforms and beginning to lay the foundation for economic expansion. The second phase is the period between 1990 and 2010 which marks the period where the sector more than doubled in volume and became the key driver of the economy. During the third phase, since 2010, there has been a relative slowdown in the ratio of private investment to GDP. The ratio of private investment to GDP has fluctuated along a narrow band between 21.0 percent of GDP and 23.5 percent of GDP. While this reflects the growth in GDP, it also shows a stagnation in the growth of private investment.

Figure 11: Total Investment, Including Private and Public Investment as % of GDP



The 1990s and 2000s marked an inflection point as private investment became the major driver behind the rising ratio of investment to GDP. This resulted in the rise of the manufacturing sector which has been the single largest contributor to economic growth in the country. Certain government policies such as deregulation and economic liberalization which were initiated in the mid-1980s helped private sector engagement to multiply and thrive. Following the commencement of these policies, tariff and non-tariff barriers have fallen substantially, making Bangladesh one of South Asia's most open economies. Private sector engagement in the export-led ready-made garments (RMG) industry played a critical role in the country's successful transition to a lower- middle income country. The RMG industry reaped the benefits of a pool of unskilled and semi-skilled labour with low labour costs and grew at an impressive rate of 13 percent annually between 2001 and 2016. RMG occupies more than 80 percent of the export basket and exported products worth US$ 34.1 billion in 2019 and US$ 27.9 billion in 2020 despite the grave challenges that over-shadowed the industry due to the COVID-19 pandemic.

4.2 Several Policy Approaches and Reforms Created the Foundation for Private Sector Growth in Bangladesh

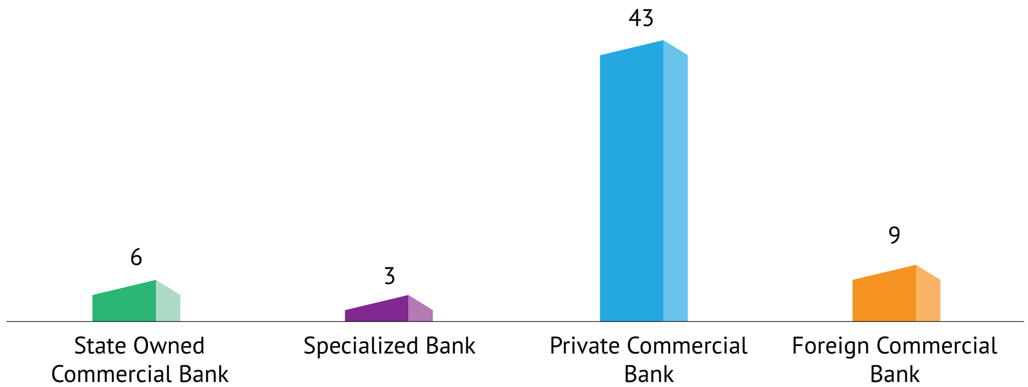
Many aspects of public policy have supported the development of private business over the years. Bangladesh was highly protectionist during the 1970s and 1980s; however, commencement of trade liberalization after the

1990s helped the private sector, especially the RMG sector, significantly to grow. Post 2000s witnessed a degree of policy reversal with the introduction of para-tariffs such as regulatory and supplementary duties which created anti-export bias and became counterproductive for non-RMG sectors as these sectors were heavily protected from foreign competition and found it much more profitable to sell their products in the domestic market.

The initial trade reform focused on a considerable scaling back and rationalization of tariffs, the removal of trade-related Quantitative Restrictions (QR) and the elimination of import licensing. Since then there has been a dichotomy whereby RMG has benefitted from a combination of a bonded warehouse system for duty-free imported inputs, back to back letters of credit of import finance, a customs green channel for rapid import-export cargo clearance and an overall free trade channel for RMG production in export processing zones (EPZs) or elsewhere, while there has been a general increase in para-tariffs, leading to higher effective protection rates in the non-RMG sector. This has led to companies exporting less than they can because they have a captive domestic market, where they can charge higher prices. Other export industries have not been provided the tailored support necessary to grow significantly, despite having potentially large export markets.

The private sector has been benefitted by several financial policies implemented by the Bangladesh Bank, although adverse issues have arisen in recent years. Liberalization of the banking sector occurred in the late 1980s that led to new banks coming into existence. This helped the private sector grow considerably. Currently, of a total of 61 banks, 9 are state-owned; 43 are private banks; and 9 are foreign banks. There are five generations of new banks based on the nature of the banks and the timing: first generation (1980s), second generation (1991– 95), third generation (1996–2000), fourth generation (2013), and fifth generation (2019). Historically, banking sector reform has encouraged domestic and foreign private commercial banking that has helped in the successful intermediation of the large volumes of remittances, which have averaged US$10 billion per year in recent decades, and have shown good growth recently. However, in recent years, there have been several negatives in the financial sector, with the accumulation of non-performing loans, deteriorating governance standards, and lack of long-term bond market development.

Figure 12: Number of Banks in Bangladesh, by Type



Source: Bangladesh Bank

A key binding constraint for private investment was access to serviced land which has been addressed by introducing Economic Zones (EZs) and Export Processing Zones (EPZs). Land has always been a challenge for industrial development in Bangladesh given the country's dense population and relatively small land area. In this regard, the Bangladesh Export Processing Zones Authority (BEPZA) Act of 1980 was aimed at boosting industrialization and job creation through the promotion of trade and investment in specially demarcated areas with available infrastructure and a supportive fiscal and customs regime. The law led to the establishment of the semi-autonomous Bangladesh Export Processing Zones Authority (BEPZA), which leases serviced land to industrial tenants in eight EPZs across the country, primarily focused on the garment sector. Investors enjoy several fiscal incentives such as tax holidays, duty-free imports, exemptions on the dividend tax, and non-fiscal incentives such as 100 percent foreign ownership permissible, full repatriation of capital and dividends, in addition to a host of support services aimed at helping investors navigate the formidable bureaucracy linked to doing business.

BEPZA estimates that, between 2009 and 2019, 194 new industries were set up that generated almost 300,000 new jobs. In FY (fiscal year) 2019, total exports from Bangladesh were US$ 40 billion of which US$ 7.5 billion was from the EPZs, i.e., 19 percent. Moreover, investment increased almost three times between FY2010 and FY2019, from US$ 1.8 billion to US$ 5.0 billion and employment doubled from 262,757 in FY2010 to 521,561 in FY2019.

Table 11: Investment and Employment in EPZs

FY	Investments in million US$	Employment (Nos.)
2010	1,804	262,757
2011	2,118	306,423
2012	2,457	340,021
2013	2,785	374,008
2014	3,188	389,017
2015	3,594	420,101
2016	3,999	453,652
2017	4,341	479,181
2018	4,681	502,013
2019	5,014	521,561

Source: BEPZA Annual Report 2019

The Bangladesh Economic Zones Authority Act and the Bangladesh Hi-Tech Park Authority Act, both of 2010, led to the creation of two new semi-autonomous agencies, the Bangladesh Economic Zones Authority (BEZA) and the Bangladesh Hi-Tech Park Authority (BHTPA). They were tasked with overseeing the expansion of economic zones and hi-tech parks in the country. BEZA aims to develop 100 economic zones by 2030 that will generate 10 million employment and increase exports by an additional US$ 40 million. As opposed to BEPZA, the zones under BEZA include many private zones and aim to produce also for the growing domestic market. Unlike the EPZs, which are publicly owned and operated by BEPZA, the Bangladesh Economic Zones Authority and Bangladesh Hi-Tech Park Authority are expected to rely mainly on private capital and expertise to build and operate the new zones.

Figure 13: Factors that Facilitated Private Sector Investment

The energy sector reform since 2010 has increased energy capacity by four times in the past decade which has succeeded in catalyzing private sector production. Bangladesh has made impressive progress in generation capacity, mostly through megaprojects and the expansion of gas use, more than quadrupling the capacity, from less than 6,000 megawatts in 2009 to more than 25,000 megawatts in April 2021. To support economic growth, the government intends to reach 50 gigawatts by 2041. Challenges remain in terms of cost (especially of the quick rental powerplants) and the optimal mix among gas, liquefied natural gas imports, and renewables, as well as upgrading the transmission and distribution networks and maintaining quality of the power supplied. About 67 percent of electricity generation is based on natural gas.

The government has been able to maintain a relatively prudent fiscal policy in the last two decades by ensuring that the expenditure growth is well aligned with revenue performance. This has led to sustainable and manageable fiscal deficits below 5 percent in most years. Until the mid-1990s, the overall fiscal deficit was high, ranging from 8 percent to 12 percent of GDP in most years and significantly financed from external loans and grants; however in recent years, it has come down. The Government's fiscal management has generally been prudent, with expenditure limited at around 15 percent of GDP for about four decades, despite pressure for higher spending. However, in the last few years, a combination of weak revenue mobilization and greater fiscal spending for pensions payments and energy subsidies has challenged the historically low deficits.

Success in Doing Business reforms in Bangladesh has been minimal and further focused work is needed in this area. Having climbed eight notches since 2019 in EoDB report, the country has made certain improvements in three specific indicators which are starting a business, getting electricity and getting credit. Despite strong efforts from the investment authority, the Government faces substantial challenges in implementing business environment reform recommendations mainly due to the lack of commitment from several line agencies. Overall, a high degree of committed work is required to make the business environment of Bangladesh conducive for higher engagement of private businesses.

4.3 Bangladesh at 50: Why Improving Business Environment is Critical for the Next Phase of the Growth Story

Building on Bangladesh's success, the country has laid out its grand vision to become an 'Upper Middle-Income Country' by 2031 and a 'Developed Country' by 2041. The 8th five-year plan envisages a sustainable economic growth trajectory of 7 percent and above till FY2025. A fundamental challenge facing Bangladesh in breaking into this accelerated prosperity status is to provide gainful employment to the more than two million people who will join the labour force each year over the next decade. Bangladesh's labour force is growing by about 3.1 percent per annum and therefore, more than 21 million people are expected to enter the labour market over the next decade. However, in the period between 2011 and 2016, overall employment growth was just 1.8 percent annually despite growth in real GDP per capita increasing from 5.3 percent to 5.9 percent.

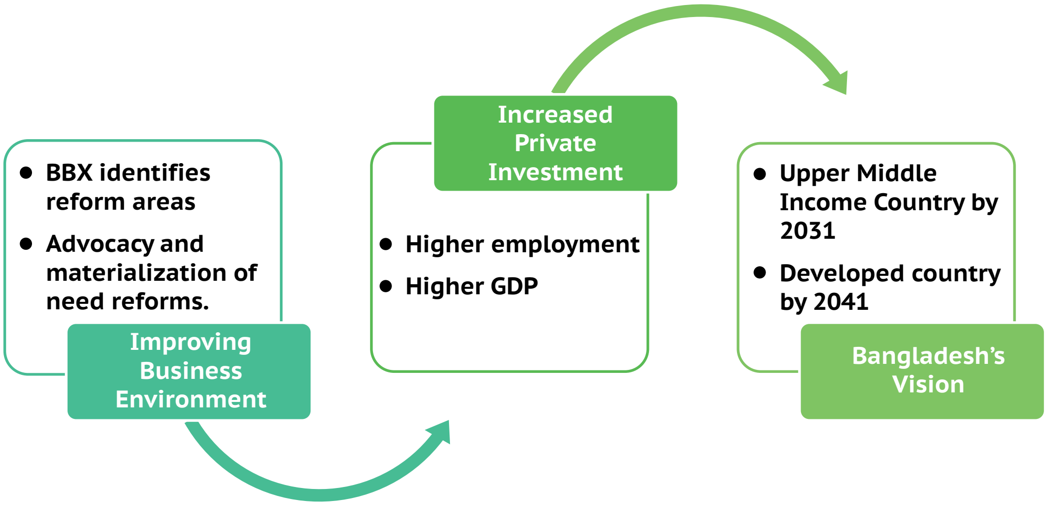
Private investment is a key driver of jobs and requires significant transformation to help deliver the aspirations and address the decelerating pace of job creation. According to the 8th Five-Year plan, private investment as a percentage of GDP needs to increase to 27 percent to attain and maintain a sustainable economic growth trajectory of 7 percent and above. However, for the past one-decade, private investment to GDP ratio has been hovering within a narrow band of 22 to 23 percent. In the context of jobs, Bangladesh has made decent use of deep and elastic demand offered by the global economy to expand job opportunities in the manufacturing sector. Bangladesh is now the world's second largest exporter of readymade garments after China, making it unique among low-income countries in its high share of manufactured goods in exports. Exports from the country increased by 13 percent per year between 2000 and 2013 but remain extremely concentrated in apparel which account for more than 80 percent of Bangladeshi exports. Bangladesh is increasingly attracting Foreign Direct Investment (FDI) but the absolute amounts are still relatively small and insufficient to transform the broader economy.

Generating the necessary number of jobs for the young Bangladeshis and attaining Upper Middle-Income status through sustainable growth will require a considerable increase in private investment as a proportion of GDP. The 8th Five Year Plan aims to accelerate economic development through stronger trade and investment, including targets such as: (i) increase in gross investment from 31.8 percent to 36.6 percent of GDP; (ii) increase in private investment from 23 percent to 27 percent of GDP; (iii) increase in FDI from 0.9 percent of GDP to 3 percent of GDP and (iv) increase in exports from US$ 33.6 billion in 2020 to US$ 56 billion by 2025. To achieve these targets Bangladesh will need to enter a more coordinated phase of policy agenda and reforms to sustain and increase its recent growth trajectory and improve overall competitiveness.

Private investment as a proportion of GDP has exhibited stagnation in recent years which is a matter of concern as it is a critical component for propelling Bangladesh into an accelerated prosperity status. Over the past decade, private sector as a proportion of GDP has been hovering between 21 to 23 percent of

GDP. Between FY2018 and FY2019, private investment as a proportion of GDP rose only by 0.3 percentage points. In FY2019, private sector investment was 23.5 percent of GDP whereas public investment was 8 percent. However, in the relevant fiscal year, i.e., FY2020, which was amid the coronavirus pandemic, both private sector and public sector investment increased by 0.1 percentage point compared to its preceding year. Various constraints have resulted in a lack of dynamism in private sector investment in Bangladesh.

Figure 14: How Bangladesh Business Climate Index is Aligned to National Vision



4.3.1 Bangladesh Faces New Challenges Due to LDC Graduation and COVID-19 Pandemic

The need for improving the business environment to enhance private investment becomes even more pressing as Bangladesh will face serious challenges post its graduation from LDC to developing country status. After graduating from its LDC status in 2026, Bangladesh will primarily face three types of challenges: erosion of trade preference, loss of policy space and tightened financing on development. More than 75 percent of Bangladesh's exports are in those markets that offer LDC tariff preferences which will be eliminated after graduation, thus making its products less competitive in terms of price. Loss of policy space includes cancellation of export subsidies and cash incentives. Moreover, financing for development will be comparatively more expensive as Bangladesh enjoys reduced interest rates for development financing as an LDC which will not be offered after graduation. Nevertheless, attaining developing country status will yield benefits of greater confidence in the country's capability, so long as the necessary preparations are put in place to take advantage of that.

Post LDC challenges may have an adverse impact on GDP and employment growth, thus adding to the developmental challenges, unless the country prepares adequately for the transition. As exports will be exposed to duties post LDC graduation, it is likely to have an adverse effect on exports. This may lead to a decline in exports by 14 percent, according to WTO. This problem coupled with a decline in cash incentives and export subsidies will likely have negative implications for employment and thus GDP growth. Hence, it is critical to improve the business environment to trigger private investment, both domestic and foreign which will provide gainful wage employment or self- employment which will add to the economic growth of the country .

Table 12: Post LDC Tariff Rates for Bangladesh

Countries	Current Tariff Rates Facing Bangladesh as an LDC	Post-Graduation Tariff Rates (Average)
EU	0%	9.5%
Canada	0%	17%
China	0% on 97.5 percent products	16.2%
India	0%	8.6%
Japan	0% on more than 98 percent products	8.7%

Source: Navigating New Waters: Unleashing Bangladesh's Export Potential for Smooth LDC Graduation – An Overview

Due to the COVID-19 pandemic, Bangladesh's GDP growth rate decelerated to 5.2 percent in FY2020 from an impressive 8+ percent the previous year, albeit this was a far higher rate than most other countries in the world. The Bangladesh economy relies heavily on global supply chains as part of its Ready-Made Garments (RMG) industry, and foreign remittance. During the period of high global infections and consequent disruptions, many people lost their jobs, the poverty rate increased, indeed doubled according to some surveys, and many businesses being hard hit had to downsize or close. The income of most people shrank, and export-oriented businesses suffered as the export destination economies were finding it difficult to keep their own economies afloat. According to the Bangladesh Institute of Development Studies (BIDS), the Pandemic has led to 13 percent of the workforce losing work and a decrease in household income, pushing 16.4 million new people under the poverty line. This has serious implications for the continuation of the country's heretofore noteworthy socioeconomic and developmental performance in the near and medium term.

Global growth for 2020 is estimated to shrink by 3.5 percent and is projected to be 5.5 percent in 2021 by IMF. Global employment loss in 2020 was 114 million and global unemployment increased by 33 million with the unemployment rate rising by 1.1% to 6.5% between 2019 and 2020. Overall, world trade recorded a drop in value of about 9 percent in 2020, with trade in goods declining by about 6 percent and trade in services decreasing by about 16.5 percent. Emerging and developing Asia's growth has been estimated to have shrunk by 1.1 percent in 2020. It is estimated that between 88 and 115 million people around the globe would have been pushed into extreme poverty by 2020. It is now expected that COVID-19-induced new poor have increased between 119 and 124 million in 2020.

Global FDI has dropped below US$1 trillion for the first time since 2005, as the world continues to struggle with the economic impact of COVID-19. Developing countries had a mild hit, FDI flows fell by 12 percent in contrast to developed countries, where FDI flows plummeted by 69 percent. In Bangladesh, net inflow of FDI declined by 19.5 percent in the first nine months of 2020. The COVID-19 pandemic has also affected other types of investment such as greenfield investment project announcements (-35 percent), cross-border mergers & acquisitions (M&As) (-10 percent) and new international project finance deals (-2 percent). Multinational enterprises (MNEs) significantly reduced new equity investments. In combination with lower M&A activities, this resulted in a marked decline in the equity component of FDI (to near-zero).

The pandemic has forced governments across the world to step in and undertake massive monetary and fiscal interventions. The Government of Bangladesh has been no exception and has taken steps to counter the backward slide. It has initiated 23 stimulus packages worth about Taka 124,053 crore in total, accounting for 4.4 percent of Bangladesh's GDP in FY2019-20. These packages were designed to help the export-oriented industries, shipment credit, agricultural sector, and low-income groups, including farmers and micro and small enterprises to survive. A particular concern is the rise in unemployment and poverty, which has created an atmosphere of depressed demand and low business confidence for investment. Thus, it is vital to increase domestic demand and employment which are major driving forces behind the economy. Policy must be steered towards economic diversification which will increase private investment and consumer demand resulting in continuation of the growth trajectory of the past two decades.

The criticality of structured data and analyses of the business environment becomes even more pressing as foreseeable challenges may lead to a visible decline in the rate of growth of private sector investment. Developing quality and structured data is a foundational step in improving the business environment of Bangladesh. Presently, the country is lacking in such organized data which would ideally help in highlighting the areas where investors face the most constraints and thus prioritize reforms in those areas. This would in turn help to improve the business environment and thus catalyze private investment. This is imperative especially in the face of these challenges as it will invariably dampen private sector investment.

4.4 Factors that Dampen Business Environment and Constrain Private Investment

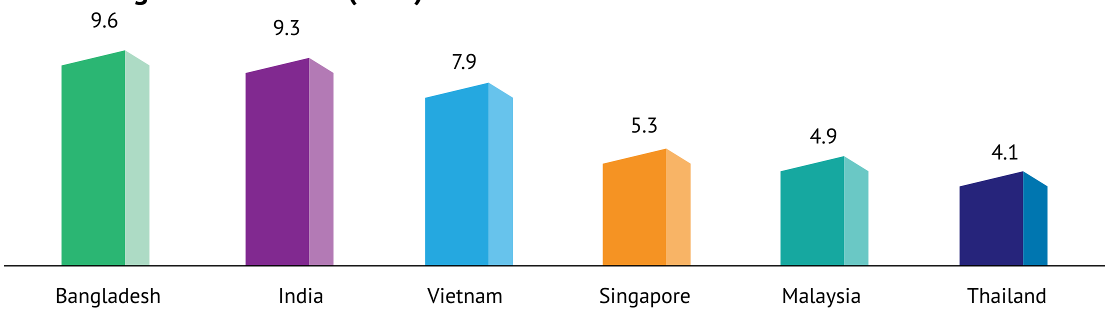
Several high-level constraints are currently impeding private investment, including a cumbersome regulatory regime, limited availability of serviced land, inadequate infrastructure logistics and access to finance. For private sector investment to reach 27 percent of a growing GDP to attain the country's developmental aspirations, it needs to address several high-level constraints immediately. For instance, a cumbersome regulatory regime exists where 23 government agencies are involved in providing investor services in Bangladesh and an investor may need to navigate through as many as 150 regulatory services to start and operate a business. Moreover, logistics cost is comparatively high in Bangladesh and may comprise up to 50 percent of the cost of the product in certain sectors. In the context of access to finance, lending interest rates are comparatively higher than other countries – (albeit a recently reduced) 9 percent in contrast to India (7.5 percent), Vietnam (7.9 percent), Malaysia (4.9 percent) and Thailand (4.1 percent). These high-level constraints are discussed in detail below.

Bangladesh's regulatory environment is a complex maze with 23 government agencies providing investor services. To start and operate a business, an investor may need to secure up to 150 approvals, registrations, certificates or clearances from various agencies including Bangladesh Investment Development Authority (BIDA), Registrar of Joint Stock Companies and Firms (RJSC), Bangladesh Bank, National Board of Revenue (NBR), City Corporations/Municipalities, Department of Environment (DoE), and the like. Moreover, the lack of coordination among these agencies results in duplication of information for several requirements, as well as circularity where document A is required for document B, but document B is required to obtain document A. This leads to an increase in cost and time for receiving approvals and thus adversely affects growth in private investment.

Regulatory burdens are different for various sectors which induces informality in the economy. Moreover, non-uniform regulatory information across sectors aggravates challenges in doing business. Institutional frameworks are generally weak for the private sector as a whole, with problems more pronounced at the sector-specific level. Different sectors face differing regulatory burdens, which further encourages informality; a few sectors with powerful voices such as RMG have managed to advocate their way into a simpler regulatory environment; many other sectors and their representative associations do not have access to the knowledge of best practices, experience or ability to identify and advocate reforms for their regulatory environments.

Difficulty in accessing finance is a continuous problem faced by private investors coupled with comparatively high lending rates. The central-bank recently mandated that lending rates should be in single digits. The average lending rate in Bangladesh was higher (8.3 percent) than comparators such as Vietnam (7.6 percent), Malaysia (3.9 percent) and Thailand (3.3 percent) in 2020 according to World Bank data. In this regard, foreign financing can reduce the private sector cost of capital as it can secure loans at a lower rate, but the chances of most private sector companies attaining it are slender. This is because the Bangladesh Bank deals with the applications for foreign financing by firms on a case by case basis which in most cases take over a year to resolve. Moreover, Bangladesh Bank has capped the foreign interest rate with reference to the London Interbank Offered Rate (LIBOR) at LIBOR + 4.5 percent.

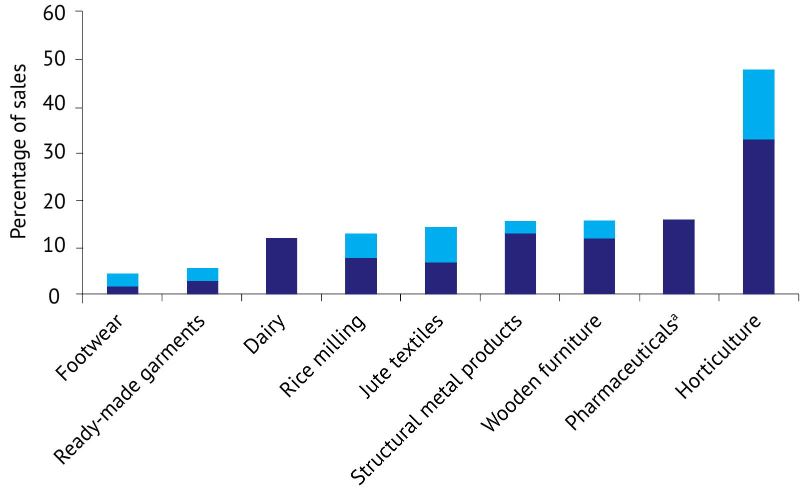
Figure 15: Lending Interest Rates (in %)



Source: World Bank data 2019

Comparatively high logistics costs in Bangladesh leads to products being less competitive in the global market. Logistics costs in Bangladesh are high in most sectors, ranging from 4.5 percent of sales (for leather footwear) to 47.9 percent of sales (for horticulture). Congestion and delays are pervasive problems across the national logistics system, from roads to seaports and land ports. If there were no congestion on roads, logistics costs would be at least 7–35 percent lower, depending on the sector. Average dwell times at Chattogram Port are 4 days for an export container and 11 days for an import container. Reducing dwell times would reduce logistics costs significantly.

Figure 16: Logistics Cost in Bangladesh, by Industry



Source: World Bank, 2020

Lack of serviced land can act as a major deterrent to private investment and hence economic diversification. Affordable serviced land can help to induce the process of economic diversification by increasing private sector investment. Although the government has tried to address this constraint by envisaging establishing 100 Economic Zones across the country, most work has been diverted towards infrastructural development with little focus being given on logistics development. Industrial cities or zones without an integrated logistics system will not provide zones with the efficiency it is supposed to deliver and thus firms will not receive the benefit of lower cost of production through lower logistics costs.

A protectionist trade regime promotes anti-export bias towards non RMG goods and may hinder products from becoming globally competitive. The current trade regime is inclusive of para-tariffs such as supplementary and regulatory duties on raw materials. Moreover, certain sectors such as footwear are highly protected by imposing para-tariffs on imported footwear. This makes domestically produced goods comparatively cheaper than imported goods. As a result, producers reap a higher margin in the domestic market and have little incentive to improve the quality of product and be competitive. The country can improve economic diversification and competitiveness by reducing para-tariffs such as supplementary and regulatory duties on raw materials and can be more harmonized with comparator countries. Developing broad-based global value chain capabilities through policy measures such as reducing average rates of protection and harmonizing tariff schedules across all intermediate and final goods can result in lower costs of production.

Paying taxes is a hassle for firms as both the assessment and payment processes are plagued with numerous policy and administrative complexities. Doing Business 2020 reported that, on average, firms in Bangladesh make 21 tax payments a year, spend 302 hours a year filing, preparing and paying taxes and pay total taxes amounting to 31.60 percent of profits. Recently, the Government of Bangladesh has introduced electronic tax registration system, which has made tax registration possible in less than one day and at no cost. Nevertheless, the latest data on firm incorporation, and the Tax Perception and Compliance Cost Survey, 2012 (WBG) validates the fact that there would have been further room for investment and growth and more firms would have become formal enterprises if the tax regime was simplified.

Poor enforcement of contracts clubbed with higher regulatory compliance costs and issues with access to electricity turn away private investment including FDI. Bangladesh has a burdensome commercial court litigation process that most businesses find frustrating, costly and a key impediment to business operations. According to Doing Business, 2020, on average it takes 1,442 days to enforce a contract and the financial cost of enforcement is as high as 66.80 percent of the claim. As compared with this, it took only 400 days in Vietnam and 452.8 days in China to enforce a contract; the financial cost is 29 and 16.2 percent respectively. An area of particular concern in Bangladesh relates to the current scenario regarding debt resolution and business exit. IMF data on aggregate non-performing loans illustrate that loan recovery is limited and value destruction is high. Moreover, in light of the overburdened courts, it takes over four times longer to close a business in Bangladesh than it does on average in OECD countries.

Discrepancies in insolvency laws in Bangladesh dampen the business environment and disincentivize private investment and FDI. Though the primary statute guiding the operation of insolvency is the Bankruptcy Act, 1997 – it is rarely used by the creditor or debtor. Ninety percent of commercial banks and financial institutions prefer to or are required by Bangladesh Bank regulations to sue under the Artho Rin Adalat Ain, 2003 instead of having recourse under the Bankruptcy Act, 1997, thereby making the Bankruptcy Act redundant. Moreover, the court-based dispute resolution mechanisms are not business friendly; alternative dispute resolution mechanisms like arbitration are rarely used. When used, even the enforcement of disputes resolved under these mechanisms ends up in court with the consequent delays and costs. Additionally, Bangladesh presently seems to lack a cadre of professional/specialized practitioners in the field of bankruptcy and insolvency.

Figure 17: Key Factors that Dampen Private Sector Investment

Chapter 5:

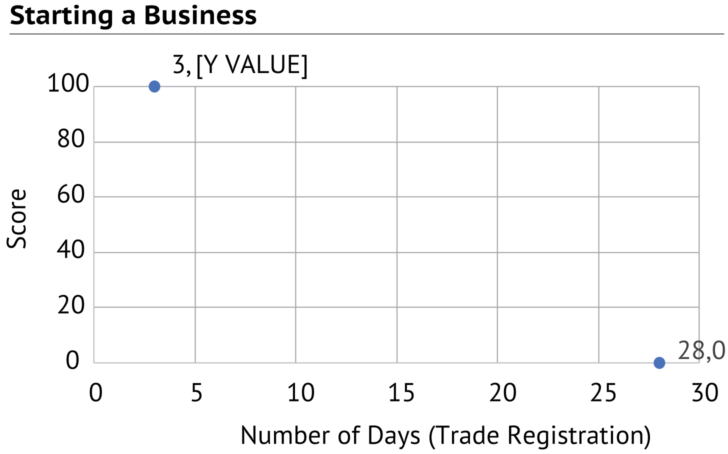
Bangladesh Business Climate Index: Formulation and Scoring

BBX provides a comprehensive score of the business-friendly environment in the country. The score benchmarks Bangladesh with respect to the best practice prevailing in the country, thereby highlighting the proximity to the best performance on each business environment Pillar. For the Starting a Business Pillar, for example, the minimum time it took a firm in Bangladesh to obtain the trade license or trade registration was one day while the worst was 28 days.

The score was calculated based on two key steps:

- In the first step, individual sub-indices were re-scaled using the linear transformation (worst – y)/ (worst – best). The highest score represents the best performance on the sub-indices across all Pillars.
- In the second step for calculating the Bangladesh score, the scores obtained for individual Pillar. Pillars are aggregated through simple averaging into one score, first for each Pillar and then across all 10 Pillars; Starting a Business, Access to Land, Availability of Regulatory Information, Access to Infrastructure, Labour Regulations, Dispute Resolution, Cross-border Trade Facilitation, Paying taxes, Technology Adoption and Access to Finance.

Figure 18: How Scores are Calculated



Data was analyzed by Division, and the next step was to prepare the absolute scores across 35 sub-indices for each Division. This gave 35 x 8 = 280 data points to begin with.

$$B_i = \sum_{i=1}^{n} x_{j,k}$$

Where, B is the value of the sub-index; i is the sector and k is the sub-index; Xj,k is the score of the ith term in j sector and k sub-index and n is the total number of firms surveyed.

Then absolute scores across the 10 Pillars were calculated. The score for each Pillar is calculated as a weighted average of the scores assigned to the 8 Divisions under each Pillar.

The last step was to calculate the combined overall score. This score was calculated using absolute scores for each Pillar for each Division, with each Pillar carrying equal weight.

$$I = \sum_{j=1}^{n} \sum_{k=1}^{n} w_i x_{j,k}$$

The BBX uses a simple method of calculation: weighting all Pillars equally and, within each Pillar, giving equal weight to each of the sub-indices . The score is indicated on a scale of 1 to 100, where 0 represents the worse performance and 100 the best performance.

The overall score distribution was categorized into five categories.

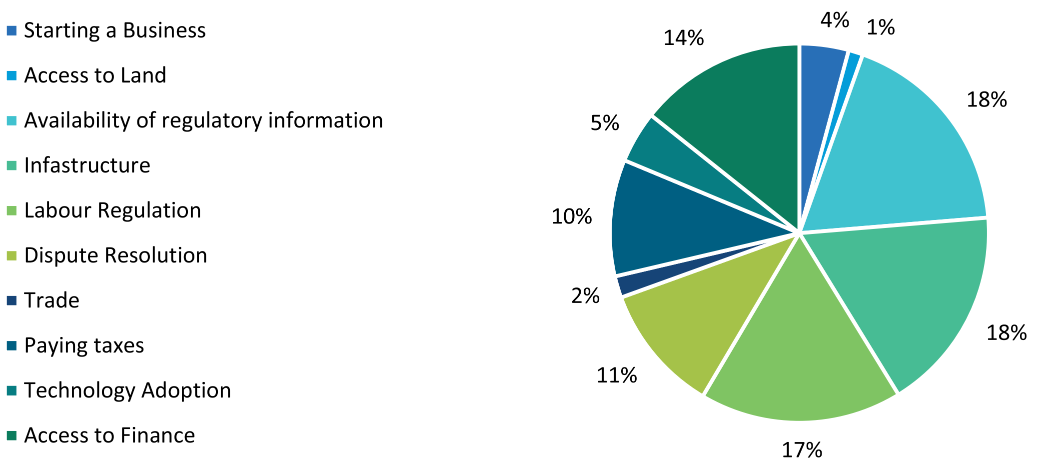
Score	Description
0-20	Difficult environment for business: Kick start for reforms needed
21-40	Substantial bottlenecks remain for business: Significant reform efforts required
41-60	Generally complex business environment: Regulatory modernization/simplification required
61-80	Improving business environment: Progress made however more needs to be done
81-100	Business- friendly environment: Continue the momentum

When compared across years, the score will highlight how much the business environment for local entrepreneurs in an economy has changed over time in absolute terms.

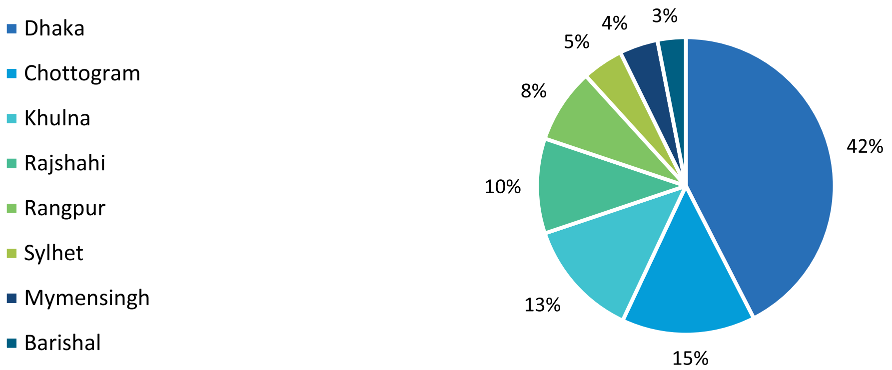
5.1 Respondent profile

A total of 451 respondents contributed to the Bangladesh Business Climate Index (BBX). After two rigorous rounds of quality review responses from 356 respondents were included for the computation of the Index.

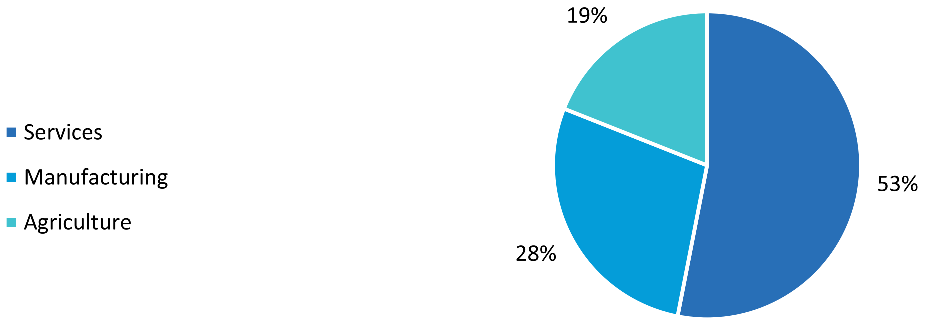
Respondents by indicator



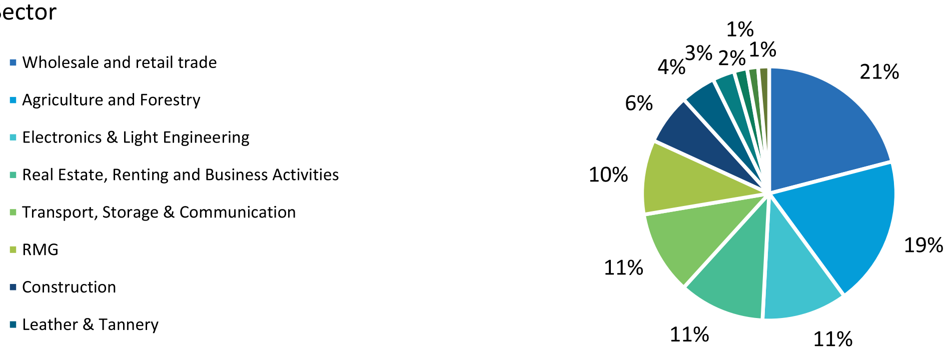
Respondents by Division



Repondents by Industry type



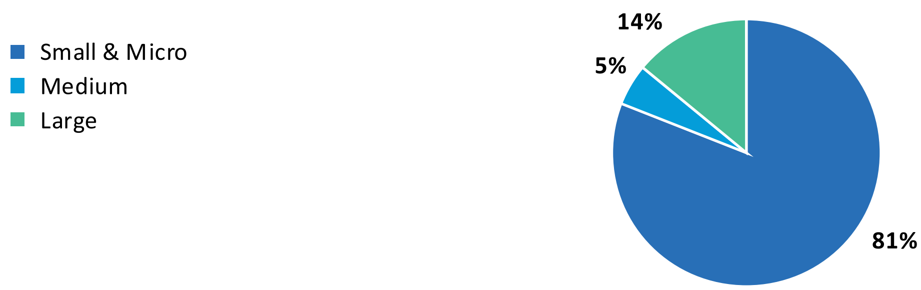
Respondents by Sector



Respondents by owernship type

Respondents by Gender

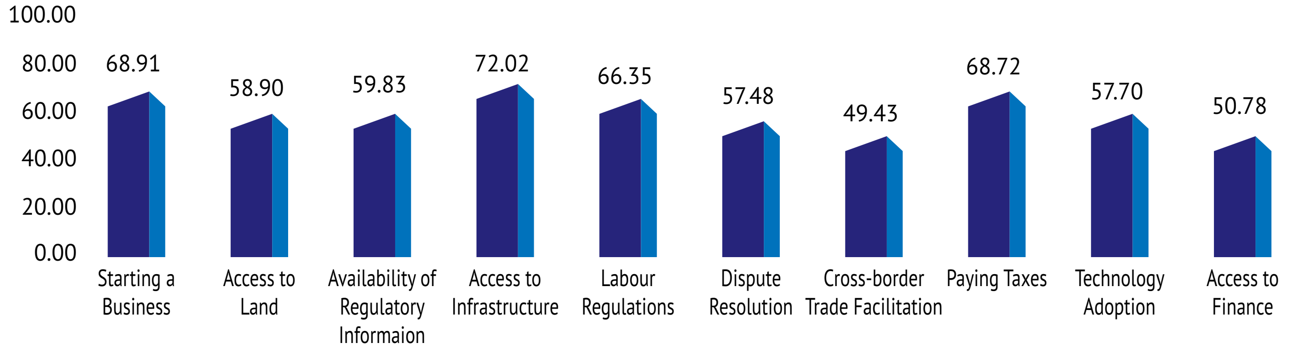
Respondents by firm size



5.2 Bangladesh Business Climate Index results

Figure 19: Bangladesh Composite Score

Bangladesh Composite Score	61.01	Improving Business Environment: Progress made however more needs to be done



The Bangladesh Business Climate Index (BBX) score of 61.01 reflects that despite multiple government initiatives, investors face several challenges when establishing and operating a business in the country. As in many other developing countries, the challenges stem from a weakness in transparency and efficiency in government-to-business (G2B) service delivery, an inadequate legal and regulatory framework, insufficient coordination between the public and private sectors, and a fragmented voice of the private sector in policy-making. In addition, weak and opaque enforcement of laws and regulations is leading to unfair competition among private sector actors and impacting potential growth opportunities. The BBX provides an empirical overview of the business-related challenges in Bangladesh.

An overall score of 61.01 has a number of implications.

- First, it shows that the country has made significant progress in its development journey to middle-income status and graduation from LDC to developing country status. Its development achievements have been concrete.
- Second, macro success has filtered down to micro achievements. Across a broad variety of sectors and policy areas, especially infrastructure, the fiscal administration, and starting a business, Bangladesh has developed a meaningful administrative system and production support system. The combination of growth in manufacturing-led exports, low but stable investment growth, expansion of service sectors has led to strong growth, a professionalization of the business environment, and improvement of the policy regime.
- Third, there is a large unfinished agenda, especially in terms of improving trade, finance barriers and technology adoption that are inhibiting the further expansion of both small and large businesses.
- Fourth, regulatory and institutional improvements will need to be continually made to ease the business environment for entrepreneurs.

Government efforts towards reforms and implementation of business-friendly interventions to create a better business environment have been mixed. The Index highlights that despite some streamlining of business regulations, certain administrative and policy uncertainties remain. Though things have improved, private sector activity continues to be affected by the uncertain regulatory environment and absence of effective institutional support.

Six out of the 10 Pillars fall in the third category highlighting the fact business environment in general remains complex and require modernization and simplification of regulatory framework. There is a 22-point difference between the best and the worst performing Pillar on the BBX. It clearly reflects the disparity in the operating environment for private sector in the country. The top 4 Pillars are Access to Infrastructure, Starting a Business, Paying Taxes and Labour Regulation with little difference in scores amongst them. The remaining 6 Pillars lag significantly.

Each Pillar can tell a different story. The interviews drew out many of the nuances:

- Land appears a constraint to some sectors. The RMG sector found it most difficult to obtain land or register property as compared to firms in the Leather and Tannery sector. This suggests that urbanization in Dhaka and Chattogram has been somewhat unplanned, and the scarce availability of land and resulting prices prevents many potential entrepreneurs from setting up operations within or around these two cities.
- Finance constraints span a number of sectors, mostly centred on fast moving consumer sectors (FCMG) as well as real estate. Pharmaceutical and construction sectors found it relatively easier to gain access to finance than other sectors.
- The trade regulatory regime appears most problematic for transporters who are burdened with significant administrative paperwork and documentation. The assessment finds that the regulatory challenges facing firms in other sectors may be partly overstated compared to other constraints such as finance and trade facilitation.
- With increasing trend in digitization of sales methods, retail and wholesale traders struggle to adopt technologies to be able to survive in a competitive global and domestic market.

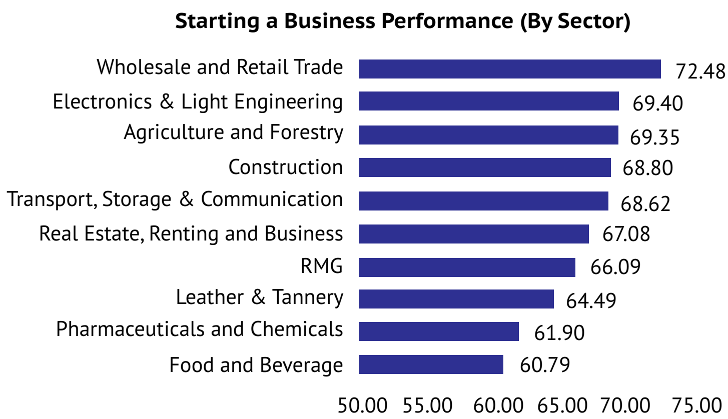
- Sensitive legal issues centered around disputes are problematic for a several sectors, including goods that are linked to safety and health, such as agriculture and pharmaceuticals.

Table 13: Summary of Bangladesh Business Climate Index Pillars

SL No	Pillar	Score	Implications	Observations
1	Starting a Business	68.91	Improving Business Environment	Easier to set up business in Khulna and Rajshahi; obtaining license and navigating regulations to start business is difficult.
2	Access to Land	58.90	Complex Business Environment	RMG sector find it most difficult to obtain land or register property compared with firms in Leather and Tannery sector.
3	Availability of Regulatory Information	59.83	Complex Business Environment	More than 90 percent of respondents deal with a complex regulatory maze; this occurs in multiple sectors and regions
4	Access to Infrastructure	72.02	Improving Business Environment	Due to Bangladesh's increasing investment in energy, roads and digital infrastructure, this constraint is relatively light compared to others.
5	Labour Regulations	66.35	Improving Business Environment	Firms face challenges in obtaining skilled workforce; labour compensation and severance pay present biggest difficulties.
6	Dispute Resolution	57.48	Complex Business Environment	Firms have confidence in the current judicial system to uphold their property rights and contracts; but they have not experienced reduction in the time for resolving commercial disputes, especially linked to land and property
7	Cross-border Trade Facilitation	49.43	Complex Business Environment	Congestion at the ports, especially Chattogram, is impacting lead time for exporters and importers in Bangladesh, making them less competitive
8	Paying Taxes	68.72	Improving Business Environment	Businesses face difficulty in filing tax returns and high rates; taxation in Bangladesh has complexity of rules, and difficulty in compliance.
9	Technology Adoption	57.70	Complex Business Environment	Mixed story as majority of respondents report investing in new technologies in past 24 months, although bottlenecks remain across country.
10	Access to Finance	50.78	Complex Business Environment	Access to bank loans difficult; most respondents say that they find significant bottlenecks in access to finance and use retained earnings for investments.

5.2.1 Starting a Business

S. No.	Division	Score
1.	Khulna	77.67
2.	Rajshahi	71.36
3.	Dhaka	68.63
4.	Chattogram	66.89
5.	Mymensingh	61.87
6.	Barishal	0.00
7.	Sylhet	0.00
8.	Rangpur	0.00
	Pillar Score	**68.91**

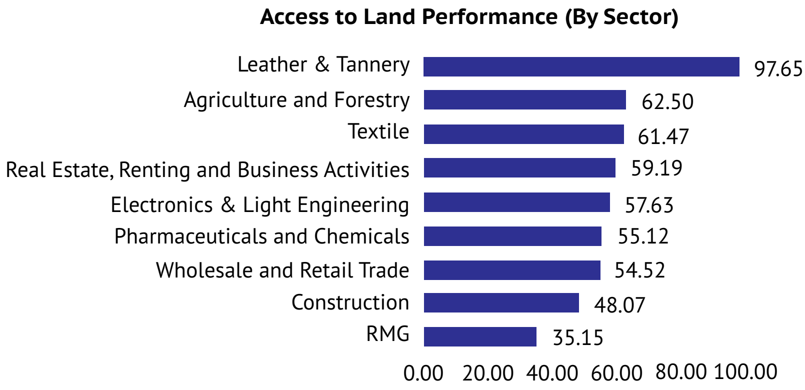


During the initial set up, a company has to navigate through a maze of regulatory approvals to set up its business in Bangladesh. The time taken to obtain the Incorporation Certificate was highlighted as the least problematic while registration for trade license was the most cumbersome process in starting a business in Bangladesh. This is largely due to the relatively high level of inefficiency in municipalities which have gone through fewer reforms compared to RJSC. The findings were consistent across all the eight Divisions in the country. Firms in the Wholesale and Retail Trade sector found it easier to start their business in Bangladesh as compared to firms in the Food and Beverage sector. The respondents mentioned that the biggest regulatory challenge facing them while starting a business in Bangladesh is obtaining the sectoral licenses- where sectoral regulators often make the process quite complex. About 77% of the respondents stated that they are required to visit up to five different agencies to obtain approvals for starting their business in Bangladesh thereby posing a significant regulatory burden on businesses in the country. This amount of red tape is a clear deterrent for many businesses.

To start and operate a business in Bangladesh, and obtain the necessary approvals, a potential private investor has to navigate through numerous government agencies. The majority of the registration services are provided manually by the government agencies, and there has been little automation. In addition, the existing service delivery is not integrated and well-coordinated. Dhaka North City Corporation (DNCC) has no automated system to issue trade licenses (which is an essential step in starting a business). Although some agencies have automated systems (RJSC and NBR), they tend to be exceptions rather than the rule. They continue to work in silos and do not share data with other agencies. As a result, the majority of government agencies are having approvals provided by other agencies authenticated by sending official letters to the respective agencies. The One-Stop-Services in BIDA is trying to address part of this challenge but the overall scenario still lacks efficiency. This makes businesses incur additional costs and increases the time required for providing approvals. The final result is a complex regulatory maze that increases the transaction costs of doing business.

5.2.2 Access to Land

S. No.	Division	Score
1.	Khulna	86.41
2.	Rangpur	74.75
3.	Dhaka	59.84
4.	Chattogram	49.83
5.	Rajshahi	48.07
6.	Mymensingh	47.65
7.	Barishal	0.00
8.	Sylhet	0.00
	Pillar Score	**58.90**

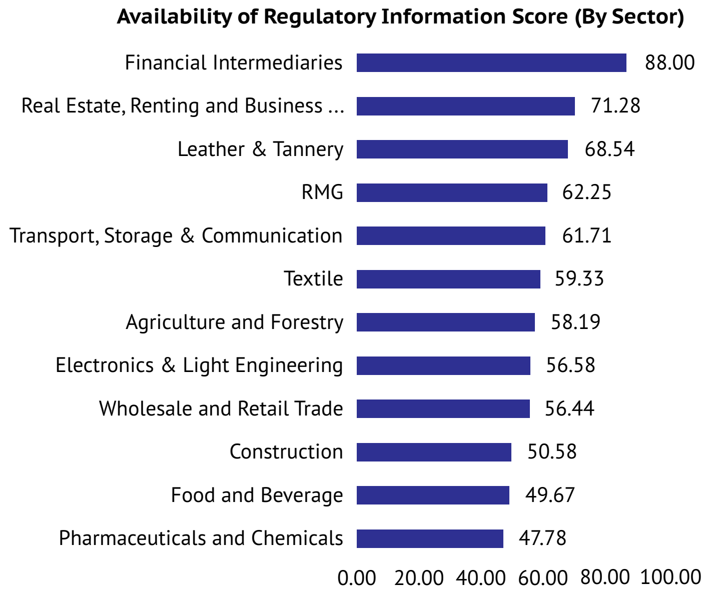


The majority of respondents mentioned that they experience significant bottlenecks in dealing with the government agencies while procuring land in Bangladesh. This is not unusual for an emerging market. Dhaka and Chattogram were two of the lower performing Divisions on this Pillar while the Divisions of Rangpur and Khulna performed better with respondents informing of a better experience on this Pillar. It was found that firms in RMG sector find it more difficult to obtain land or register property as compared to firms in Leather and Tannery sector. This suggests that urbanization in Dhaka and Chattogram has been somewhat unplanned, and the scarcity of available land prevents many potential entrepreneurs from setting up operations in or around these two cities.

The majority of the respondents highlighted that delay in mutation of land/property is the biggest bottleneck faced by them while procuring land in the country. It takes on an average 63 days (approximately) to get land title transfers recorded in land records office in Bangladesh. It takes a significantly long time to complete the mutation of title after purchase of land. Majority of the companies stated that they were required to make an informal payment to government agencies during land procurement in Bangladesh. Given Bangladesh's dense population and small land area, land has been a challenge for industrial development in the country. In this context, the development of special economic zones, especially the BSMSN area near Chattogram, may alleviate some of the land pressures.

5.2.3 Availability of Regulatory Information

S. No.	Division	Score
1.	Chattogram	63.66
2.	Barishal	63.33
3.	Sylhet	63.13
4.	Khulna	62.90
5.	Dhaka	60.04
6.	Rajshahi	57.12
7.	Mymensingh	57.11
8.	Rangpur	48.85
	Pillar Score	**59.83**



The majority (91%) of respondents noted that they are aware of all the numerous applicable registrations and renewals for setting up/operating business in Bangladesh. However, they were unable to access online the information regarding rules and regulations that impact their business in Bangladesh. More than 52% of the respondents stated that they are never informed in advance by the government agencies about any change/modification in regulations that affect their business, indicating challenges in regulatory governance. It was observed that firms in the financial sector have a greater access to information regarding government regulations while firms in pharmaceuticals and chemicals sector have the least access to information.

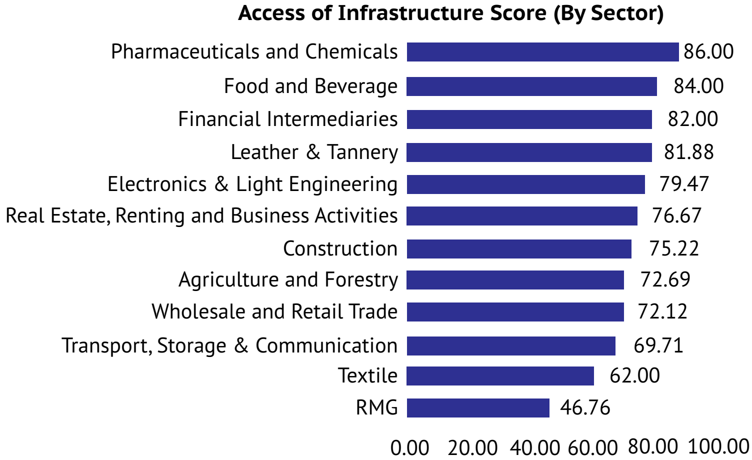
Information pertinent to starting and operating a business – including the documentary requirements, identity of government agencies to provide approvals and the necessary instructions to follow for applications – is not readily available. Websites and guidelines including Citizen's Charters are not always up to date. In addition, no proper guideline is available for regulatory officers for providing services, and where guidelines are available; there is little or no redress if they are not followed.

The lack of proper compliance information and guidelines for receiving investor services are major challenges for businesses in Bangladesh. The absence of a well-structured Standard Operating Procedure (SOP) for service delivery at the agency level in many areas often leads to a lack of transparency, increasing the jurisdictional power of government officials and consequently allowing a preferential delivery of services to select businesses. In 2017, a regulatory unpredictability survey was conducted by the World Bank Group (Regulatory Unpredictability in Bangladesh) measuring the availability and predictability of regulatory information. The report findings indicated that the most serious are difficulty in finding information on laws and regulations, inadequate consultation during design, and discretionary behavior by regulatory officials.

Weak and opaque enforcement of laws and regulations leads to unfair competition among private sector actors and impacts potential growth opportunities. Several studies have identified that a weak and inadequate legal and regulatory framework, and poor governance lead to: (a) poor policy coordination within government, and between the public and private sectors, and (b) complex investment climate (UNCTAD Bangladesh 2013). Moreover, weak and non-transparent enforcement mechanisms lead to unfair competition in the private sector.

5.2.4 Access to Infrastructure

S. No.	Division	Score
1.	Sylhet	80.63
2.	Mymensingh	78.67
3.	Chattogram	77.06
4.	Khulna	76.67
5.	Barishal	76.36
6.	Rajshahi	71.14
7.	Dhaka	69.50
8.	Rangpur	59.31
	Pillar Score	**72.02**

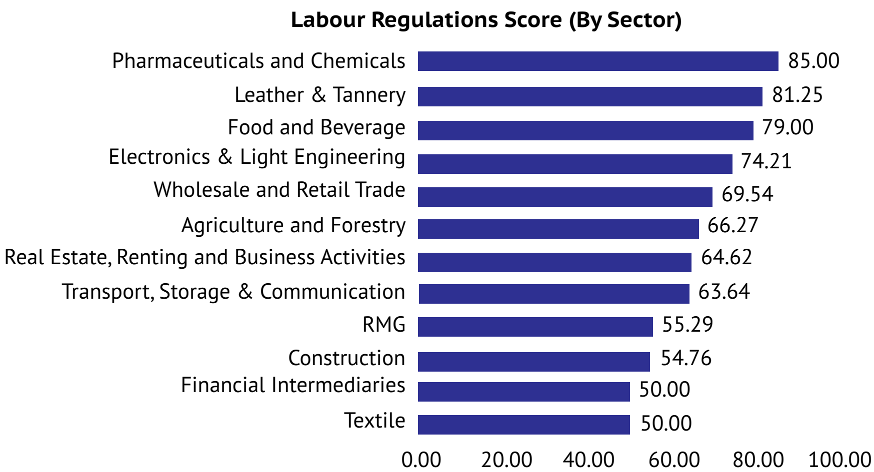


Access to Infrastructure is the best performing Pillar on the Bangladesh Business Climate Index. Majority of respondents mentioned that amongst various infrastructure services they experience the least amount of difficulty in accessing transport and logistics services for their firms. However, this is likely to vary for firms engaged in international trade. This Pillar performed well due to the quadrupling of energy supply and improvement in connectivity infrastructure (e.g. roads, mobile, internet) in Bangladesh in the last decade. More than 95 percent of the population now has access to electricity. However, disruptions in electricity supply were a significant challenge faced by the firms regarding access to infrastructure in Bangladesh. Firms in the Pharmaceuticals and Chemicals sector find access to infrastructure easier than firms in any other sector in Bangladesh. Given their scale and uninterrupted electricity needs, firms in the RMG sector face biggest challenges with respect to access to infrastructure in the country. Infrastructure services such as roads, water, electricity, and telecommunications are critical for the proliferation of private businesses.

One of the positive feedbacks shared by the respondents was that a majority of them (65 percent) were not required to make any informal payments to the utility for obtaining a new electricity connection. Similarly, a majority of the respondents mentioned that they find it easy to access internet and mobile network for their business operations. Approximately 70 percent respondents also mentioned that they find it easy to obtain transport and utility services in Bangladesh. The respondents from our survey highlighted the high price of obtaining utility connection as the biggest infrastructure bottleneck faced by businesses in Bangladesh.

5.2.5 Labour Regulations

S. No.	Division	Score
1.	Mymensingh	77.86
2.	Chattogram	77.76
3.	Sylhet	75.00
4.	Dhaka	68.33
5.	Barishal	66.36
6.	Rajshahi	60.29
7.	Khulna	58.70
8.	Rangpur	46.07
	Pillar Score	**66.35**



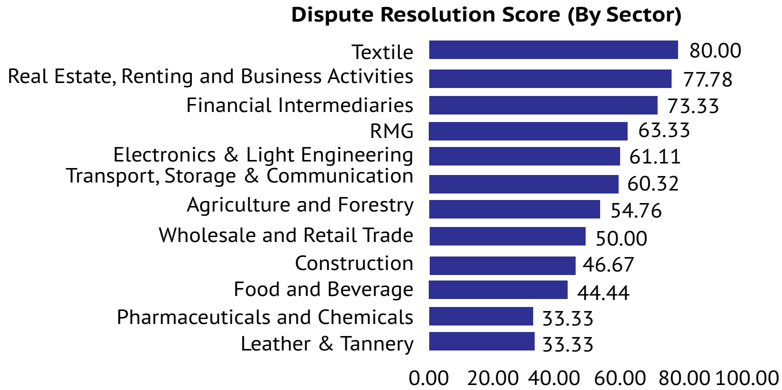
Bangladesh's large labour pool is a key advantage for businesses looking to set up operations in the country, but a skills mismatch limits the productivity levels. The country possesses the third largest worker pool in the region and one of the largest in the Asia region, with over 100 million people. One of the reasons Bangladesh is competitive compared to its neighbours is its particular labour advantage. Therefore, labour regulations are a key driver for business growth in the country.

During the survey, the majority of respondents mentioned that amongst the numerous labour regulations in Bangladesh, they find filing of labour returns the easiest. **However, firms face significant challenges in obtaining skilled workforce for their units and access to technology, training, and technical materials for up-skilling of their employees. Labour compensation (high severance pay) was highlighted as one of the biggest difficulties faced by businesses in Bangladesh.**

Low literacy rate restricts the domestic labour force to low-skilled jobs in the country. Over 25 percent of the labour force does not have formal education; largely due to limited investment into the education system. Limited female participation in the labour force further reduces the quality of the labour force available in the market. In Bangladesh, women's participation in the labour force was 29.25 percent in 2018 (World Bank, 2019).

5.2.6 Dispute Resolution

S. No.	Division	Score
1.	Rangpur	87.36
2.	Rajshahi	69.33
3.	Chattogram	60.00
4.	Dhaka	58.20
5.	Barishal	51.52
6.	Mymensingh	43.59
7.	Khulna	41.86
8.	Sylhet	35.56
	Pillar Score	**57.48**



Majority of respondents mentioned that they have significant confidence in the current judicial system of Bangladesh to uphold their property rights and contracts. However, all of them highlighted that they have not witnessed or experienced any reduction in the time for resolving commercial disputes in Bangladesh in the past two years. Currently, there is no court in Bangladesh that is dedicated solely to hearing commercial cases. The respondents shared that disputes related to land and property were the most cumbersome and took the maximum time to resolve. A majority of the respondents said that there is no effective out-of-court commercial dispute resolution mechanism in place for businesses to use in Bangladesh.

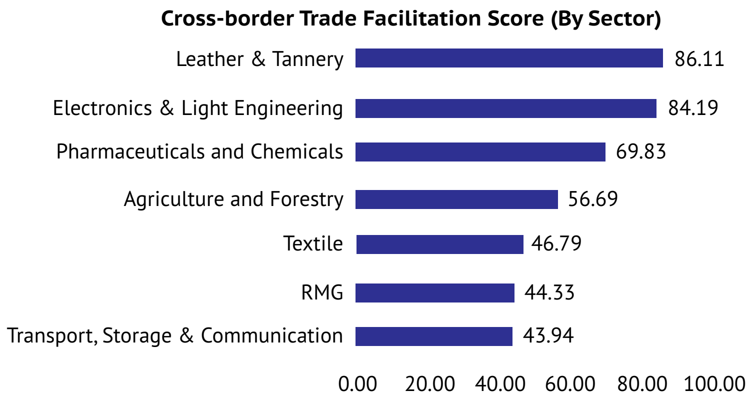
Despite some efforts, Bangladesh has not made any significant improvements to the ease of enforcing contracts in the past decade. Currently there are around 3 million cases pending trial and it is estimated that around 10 – 15 percent of them are commercial in nature (Source: The World Bank Doing Business Documents). Lack of dedicated commercial courts and lack of expertise in handling commercial disputes are key reasons for the poor performance of the country in commercial dispute resolution. While the government has introduced provisions for alternate dispute resolution such as mediation, its use is not mandatory. Therefore, it has not led to any significant improvement in the dispute resolution process in Bangladesh.

As per the World Bank Doing Business Report, it takes more than 1440 days to resolve a commercial dispute in the country. In Singapore, it takes only 164 days to resolve a commercial dispute. Research in various countries suggests that, in the absence of efficient dispute resolution, firms make fewer investments and business transactions while informal transactions become more attractive.

A study of 27 economies found that the informal sector's share in overall economic activity decreased with better contract enforcement quality, evaluated by a country-wide measure of rule of law, as well as by the firm's perception of the fairness of the system. Improvements in efficiency are associated with a lower share of the informal sector in the overall economic activity, increased investor confidence and increased bank financing of firms for new investment.

5.2.7 Cross-border Trade Facilitation

S. No.	Division	Score
1.	Chattogram	83.76
2.	Rangpur	66.50
3.	Khulna	53.36
4.	Dhaka	43.49
5.	Rajshahi	0.00
6.	Barishal	0.00
7.	Mymensingh	0.00
8.	Sylhet	0.00
	Pillar Score	**49.43**



Trade is the least well-performing Pillar on the Bangladesh Business Climate Index. This reflects the country's high population density and growing pressures on trade and logistics infrastructure. The majority of respondents noted that they still find significant bottlenecks in obtaining clearance from Customs agencies to import or export goods and services. The respondents also highlighted that the time and cost incurred to obtain clearances for export is less than the time and cost required for obtaining import clearances in Bangladesh.

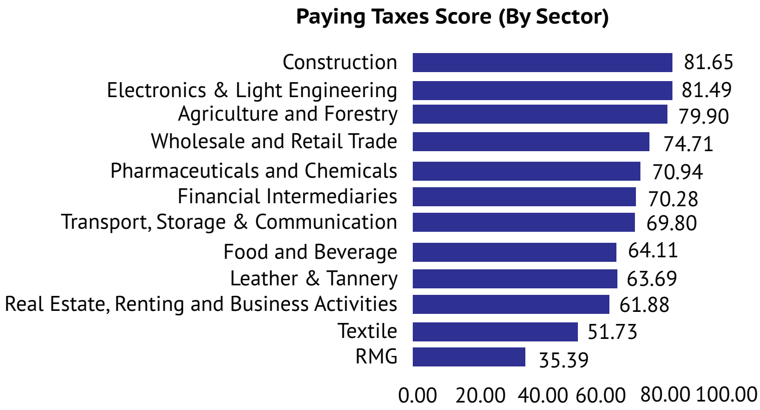
Congestion at the ports and bureaucratic delays are impacting the lead time for exporters and importers in Bangladesh. Chattogram is the busiest seaport on the Bay of Bengal but it lacks the container capacity to efficiently process the country's growing trade volumes. This congestion makes the port less competitive than its foreign counterparts. The shipping transit times from major ports in Bangladesh are significantly high because of poor navigability, making the sector highly uncompetitive. The Government has undertaken initiatives such as producing the Bill of Entry to Customs within five days of the arrival of goods. There are also ambitious but necessary plans to build new ports such as Bay Container Terminal. However, the impact of these plans is yet to be fully felt on the ground. Border clearance for goods, involving upto 39 government agencies, came up as a critical bottleneck. Excessive documentation, redundant procedure, complex regulations, and weak coordination comprise problems in border clearance.

Bangladesh ranks low on the global indices such as Trade Freedom Index and Trading across Border Indicator of the World Bank Doing Business Report. The Trade Freedom Index prepared by the Heritage Foundation for Bangladesh measures the absence of tariffs and other barriers that affect the international trade of goods and services. The average value for Bangladesh during that period was 44 points with a minimum of 0 points in 1995 and a maximum of 64 points in 2016. As per the World Bank Doing Business Report, export of goods takes approximately 147hrs for documentary compliance and 168hrs for border compliance. Similarly, for import it takes 144hrs for documentary compliance and 216hrs for border compliance .

The country ranks low on the World Bank Logistics Performance Index. The Index uses six key dimensions to benchmark countries' performance in Logistics. Bangladesh is currently ranked 100 out of 160 countries with a low LPI score of 2.60 out of 5.00. Germany had the highest score of 4.19 and Somalia the lowest with 2.00 in 2018.

5.2.8 Paying Taxes

S. No.	Division	Score
1.	Sylhet[1]	92.79
2.	Barishal	92.41
3.	Mymensingh	86.98
4.	Rajshahi	86.70
5.	Rangpur	83.41
6.	Khulna	76.67
7.	Chattogram	65.50
8.	Dhaka	53.72
	Pillar Score	**68.72**



The majority of respondents mentioned that they still find significant bottlenecks in filing returns for and paying both income tax and VAT in Bangladesh. The respondents highlighted that it takes a lower number of days to file and pay VAT than income tax. As per the survey respondents, the high rates of corporate tax are the biggest tax bottleneck faced by the industry. The firms in the construction sector found the current tax regime easier than the rest of the sectors. Dhaka and Chattogram Divisions face the biggest challenge- this can be attributed to the long-standing complaints and concerns by the private sector and experts that the tax officials cherry pick compliant and large tax-payers, the majority of whom are located in and around Dhaka and Chattogram, to squeeze out more tax repeatedly rather than enhancing collection by expanding the tax net, and reducing evasion.

Unfortunately, Bangladesh's tax-GDP ratio (at around and below 10%) is still far below the global average, whereas countries like Vietnam, Nepal, South Korea, and New Zealand are way ahead. Overall, revenue as a percentage of GDP is significantly lower in Bangladesh when compared with that of the above-mentioned countries. Doing Business 2020 highlights that currently there are 33 payments required per year and 435 hours are spent for preparing and filing taxes in the country. Bangladesh's high number of payments per year (33) mainly results from the requirement to pay VAT on a monthly basis and personal income tax on a quarterly basis (12 payments for VAT and 4 payments for income tax per year). According to the 2013 World Bank Enterprise Surveys, 10.8 percent of firms operating in Bangladesh identify tax administration as a major obstacle. In addition, 41 percent of firms report that they are expected to give gifts in meetings with tax officials, well above the regional average of 19.6 percent. This figure is even higher (48.7 percent) among exporting firms.

Taxation in Bangladesh has a number of issues - low collection levels, high complexity of rules, administrative hassle, and poor compliance. One of the key bottlenecks is the high and multiple prevalent VAT rates. There is also high degree of revenue dependency on customs duty and advance tax in the country. Although the Government has already launched initiatives to streamline and modernize its tax infrastructures and tax policies, there is still much room for improvement. The tax law imposes income tax at 25 percent on listed entities and 32.5 percent for non-listed entities, and there are ongoing discussions on improving the tax compliance of these entities.

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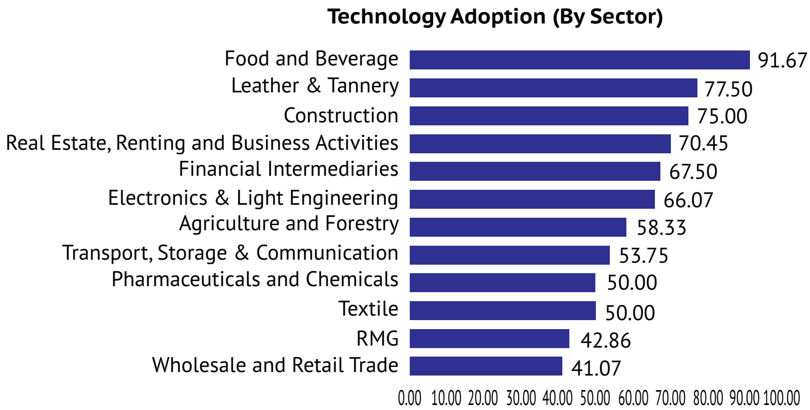
[1] Sylhet and Barishal Divisions have scored the most in paying taxes (92.79 and 92.41 respectively) while Chattogram and Dhaka have scored the least with 65.50 and 53.72 respectively. A deeper analysis of survey data reveals three reasons behind this: i) 78.6 percent respondents in Sylhet and 75 percent respondents in Barishal said that it was easy for them to file and pay VAT and IT in their respective Divisions whereas only 14.2 percent respondents in Chattogram and 13.9 percent in Dhaka said that it was easy; ii) 92.9 percent of respondents in Sylhet and 75 percent in Barishal felt no adverse impact on their businesses because of the current tax environment, however 64.2 percent respondents in Chattogram and 58.8 percent in Dhaka felt that they frequently experienced adverse impacts on their businesses due to the current tax environment; iii) when asked regarding the frequency of making informal payment to comply with tax regulations, 92.9 percent of the respondents in Sylhet and 100 percent in Barishal said they did not make any informal payments, while 44.1 percent in Chattogram and 48 percent in Dhaka said they had to make informal payments frequently.

5.2.9 Technology Adoption

S. No.	Division	Score
1.	Chattogram	77.50
2.	Khulna	62.50
3.	Rajshahi	55.00
4.	Dhaka	54.74
5.	Rangpur	43.75
6.	Sylhet	0.00
7.	Barishal	0.00
8.	Mymensingh	0.00
	Pillar Score	**57.70**

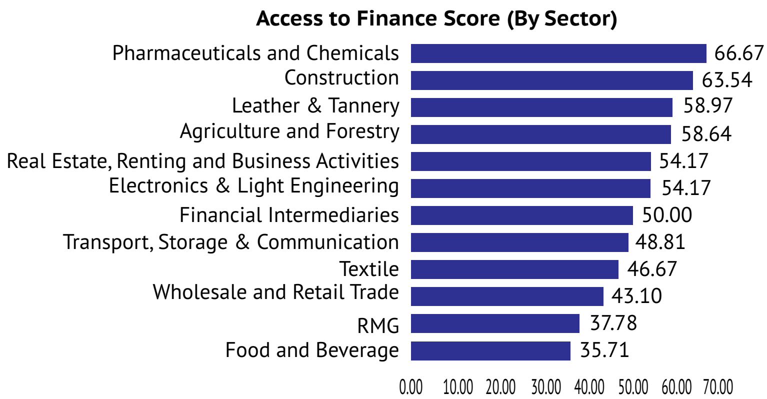


The majority (more than 80 percent) of the respondents mentioned that they invested in one of the following areas - a new technology equipment, software, or digital solution for their business functions in the past 24 months. However, they still find significant bottlenecks in accessing/availing of the technology solutions and platforms they need to use in their businesses in Bangladesh. One of the key challenges is the lack of availability of domestically available technology solutions. More than 70 percent of survey respondents informed that they use social media sites and e-commerce portals to sell their goods and services in Bangladesh, highlighting a high degree of gradual technology adoption.

Technology adoption increases quality, reduces wastage, and lowers the demand for labour too. However, to catch up with the leading technologies, including artificial intelligence (AI), robotics and biotechnology, Bangladesh has a long way to go. It is currently ranked 112/158 in the Readiness for Frontier Technologies Index prepared by United Nations Conference on Trade and Development (UNCTAD TIR, 2021). According to the Index, Bangladesh was ranked second among the Least Developed Countries (LDCs) in terms of readiness to catch up with the latest technologies. Nepal ranked first while its overall ranking is 109. Another global index where Bangladesh is performing low is the Global Innovation Index (GII), where it is currently ranked 116/131. The ranking has remained unchanged for the country in the past three years. Lack of copyright registration, i.e., intellectual property protection has been identified as a key area of improvement for the country.

5.2.10 Access to Finance

S. No.	Division	Score
1.	Barishal	89.6
2.	Mymensingh	87.2
3.	Sylhet	76.2
4.	Khulna	58.7
5.	Rajshahi	54.9
6.	Chattogram	43.6
7.	Dhaka	41.7
8.	Rangpur	38.5
	Pillar Score	**50.78**



Access to Bank Loans and access to finance from Bank and Non-Banking Financial Institutions are still major constraints to businesses. The majority of the respondents mentioned that they find significant bottlenecks in access to finance in Bangladesh. Retained earnings are the major source of finance for the total purchase of fixed assets/capital in the past 24 months. Many smaller firms have difficulty finding sufficient collateral to qualify for a loan. A majority of the respondents found that prevailing interest rates charged by the banks are a hurdle to the private sector in access to finance. The interest rates on loans ranged from 10 to 15 percent, until it was capped at single digit by Bangladesh Bank recently. As per a study by the World Bank Group, the collateral requirements for bank loans are relatively high. It was identified that the value of the collateral required from the industry was on average 270 percent. Access to formal sources of finance for MSMEs is limited compared to the average for the South Asia region, with an estimated financing gap of Bangladeshi Taka 237 billion (US$2.8 billion).

The banking process is extremely time-consuming in Bangladesh and small enterprises are unable to produce the required documents when applying for credit or other financial facilities. The country's SME sector suffers from a financing gap of Tk 237 billion (US$2.8 billion), across 804,041 SME enterprises where 60 percent of women-owned SMEs' financing needs are unmet, and lack of access to collateral is one of the key hindrances. The 2013 Enterprise Survey estimated that the sector's access to formal finance was only 27.5 percent whereas lines of credit to large firms were 44 percent. Some of the supply side constraints include market imperfections, the lack of credit appraisal policies, lack of strong credit registry, while demand side constraints include the lack of financial capabilities and lack of documentation for KYC, and lack of credit rating from formal sources. This is exacerbated by the central bank requiring compliance from micro, cottage and small industries in almost the same manner as medium and large industries in terms of credit appraisal, documentary, KYC and collateral requirements.

Table 14: Key Bottlenecks Facing the Private Sector in Bangladesh by Indicators

Starting a Business	Access to Land	Access to Infrastructure	Labour Regulations	Dispute Resolution	Cross-border Trade Facilitation	Paying Taxes	Access to Finance
Complex permission and license regime	Delay in mutation	High price of utility services	Compensation required to pay to labour	Delay in land related matters	High customs tariff	High corporate income Tax	Access to credit
Obtaining sectoral licenses	Speed money required	Challenges in obtaining gas and electricity connection	High cost for unskilled labour	Slow court proceedings	Inadequate customs policy	Significant documentary requirements	High interest rate
VAT and tax registrations and approval	Involvement of intermediaries	Difficulty in dealing with government agencies	Mandatory festival bonuses to be paid	Protection to uphold terms of international trade (e.g. dispute on CM, non-payment by RMG buyers)	Time delay with customs agencies		Complex documentary requirement

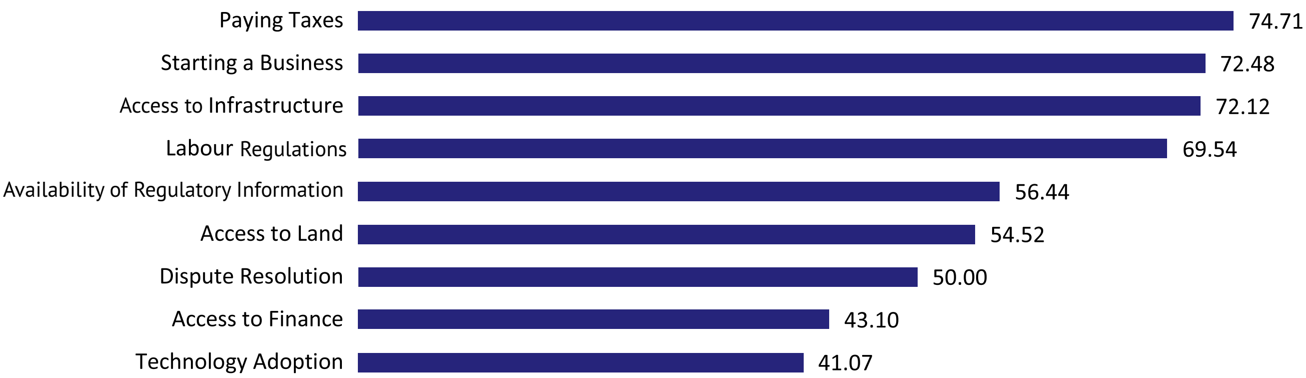
Table 15: How Pillars' Areas Fare for Different Sectors

Name of Pillar	Most Conducive In	Most Difficult In
Starting a Business	Wholesale and Retail Trade	Food and Beverage
Access to Land	Leather and Tannery	Readymade Garments
Availability of Regulatory Information	Financial Intermediaries	Pharmaceuticals and Chemicals
Access to Infrastructure	Pharmaceuticals and Chemicals	Readymade Garments
Labour Regulations	Pharmaceuticals and Chemicals	Textile
Dispute Resolution	Textile	Leather and Tannery
Cross-border Trade Facilitation	Leather and Tannery	Transport, Storage and Communication
Paying Taxes	Construction	Readymade Garments
Technology Adoption	Food and Beverage	Wholesale and Retail Trade
Access to Finance	Pharmaceuticals and Chemicals	Food and Beverage

5.3 Sectoral Performance

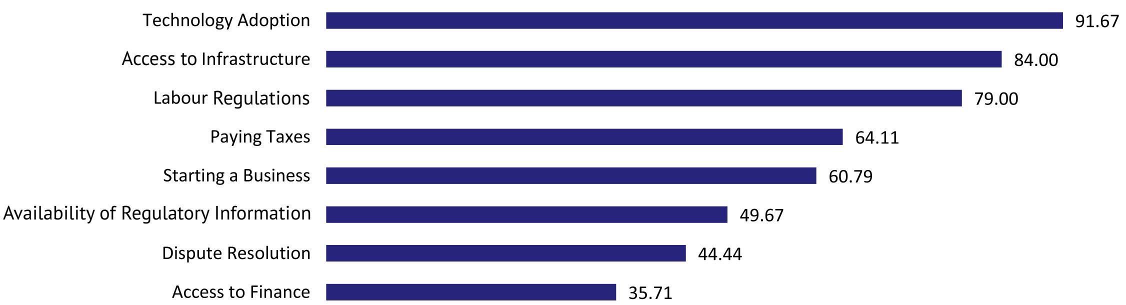
Government of Bangladesh's Export Policy 2015-18 has identified 12 sectors as high priority sectors and 14 sectors as special development sectors. Bangladesh's National Industrial Policy 2016 has identified 12 sectors as high priority sectors. Therefore, it is imperative that the country creates a competitive environment for these sectors to fuel the economic growth in the country. The sectoral findings of BBX are mentioned below.

5.3.1 Wholesale and Retail Trade



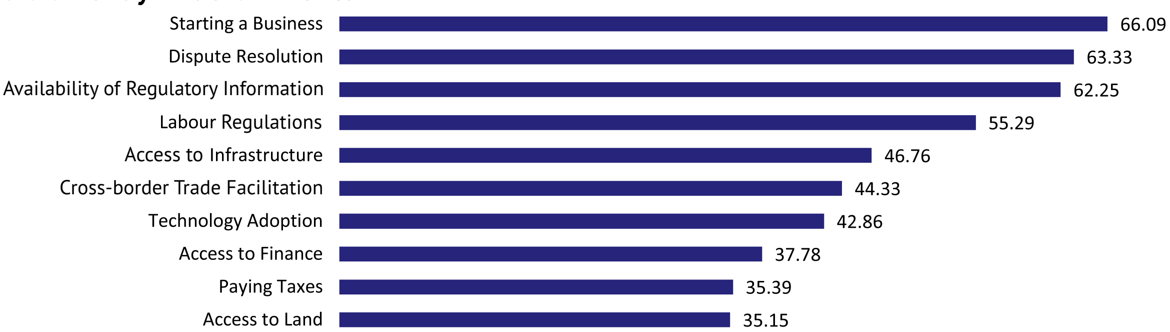
As per the respondents, they faced the least number of challenges in paying taxes in Bangladesh while technology adoption was the biggest constraint faced by them.

5.3.2 Food and Beverages



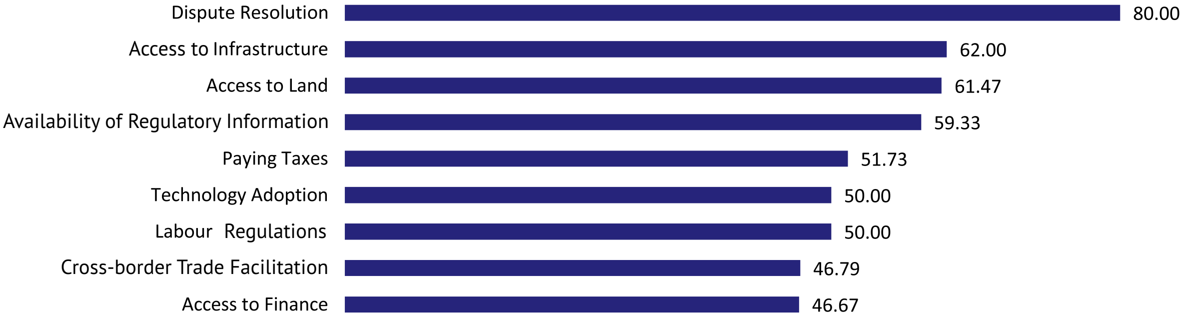
As per the respondents, they faced the least number of challenges in technology adoption in Bangladesh while access to finance was the biggest constraint faced by them.

5.3.3 Readymade Garments



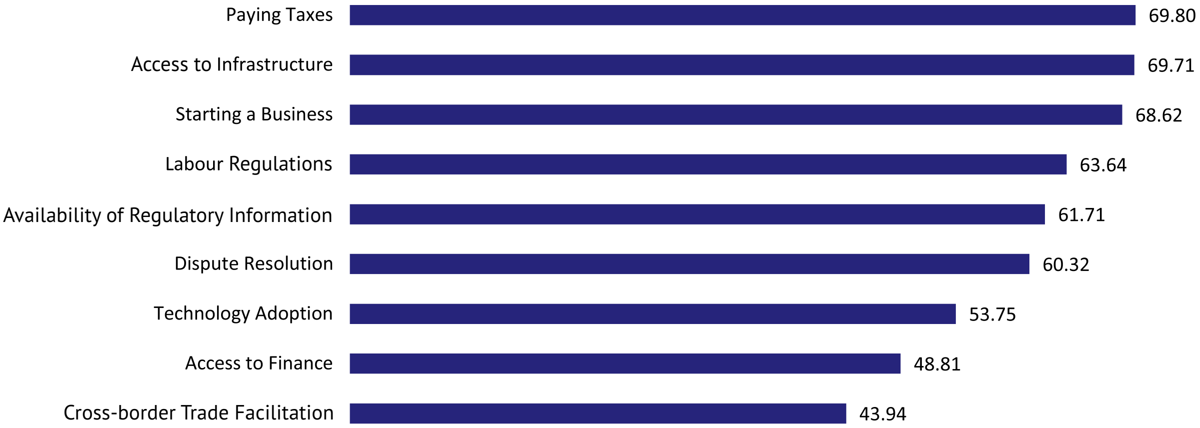
As per the respondents, they faced the least number of challenges in starting a business in Bangladesh while access to land was the biggest constraint faced by them.

5.3.4 Textile



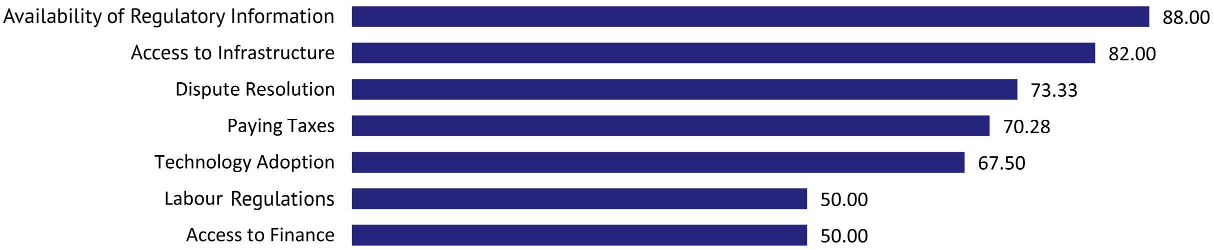
As per the respondents, they faced the least number of challenges in dispute resolution in Bangladesh while access to finance was the biggest constraint faced by them.

5.3.5 Transport and Storage



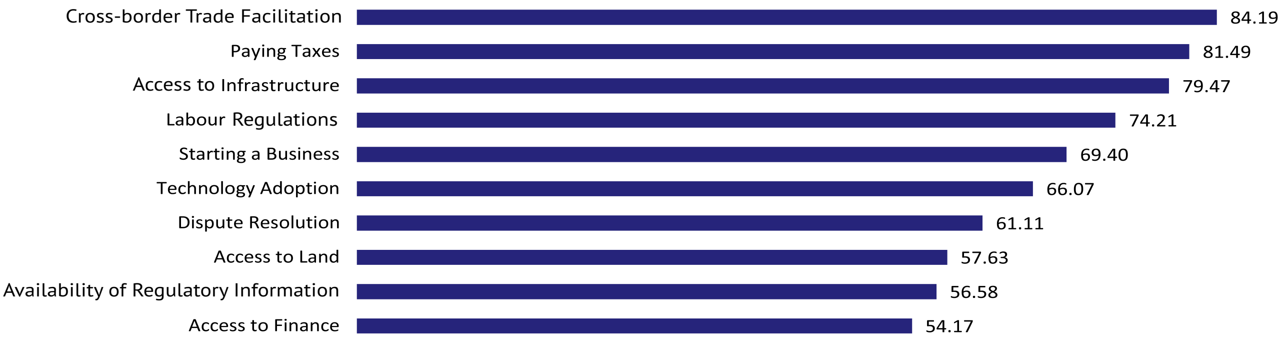
As per the respondents, they faced the least number of challenges in paying taxes in Bangladesh while trade regulations were the biggest constraint faced by them.

5.3.6 Financial Intermediaries



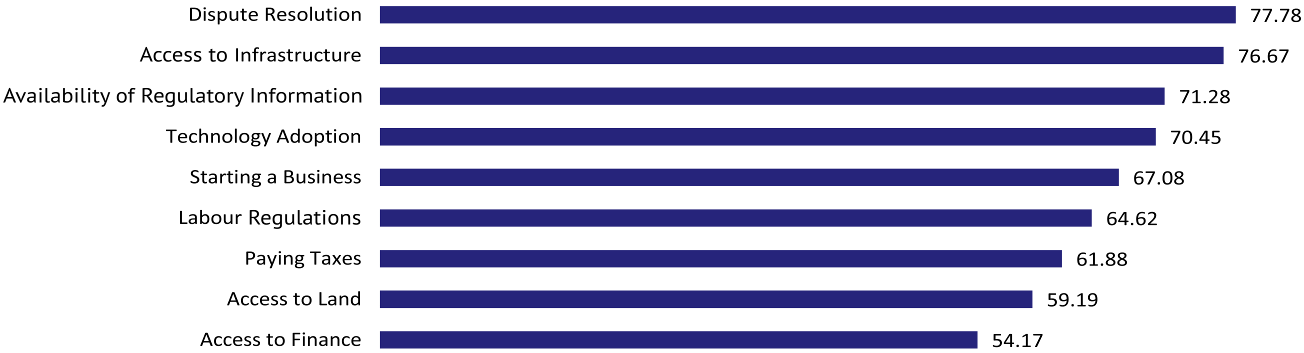
As per the respondents, they faced the least number of challenges in availability of information in Bangladesh while access to finance was the biggest constraint faced by them.

5.3.7 Electronics and Light Engineering



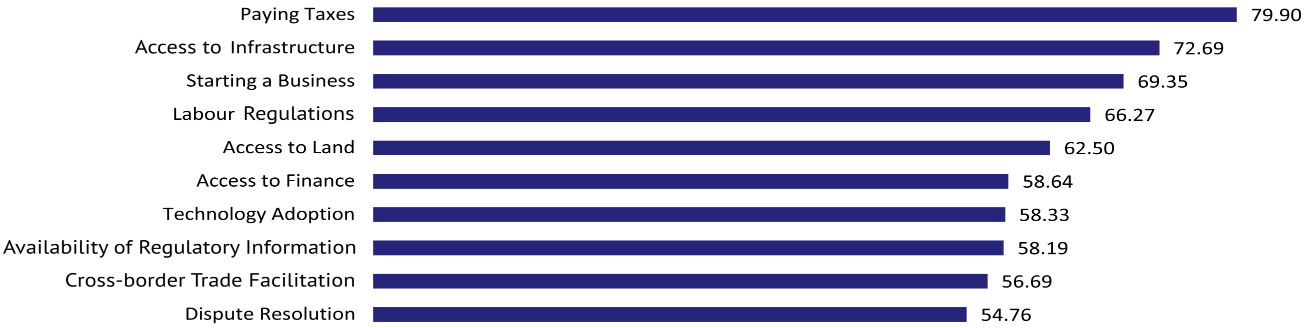
As per the respondents, they faced the least number of challenges in trade regulations in Bangladesh while access to finance was the biggest constraint.

5.3.8 Real Estate



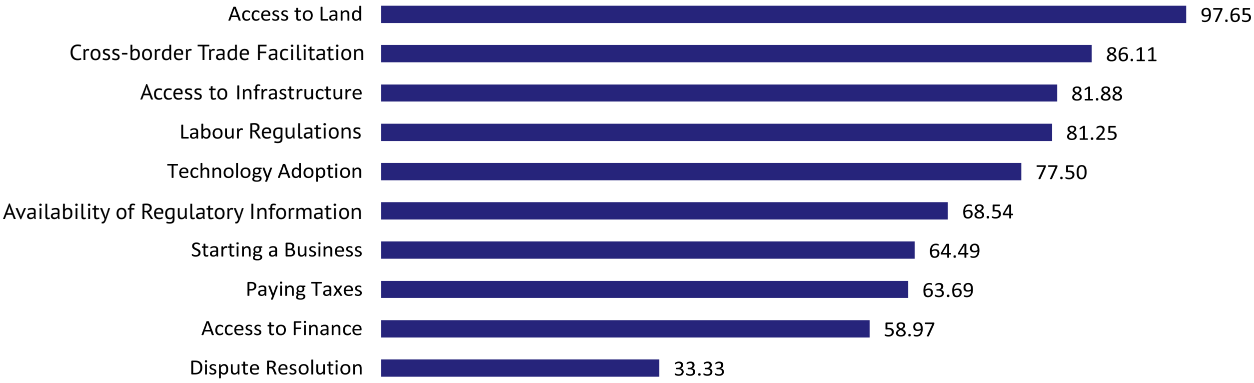
As per the respondents, they faced the least number of challenges in dispute resolution in Bangladesh while access to finance was the biggest constraint.

5.3.9 Agriculture and Forestry



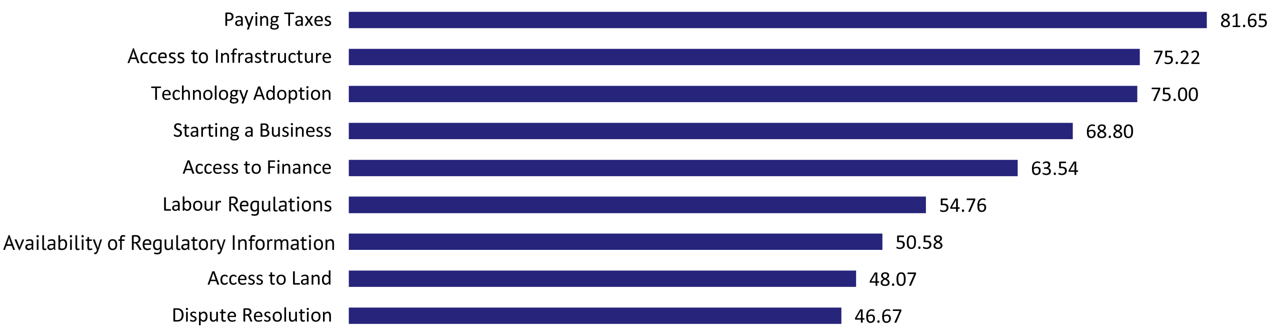
As per the respondents, they faced the least number of challenges in paying taxes in Bangladesh while dispute resolution was the biggest constraint faced by them.

5.3.10 Leather and Tannery



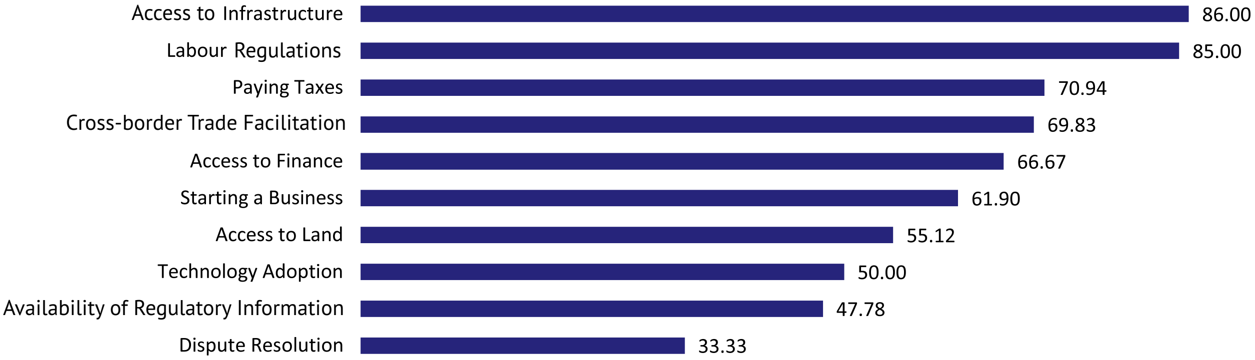
As per the respondents, they faced the least number of challenges in access to land in Bangladesh while dispute resolution was the biggest constraint faced by them.

5.3.11 Construction



As per the respondents, they faced the least number of challenges in paying taxes in Bangladesh while dispute resolution was the biggest constraint faced by them.

5.3.12 Pharmaceuticals and Chemicals



As per the respondents, they faced the least number of challenges in access to infrastructure in Bangladesh while dispute resolution was the biggest constraint faced by them.

Table 16: Implications of Index Scores for Dhaka and Chattogram as Growth Locations

Name of Pillar	Dhaka's Position	Chattogram's Position	Top Performer
Starting a Business	3	4	Khulna
Access to Land	3	4	Khulna
Availability of Regulatory Information	5	1	Chattogram
Access to Infrastructure	5	1	Chattogram
Labour Regulations	4	2	Mymensingh
Dispute Resolution	4	3	Rangpur
Cross-border Trade Facilitation	4	1	Chattogram
Paying Taxes	8	7	Sylhet
Technology Adoption	4	1	Chattogram
Access to Finance	7	6	Barishal

Key Messages on Implications on Current and Future Growth Centers

- Chattogram tops Divisions with best performer in four out of 10 indicators
- Dhaka fares poorly- not a top performer in any of the indicators. Moreover, in orange category in six out of 10 indicator areas. Denotes significant investment climate issues for Dhaka. The over-centralization of policy and regulatory services related decisions-making power in Dhaka over last few decades, has resulted in discretionary and predatory behavior on the part of some regulators which particularly stifle the small and medium firms who have little option to influence the regulators/officials.
- The findings point to both an urgent need and emerging opportunity to diversify growth centers beyond Dhaka, particularly taking advantage of Chattogram's business environment to make it a true commercial capital and economic hub. The potential gets further impetus from recent economic infrastructure plans in and around Chattogram including Mirsarai SEZ, Karnaphuli river tunnel, planned Bay container terminal etc. Once Padma Bridge is in operation, the South-Western Divisions could be in contention as growth centers as well.

Table 17: Business Environment Score: Where do Sectors Stand (Sectors' Perception)

Sector	Pillar Score
Leather and Tannery	71.34
Financial Intermediaries	68.37
Electronics and Light Engineering	68.43
Real Estate	67.01
Agriculture and Forestry	63.73
Food and Beverages	63.67
Construction	62.69
Pharmaceuticals & Chemicals	62.65
Transport and Storage	60.04
Wholesale and Retail Trade	59.33
Textile Sector	56.44
Readymade Garments	48.92

- The above table portrays an average score of the ten indicators for each sector.
- Results reveal that the Leather and Tannery sector has an average indicator score of 71.34[2] which implies that the sector perceived of itself that progress has been made; however, more needs to be done.
- Readymade Garments and Textile sectors have scored the least in terms of average indicator scores relative to other sectors, i.e., 48.92[3]. While this appears to be wholly counter-intuitive in view of the fiscal and policy support framework for these sectors, this is the perception of firms in the sectors themselves.

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[2] The Leather and Tannery sector have the highest score of 71.34, indicating the sector perceives that it has the best business environment among comparators. The sector scored above 80 out of 100 in four indicators, i.e., access to land, trade, infrastructure and labour regulation. In terms of accessing land, all respondents in the Leather and Tannery sector said it was easy to deal with government agencies while procuring land. For trade, the respondents also said that it was easy for them to get Customs clearance to import goods and services and they did not have to make informal payments to get their imports cleared. In terms of infrastructure, 75 percent of the respondents said that it was easy for them to get utility services and 43.71 percent said that they did not have to make informal payments to receive utility services. 93.74 percent of the respondents said transport and logistics services were easily available to them. In terms of labour regulations, 93.74 percent respondents said they found it easy to comply with labour regulations in the sector and 56.31 percent said it was easy for them to find skilled labour. Moreover, the Leather and Footwear sector scored over 60 in four indicators, i.e., technology adoption, availability of regulatory information, starting a business and paying taxes.

[3] The RMG sector gave the lowest score of 48.92. When compared to the best performing sector, i.e., Leather and Tannery, the RMG sector scored 35 out of 100 in access to land, 44.33 in trade, 46.76 in infrastructure and 55.29 in labour regulations. Conversely, the Leather and Footwear sector scored above 80 in these four indicators. In access to land, 100 percent of RMG respondents said that they found it moderately difficult to deal with government agencies while procuring land and the required information was not found online. For trade, 54.28 percent said they found it substantially difficult to get Customs clearance to import goods; moreover, 62.52 percent said they frequently had to make informal payments to facilitate Customs clearance. In terms of infrastructure 44.11 percent said they found it substantially difficult to get access to utility services and 69.73 percent said they had to provide informal payments for utility connections. In terms of labour regulations, 70.64 percent said they found it moderate to substantially difficult to comply with labour regulations and 58.83 percent said they found it moderate to substantially difficult to find skilled labour.

Table 18: Sector Experience: The highs and lows across indicators

Name of Sector	Top 3 Pillars	Bottom 3 Pillars
Wholesale and Retail Trade	Paying Taxes	Technology Adoption
	Starting a Business	Access to Finance
	Access to Infrastructure	Dispute Resolution
Food and Beverage	Technology Adoption	Access to Finance
	Access to Infrastructure	Dispute Resolution
	Labour Regulations	Availability of Regulatory Information
Readymade Garments	Starting a Business	Access to Land
	Dispute Resolution	Paying Taxes
	Availability of Regulatory Information	Access to Finance
Textile	Dispute Resolution	Access to Finance
	Access to Infrastructure	Cross-border Trade Facilitation
	Access to Land	Labour Regulations
Transport and Storage	Paying Taxes	Cross-border Trade Facilitation
	Access to Infrastructure	Access to Finance
	Starting a Business	Technology Adoption
Financial Intermediaries	Availability of Regulatory Information	Access to Finance
	Access to Infrastructure	Labour Regulations
	Dispute Resolution	Technology Adoption
Electronics & Light Engineering	Cross-border Trade Facilitation	Availability of Regulatory Information
	Paying Taxes	Access to Finance
	Access to Infrastructure	Access to Land
Real Estate	Dispute Resolution	Access to Finance
	Access to Infrastructure	Access to Land
	Availability of Regulatory Information	Paying taxes
Agriculture and Foresty	Starting a Business	Dispute Resolution
	Paying Taxes	Cross-border Trade Facilitation
	Access to Infrastructure	Availability of Regulatory Information
Leather and Tannery	Cross-border Trade Facilitation	Access to Finance
	Access to Infrastructure	Paying taxes
	Access to Land	Dispute Resolution
Construction	Paying Taxes	Dispute Resolution
	Access to Infrastructure	Access to Land
	Technology Adoption	Availability of Regulatory Information
Pharmaceuticals & Chemicals	Labour Regulation	Dispute Resolution
	Access to Infrastructure	Availability of Regulatory Information
	Paying taxes	Technology Adoption

Chapter 6:

Conclusion and Recommendations

Bangladesh's economic performance has been characterized by strong growth for more than a decade, but it needs to step up its private investment if it is to reach its goals. It has registered average Gross Domestic Product (GDP) growth rates of more than 6 percent in last ten years and over 8 percent in fiscal year 2019. Despite grave challenges from the COVID-19 pandemic, Bangladesh's economy proved its resilience by achieving a growth rate of 5.2 percent in fiscal year 2020 which was higher than comparators, indeed most countries in the world. However, for Bangladesh to transition into an upper middle-income and developed country by 2031 and 2041 respectively, private sector investment needs to rise from 22 percent to at least 27 percent of GDP. This is especially important given the limits to growth in public investment.

Capturing and real time monitoring of structured data on business environment is a foundational step in improving business environment, and thereby increasing private investment. Bangladesh has a stark lacking in structured data relating to business environment, especially across different sectors. As the business environment is dynamic, understanding it requires real time monitoring and analysis of structured data. This in turn can help to formulate the appropriate policies to boost private sector investment. It would also provide policymakers with a tool to address the binding constraints in particular sectors. In this regard, Bangladesh Business Climate Index (BBX) is a pioneering effort to provide a thorough understanding of the constraints faced by the private sector as told by the sector itself.

6.1 Recommendations

6.1.1 Garnering Broader Policy Support for Sustained Competitiveness and Capacity

Bangladesh has tremendous potential to become more productive and, therefore, more competitive. Introducing the right set of policies across a number of areas can help the country become more integrated and globally competitive across a broader spectrum of industries – accelerating growth, reducing poverty and creating more jobs. Broadly defined, these areas are: improving business environment, putting in place policies to better connect to the Global Value Chain, maximizing agglomeration benefits and strengthening firm capabilities.

Improvement in the business environment is of utmost importance as it will aid in sustaining private investment and employment. There are clear regulatory and administrative challenges for businesses. The BBX shows that significant reform needs exist in areas such as cross border trade facilitation, access to finance, technology adoption, dispute resolution, and availability of regulatory information. Access to infrastructure, starting a business and paying taxes fare better compared to other pillars of the Index banking on massive development work and digitalization but still remains far from optimum point. Modernizing laws such as the Companies Act, 1994 and Bankruptcy Act, 1997, improving government service delivery through establishing effective One-Stop Service (OSS), strengthening contract enforcement through introduction of Alternate Dispute Resolution (ADR) and faster disposal of commercial cases, and strengthening regulatory governance through the introduction of systematic tools such as Regulatory Impact Assessment (RIA), are some of the critical policy measures to improve the business operating environment of Bangladesh. Moreover, the current investment promotion agencies need to perform institutional strengthening and carry out a stronger investment promotion strategy to attract private investment and FDI.

Investment Promotion Agencies (IPAs) need to pursue conducive investment policies and utilize new generation promotion mechanisms for strategic investment promotion. IPAs in Bangladesh focus most of their effort on regulation, meaning that performance in identifying priority sectors, designing a shelf of projects, targeting priority investors and converting investor interest into actual investment is poor. The restructuring of the erstwhile Board of Investment (BoI) as the Bangladesh Investment Development Authority (BIDA) is a positive step forward which now needs to be followed up with deep institutional capacity development.

Reviving dynamism in employment and exports, diversifying the economic base, providing much-needed policy support to SMEs, and enhancing private investment, particularly FDI, will be critical in the short and medium term. Bangladesh must capitalize on the emerging advantage of many investors contemplating expansion beyond China, and diversification of their supply chain - but to do so it requires to put in place a targeted investment promotion strategy and its operationalization at the earliest. Countries such as Vietnam, Indonesia, India, and Philippines are all trying to capitalize on the current global trade tensions. In response, the Bangladesh Government should prepare and position Bangladesh as a strong candidate for hosting investors looking for new manufacturing hubs. This calls for quick and successful implementation of the reforms undertaken, preparing and implementing an investment promotion plan that will help identify and target potential investor groups, and putting in place an effective investor facilitation and aftercare process. Bangladesh can capitalize on its labour advantage, its strong supply chains developed in the RMG sector, and the geographical location.

6.2 Pillar-specific Recommendations

6.2.1 Starting a Business

Streamlining of the processes and developing standard operating procedures (SOPs) will be important to reduce the regulatory burden and bring predictability in regulatory service delivery. The approval process of different agencies should be reviewed to identify bottlenecks; and based on the analysis new processes can be developed to reduce the existing regulatory burden. An SOP for each simplified process should be developed to detail the roles and responsibilities of each government staff member associated with the service delivery, provide details on each step and the people, who are responsible, create a specific timeline and establish the documentary requirements, fees, etc.

Automating processes would result in reducing time and cost of investors in getting these services. Once the processes have been simplified, automating them will minimize the number of visits by an investor to different agencies for obtaining services and reduce unnecessary delays in the approval and inspection process. This will bring more transparency to service delivery. Bangladesh has already set up a One-Stop Service (OSS) for investor services, including enacting an OSS bill in February 2018. However, this needs to be fully implemented.

Laws enacted in the 1990s and 2000s are often updates of old laws implying they are similar in spirit. The Companies Act was amended in 1994 to include a few new provisions related to audits, but the fundamental sections of the law remain from the original Act from 1913. While the body of the Act still suffices for company matters, nevertheless certain amendments are required to make it more effective and relevant, e.g. inclusion of a proper framework for restructuring, mergers and acquisition of companies, and a more time and cost efficient framework for winding up companies. New laws also remain only partially implemented. For example, the Competition Act was enacted in 2012 – however, this Act, which impacts anti-competitive practices and therefore directly relates to consumer wellbeing, remains largely unimplemented. There are many legal requirements for licensing or certification which are only relevant now for the authority concerned to levy fees; for example, the many different kinds of Import Registration Certificates under the Imports and Exports (Control) Act 1950 which were relevant at the time of license-based strict entry control, and for which up to 12 different documents are required, are no longer appropriate, and importers should be able to obtain a single import registration certificate. Prevalence of an outdated legal framework leads directly to a complex licensing environment for business.

Fully implement an integrated ICT-led service delivery model for Government to Business services. A single window model OSS for Investor Services will create a single point of contact between the Government and investors. It would enhance transparency by publishing all the information relevant to investing in Bangladesh on the OSS website. A virtual single G2B interface such as the OSS, with an overarching governance model that defines the mandate of the OSS and its relationship with other agencies, will offer better services to investors. Countries like Macedonia, Azerbaijan and Egypt have achieved results by implementing such OSSs, as they have enabled data-sharing and interoperability among government agencies.

6.2.2 Access to Land

Efficiency of the access to land can be improved by increasing the transparency of the Land Office and Sub- Registry Offices by making information on service standards publicly available. Transparency is a key element in the quality of the land administration systems. It helps eliminate asymmetries in information between users and public officials and increases the efficiency of the land market. A transparent land administration system—one in which all land-related information is publicly available, all procedures and property transactions are clear, and information on fees for public services is easy to access - minimizes the possibilities of informal payments.

A mechanism to keep statistics for land disputes not only at the administrative level but also the court level will increase transparency of the system. Another action that would improve the transparency of the system is to design a mechanism to keep statistics for land disputes both at the administrative level and at the court level. Currently no official statistics on property transfer transactions (e.g. number of transactions per year) are made available to the public. With the objective of improving transparency, it is recommended that Bangladesh implement the publication of such data. Governments in countries like Colombia, Croatia, Jordan, Singapore, the United Kingdom and the Netherlands all make such information public.

Digitization of land records and property title registration will be of critical importance in strengthening the experience for investors. Currently all property records are kept on paper, which makes their preservation precarious and access difficult. By digitizing the existing paper records, the government could ensure security of property titles through easily accessible records. It would also ensure a less cumbersome method of transferring ownership. The process of computerization can be implemented in three phases to make it more manageable:

- initially the scanning and indexing should start from the new transactions. This can be done both at the Land Offices and the Sub-Registry Offices.
- gradually, the scanning should begin with transactions that have been completed in the past few years for both the Land Offices and the Sub-registry Offices.
- finally, all archives should be scanned including the Balam Books.

Recent news reports suggest that automation is progressing on these fronts.

6.2.3 Availability of Regulatory Information

Introduce an online information portal containing all information relevant to regulatory requirements and procedures. The online information portal will bring more transparency on documentary requirements, fees, procedures, forms and the like. It will also help an investor produce a more correct and complete application for a service. Many delays occur because of incorrect and/or incomplete applications; the submission of more complete applications will help a government agency process them faster.

Introduce and publish a regulatory calendar at the beginning of a fiscal year indicating all upcoming legislative activities for the year. This will help businesses greatly in foreseeing a regulatory scenario that is relevant to their respective businesses and take measures accordingly. This will also help in reducing regulatory unpredictability for businesses.

6.2.4 Access to Infrastructure

Special Economic Zones' selection should be based on careful feasibility studies and competitive analysis. The Government can cooperate with private firms to develop plug-and-play industrial zones with research and development facilities, waste disposal and recycling facilities together with investment in infrastructure to better connect and equip secondary cities. BEZA is developing a self-contained industrial city - Bangabandhu Sheikh Mujib Shilpa Nagar (BSMSN) - in the country's southeastern part to encourage industrial clusters and diversification. . The promising zone is being developed on 30,000 acres of land. Consideration should be given to rationalizing or at least coordinating the agencies that are involved in providing logistics infrastructure and services. Zone selection will need to be based on careful feasibility studies and competitiveness analysis. The special economic zones can play a useful role in alleviating land constraints, given the congestion in both Dhaka and Chattogram.

Put into use a tracking system for electricity connection applications. In the short term, it is important that DESCO and BPDB keep track of the applications submitted for new electricity connections to identify the existing bottlenecks. Both agencies keep the applications in paper files, making it difficult to understand the length of the processes and delays. The tracking tool could initially be a manual excel based system and eventually turn into an automatic system once an online application platform is established.

Enforce the renewable energy directive. In 2011, the Ministry of Power issued a directive requiring the installation of solar panels for all new electricity connections. Solar power could meet at least seven percent of demand for commercial buildings and 10 percent of demand for industrial buildings. This is an effort to increase the use of renewable energy. Although energy supply has quadrupled in the last decade, an overdependence on fossil fuels still exists. It is important that this policy is implemented properly and that solar panels are used to take some load off the grid. Solar panel adaptation will also depend on the availability of land and its potential cost competitiveness vis-a-vis other sources of power.

Developing a National Logistics Strategy/Policy for Integrated and Timely Development of Logistics Infrastructure. Bangladesh is devoid of a national logistics strategy and as such many logistics infrastructure and sub-sectors such as transportation, warehousing and storage, do not have a national guideline. Absence of a national guideline causes fragmentation in the policy coordination and in industry and often leads to higher transaction cost due to infrastructure inefficiency.

6.2.5 Labour Regulations

Improve learning measurement at the primary and secondary levels. This can be done so that learning levels can be reliably benchmarked across years and across international comparators by strengthening the national student assessments to improve both policy and practice. Moreover, it is important to improve overall management of teachers – selection, recruitment, pre-service training, continuous professional development and assessment – at all levels of education. Harmonizing the national qualification frameworks across general and technical education is required to support articulation between general education and TVET.

Addressing the skills gap, and to align the development in this space with national growth strategy will require a holistic approach entailing policy direction, reforms, and implementation. The skills eco-system will benefit from several policy and strategic initiatives which are as follows:

- developing long-term skills strategy/master plan/program aligning with national growth strategies and projected key growth drivers;
- Public Private Partnership in delivery of skills. This is critical in high skills matching and high employment outcomes;
- employment-linked, performance-based financing of skills program. This would yield better employment outcomes;
- greater business orientation of private training providers;
- developing common strategy for the development of occupational standards, curriculum and training materials through the official channels (BTEB); and
- regulatory reforms to adjust for COVID and post-COVID realities. For instance, current regulatory regime does not provide basis for home-based or 'gig-economy' type of employment and benefits which are increasingly becoming commonplace globally.

Re-skilling initiative of workers involved in sectors with export potential could be undertaken for migrant returnees from the Middle East. The Government may consider initiating a programme for those who had been recently unemployed due to the economic shock caused by the pandemic, allowing them to integrate back into the economy. This can improve the overall competitiveness of the country. Skilled labour has been at large scarce in Bangladesh and improving the skill-level will spur more private investments and FDI.

6.2.6 Dispute Resolution

Establish mandatory time limits for certain stages of the court case and monitor compliance. In commercial cases, a long delay can equal a loss, regardless of the final outcome. Bangladesh could make some gains in court efficiency by setting mandatory time standards for key events of commercial disputes (e.g. the filing of a plea or the submission of the final judgment). Time standards should feature mechanisms for the creation and enforcement of realistic schedules and should also include regulations on granting adjournments and continuances. Judges should take an active role in moving the case towards resolution by setting deadlines for evidence gathering and limits on the number of adjournments permitted.

Amend the Bangladesh Arbitration Act, 2001 to improve implementation. The Arbitration Act broadly includes important aspects of international good practice, but it does not follow the latest developments in international commercial arbitration. It is advised that several amendments be introduced to ensure that the Act provides a modern framework for international arbitration in Bangladesh. A major factor inhibiting the effectiveness of arbitration in the Bangladesh context relates to the process for enforcement of arbitral awards. This process should be made short and effective, strictly enforcing the criteria for challenging an award, thereby not allowing a full re- hearing of the matter in contention at the stage of enforcement of an award. Earlier in the process of arbitration itself, there is significant scope for elimination of delays by amending the Arbitration Act, 2001 to include enforcement of mandatory deadlines for the appointment of arbitrators, and eliminating interim injunction orders in foreign arbitrations.

6.2.7 Cross-border Trade Facilitation

Develop a national single window (NSW) for trade, connecting all relevant agencies and fully automating all trade-related procedures. A coordinated border management and clearance process is an essential element of trade facilitation and may result in a reduction in the time and cost to trade across borders. An electronic national single window (NSW) system allows trade professionals to carry out all their transactions through a single online portal. The results of such applications can be fed automatically into the clearance system to inform authorities, and also advise the applicant. This significantly speeds up import and export processes, improves accuracy, and reduces opportunities for discretion. Although regulatory NSW systems vary in their functionality and complexity, the best single windows systems link customs, banks, technical control and permit issuing agencies, freight forwarders and traders into a single platform, allowing the exchange of information and automated processing and approvals in real time. This results in faster approvals, reducing microeconomic costs for Bangladeshi firms.

Adopting certain policy measures such as reducing para-tariffs can support in inducing more trade and thus increasing private investment and FDI. Bangladesh can intensify its trade and hence increase private sector investment including FDI by taking certain targeted policy measures. The country can improve competitiveness by reducing para-tariffs such as supplementary and regulatory duties on raw materials and can be more harmonized with comparator countries. Developing broad-based global value chain capabilities through policy measures such as reducing average rates of protection and harmonizing tariff schedules across all intermediate and final goods, facilitating easier and faster imports for exporters (e.g. through better functioning bonded warehousing schemes), introducing better standards and product market regulations, strengthening trade and infrastructure logistics to reduce customs clearance and transit times and thus resulting in lower costs of production, and adopting a sector-based roadmap for tariff modernization will be needed. The country can also have a stronger competition policy and protection of consumers from predatory business practices.

Improve trade logistics through enhanced infrastructure, more efficient container handling, and shorter domestic transit times. Containers are not used much in the domestic movement of cargo in Bangladesh despite the rapid growth of containerization worldwide. Approximately half the cargo passing through the Port of Chattogram is containerized, but less than 15 percent of the containers are moved inland. The rest are kept either in the port or in privately operated inland container depots (ICDs) outside the port, subject to government regulations on size and maximum distance from port. The stripping of containers (around 60 percent of the export and import containers) adds to handling costs. The following recommendations should be implemented:

- adopting a coordinated strategy to improve performance of the Dhaka-Chattogram corridor (including infrastructure, and transport services);
- construction of a dual-track line between Dhaka and Chattogram to encourage container movement by rail, and construction of a four-lane road; and
- increasing port capacity by quickly developing Bay Container Terminal and Patenga Terminal in Chattogram, dredge relevant sections of the inland waterway network, modernize the vessel fleet, and invest in handling equipment and dredging to promote the use of inland water transport system for container movement.

6.2.8 Paying Taxes

Setting up a fair and effective tax system in Bangladesh that helps in optimizing revenue generation and create a conducive environment for businesses and citizens require robust yet facilitative tax policies. These policies in the past have been designed with a disproportionate heavier emphasis on collection and much less on their impact on investment climate. Tax policy reform considerations in Bangladesh are multidimensional which include:

- major re-orientation in revenue strategy is required focusing on ensuring procedural fairness and transparency and avoiding discretion and discrimination and moving away from amount of revenue to be raised;
- forming fully autonomous/semi-autonomous revenue authorities to reduce discretion and discrimination, formation of a tax ombudsman and ensuring private sector representation in non-executive revenue governance bodies. Separation of NBR Tax Administration and Policy Division is essential;
- the taxation system should be organised around different kinds of taxes or different kinds of taxpayers including large, medium and small segments;
- revenue strategy must move away from sales-based tax system to profit or income-based income tax; and
- deduction at source and advance tax needs to be rationalized so that the final incidence of such a tax cannot be more than what the assessed tax on profits would be. The incidence of inefficiency of tax administration should not fall on the taxpayer.

With conducive polices in taxation setting the right aspirations and directions in taxation, an effective tax administration is required to help businesses comply with tax regulations with ease, speed, and economy. Tax administration in Bangladesh require significant modernization in several areas that include:

- digitalization of the overall tax system in a systematic manner is a must. Records should be maintained in such a way so as to reduce intermediaries that lessen the chances of human error;
- reliance should be increased on Information Technology – big data, real time analytics, mobile apps, social media, etc;
- self-assessment of taxes should be promoted. Paying taxes should be made simple and not be considered a headache;
- efficiency of tax audit strategies should be increased while reducing the risk of leakage; and
- segmentation of taxpayers could benefit overall tax collection. Every group will require a different approach.

Promoting e-filing and e-payment for all kinds of tax transactions and simplifying tax reporting forms. The introduction of electronic filing reduces tax compliance costs for businesses, but there is still progress to make to ensure that the online (as well as paper-based) system is simple and easy to use. Simplified tax forms could speed up tax filing and reduce the need for intermediaries. The perception from the private sector is that tax forms are too lengthy and complex, especially for SMEs. A review of current tax forms could be undertaken to help reduce the number of fields and make them more intuitive.

Integration of various online platforms into a single interface for all taxes. To encourage the use of e-services, the Government of Bangladesh could introduce joint filing and integrate the various online platforms. If there are enough uptakes, another strategy to consider would be to make e-filling and e-payment mandatory. This change would have ensured that e-services are accessible to all firms.

Adequate education provided to taxpayers and tax professionals on the new tax system. One of the major obstacles in paying taxes for small businesses is the lack of knowledge and information. NBR can fill this gap by providing capacity- building and training for entrepreneurs. Tax education is particularly important following significant reforms of the tax system, such as the introduction of the new VAT law and electronic filing and payment platforms. NBR could organize regular tax fairs to promote its reforms.

6.2.9 Technology Adoption

Reducing the cost of internet connection and import of technical know-how. Evidence suggests that the cost of internet connection is comparatively higher in Bangladesh relative to neighboring countries. As the country envisages the notion of Digital Bangladesh, it is crucial to reduce the cost of internet services, which will also help in the digital economy, including e-commerce services. This is also relevant in context of covid-19 pandemic where consumers are increasing their use of e-commerce services. The limits on tax- deductible expenditure for technical know-how and royalty payments, as well as limits on freely remittable costs on these accounts which are referenced to profits and turnover hamper in particular new companies' technology. This stops firms from being able to pay for essential knowledge transfers, which in turn hampers the adoption of new technology. These limits should be reviewed and increased substantially, as well as being removed for new companies for the first 3-5 years of commercial operation, by amendment of the Income Tax Ordinance, 1984 and the Foreign Exchange Guidelines of Bangladesh Bank.

Improving mobile network coverage. While the majority of respondents have mentioned that getting internet connection was moderately easy, half of those have complained about receiving adequate mobile network coverage. Initiatives should be undertaken by the mobile companies to enhance their coverage.

In parallel, it is important to gradually build up Bangladesh's technology extension system to support upgrading in more advanced firms and sectors. Exporters and firms in sectors like pharmaceutical would benefit from more advanced capability support – including help in acquiring appropriate sector-specific technologies – while still needing support on organizational capabilities. This needs public support for inter-firm and industry-science coordination to address the high sunk costs entailed in locating appropriate technologies and the need for R&D for adapting them to the local context. Technology extension (that is, the provision of information and advice) should be combined with public infrastructure for piloting and testing new technologies, and public research institutes.

Besides firm level interventions, broader reforms to address complementary markets and institutions and leverage connectedness are equally critical. Wider public investment and reform efforts to upgrade firms should focus on leveraging international connectedness, strengthening contract enforcement, and building up foundational skills, STEM and engineering skills. Strengthening basic technology infrastructure, quality standards and testing facilities and serviced industrial land, is also important.

Growth of local start-ups facilitate faster technology adoption by firms which makes it imperative for Bangladesh to have friendly policies on tax reforms and investor orientation to support start-ups. The start-up investment domain is still in its infancy in Bangladesh. To attract foreign and domestic investors towards the start-up sector, the government may create fund-of-funds and facilitate investor dialogues and engagements, so that local start-ups realize their full potential. Favorable tax regime for start-ups, VAT relaxation and uniformity, and updating the Foreign Exchange Regulation Act, 1947 for start-up investments are areas that can contribute towards ease of doing business for the start-ups.

There is also a need to strengthen government capabilities to better target direct support for innovation and technology adoption. There is a significant gap between firms' needs to unlock the technology potential and the current provision of government support. While uncertainty of demand, unclear economic benefit of new technology, lack of information on what is available, and lack of knowledge of how to acquire it are all among the top obstacles firms face to adopt new equipment, machines, or software, more than 70 percent of government support takes the form of tax incentive. Furthermore, there is paucity of information about government programs to support technology adoption in firms itself, which leaves out potential beneficiaries and undermines the effectiveness of government support programs.

6.2.10 Access to Finance

Financial sector reforms are essential for increased private sector investment and FDI. Monitoring the financial sector will be crucial as recent governance issues in the banking sector and liquidity crunches have stressed the sector in terms of capital adequacy and asset quality. The overall banking sector capital and Tier 1 capital to risk weighted assets barely exceeds internationally accepted minimum requirements, and nonperforming loans are quite high. There are significant differences in performance (capital adequacy and asset quality) between state-owned and privately owned banks. In terms of capital to risk-weighted assets, nonperforming loans and their provisioning, the state banks and development financial institutions clearly underperform. Notably, the ratio of nonperforming loans among SCBs and development financial institutions has been worsening despite the frequent injection of public funds, suggesting that weak management and poor oversight continue to be issues. The recent soft loan rescheduling policy of the government to reduce nonperforming loans presents some cause for concern as it does not address some of the willful defaulters and governance challenges in the financial sector.

Bangladesh can liberalize the strict foreign exchange control laws, based on the Foreign Exchange Regulation Act of 1947 and allow partial capital account convertibility. Reform measures should help reduce the private sector cost of capital, which has been recently brought down to 9 percent from double digits in the past. However, such loans are only short-term in nature, leading to tight liquidity for many corporates. Although foreign financing can reduce the private sector cost of capital as it can secure loans at a lower rate, the chances of most private sector companies attaining it are slender. This is because the Bangladesh Bank, in collaboration with BIDA, observes the firms that have applied for foreign financing by a case by case basis which can in most cases take over a year to receive permission. Moreover, Bangladesh Bank has capped the foreign interest rate which is inclusive of the London Interbank Offered Rate (LIBOR). This means foreign interest rates amounted to LIBOR + 3 percent to 4.5 percent. But this makes it difficult for foreign financial institutions to consider Bangladeshi firms for giving out loans to as LIBOR is a variable and can change overtime.

Access to credit is observed as a prime deterrent coupled with high interest rates dampen private investment and FDI in Bangladesh. Despite having many banking and non-banking financial institutions in the country, access to credit remains a major challenge. Financial institutions are often more interested in short-term financing because of liquidity risks arising from funding of long-term loans with typically shorter-term deposits. Moreover, these institutions do not consider smaller enterprises bankable because they do not have specialized staff to maintain financial documentation or prepare project feasibility or credit risk reports.

Collateral requirement for bank loans is relatively high in Bangladesh which makes it even more challenging for accessing credit. SME firms are reluctant to obtain formal funding through bank and non- bank financial institutions as they are required to furnish collateral including tangible assets such as land, building etc., and additional security in the form of receipts, bank and insurance guarantee, land property and corporate guarantee.

Allowing private firms and individuals to have access to credit information would help in judging creditworthiness of customers. Changes in the Bank Company Act, 1991 to allow Bangladesh Bank to share credit information with third parties would serve two valuable functions. First, retailers would be able to judge the creditworthiness of customers based on past lending history, rather than traditional (and less accurate) metrics such as family connections or previous transactions with that particular firm. This is important for retailers of high- valued goods, such as automobiles. Second, individuals could access their information and be able to verify the information. Bangladesh Bank could expand credit bureau coverage by including all commercial loans, regardless of value, in its credit reporting. With the online solution of the CIB, this could be implemented quickly. Where thresholds for the loans included in a credit bureau's database are high, retail and small business loans are more likely to be excluded. This can hurt those that benefit the most from credit reporting systems—such as female entrepreneurs and small enterprises, whose loans are typically smaller. The current regulation of CIB in Bangladesh takes stock of loans over BDT 50,000 and Credit Cards over BDT 10,000. In Bangladesh, smaller loans given through microfinance institutions are governed by separate legislation and supervisory authorities. Integrating the two systems would be difficult in the short term.

Table 19: Broad and Indicator-Specific Policy Recommendations

Type of Indicator	Recommendations	Time Required	Responsible Agency
Pillar -Specific Recommendations			
Starting a Business	• Develop standard operating procedures (SOPs) to reduce the regulatory burden and bring predictability in regulatory service delivery.	Starting a Business	BIDA & Line Agencies
	• Automation of the processes (Nearly 150 processes involved).	Medium-Term	BIDA, Registrar of Joint Stock Companies and Firms
	• Modernizing certain laws such as The Companies Act, 1994.	Short-Term	Ministry of Commerce
	• Develop an integrated ICT-led service delivery model for Government to Business services (Full implementation of integrated One-Stop Shop).	Short-Term	PMO, BIDA
Access to Land	• Increasing transparency of the Land Offices and Sub-Registry Offices service by making information on service standards publicly available.	Medium-Term	Ministry of Land, Ministry of Law, Justice and Parliamentary Affairs
	• Keeping statistics for land disputes not only at the administrative level but also at the court level.	Short-Term	Ministry of Law, Justice and Parliamentary Affairs
	• Computerize/digitize land records and property title registration.	Long-Term	Ministry of Land
Availability of Regulatory Information	• Introduce an online information portal containing all information relevant to regulatory requirements and procedures.	Short-Term	BIDA
	• Introduce and publish a regulatory calendar at the beginning of a fiscal year indicating all upcoming legal/regulatory enactment/amendments for the year.	Medium-Term	Ministry of Law, Justice and Parliamentary Affairs; BIDA
Access to Infrastructure	• Economic Zones' selection should be based on careful feasibility studies and competitive analysis.	Short-Term	Bangladesh Economic Zones Authority
	• A tracking system should be put into use for electricity connection applications.	Short-Term	Power Development Board
	• Enforce the renewable energy directive.	Medium-Term	Sustainable & Renewable Energy Development Authority
	• Developing a National Logistics Strategy/Policy for integrated and timely development of logistics infrastructure.	Medium-Term	PMO, Ministry of Shipping, Ministry of Road Transport and Bridges, Ministry of Railways

Type of Indicator	Recommendations	Time Required	Responsible Agency
Labour Regulations	• Developing long-term skills strategy/masterplan/ program aligning with national growth strategies and projected key growth drivers.	Short-Term	National Skills Development Authority, Ministry of Commerce
	• Mobilize PPP in delivery of skills. This is critical in high skills matching and high employment outcomes.	Medium-Term	National Skills Development Authority, Public-Private Partnership Authority
	• Employment-linked performance-based financing of skills program. This would yield better employment outcomes.	Long-Term	Economic Relations Division, National Skills Development Authority
	• Greater business orientation of private training providers.	Medium-Term	Ministry of Education, Ministry of Expatriates' Welfare and Overseas Employment
	• Developing common strategy for the development of occupational standards, curriculum and training materials through the official channels (BTEB).	Medium-Term	Ministry of Education
	• Regulatory reforms to adjust for COVID and post COVID realities. Current regulatory regime does not provide basis for home-based or 'gig-economy' type of employment and benefits which are increasingly becoming commonplace globally.	Short-Term	Ministry of Labour and Employment
Dispute Resolution	• Establish time limits for certain stages of the court case and monitor compliance.	Medium-Term	Ministry of Law, Justice and Parliamentary Affairs; Supreme Court
	• Amendment of the Bangladesh Arbitration Act 2001 to improve implementation.	Medium-Term	Ministry of Law, Justice and Parliamentary Affairs;
Cross-border Trade Facilitation	• Develop a national single window (NSW) for trade, connecting all relevant agencies and fully automating all trade-related procedures; Develop NSW law or policy.	Medium-Term	National Board of Revenue
	• Adopting certain policy measures such as reducing para-tariffs can support in inducing more trade, thus increasing private investment and FDI.	Medium-Term	National Board of Revenue
Paying Taxes	• Several tax policy reforms including autonomous revenue authorities.	Long-Term	National Board of Revenue, Ministry of Finance
	• Several tax administration reforms including digitalization of the overall tax system.	Medium-Term	National Board of Revenue
	• Integration of various online platforms into a single interface for all taxes.	Short-Term	National Board of Revenue
	• Adequate education provided to taxpayers and tax professionals on the new tax system.	Short-Term	National Board of Revenue
Technology Adoption	• Reducing the cost of internet connection.	Short-Term	Bangladesh Telecommunication Regulatory Commission
	• Improving mobile network coverage.	Long-Term	Bangladesh Telecommunication Regulatory Commission
	• Gradually build up Bangladesh's technology extension system to support upgrading in more advanced firms and sectors.	Medium-Term	ICT Division
	• Technology start-up friendly tax and other policies.	Medium-Term	ICT Division, NBR, BIDA

Type of Indicator	Recommendations	Time Required	Responsible Agency
Access to Finance	• Liberalize the relatively strict foreign exchange control laws and allow a partial capital account convertibility.	Short-Term	Bangladesh Bank
	• Streamline collateral requirements.	Medium-Term	Bangladesh Bank
	• Allowing private firms and individuals to have access to credit information would help in judging creditworthiness of customers.	Medium-Term	Bangladesh Bank
Broad Policy			
Broader Policy Support for Sustained Competitiveness and Capacity	• Time-bound continued improvements in the investment climate.	Medium-Term	PMO, BIDA
	• Utilization of new generation promotion mechanisms by Investment Promotion Agencies.	Short-Term	BIDA, Bangladesh Economic Zones Authority
	• Reviving dynamism in employment and exports, diversifying the economic base, and providing the much-needed lift to the SMEs.	Short-Term	Ministry of Commerce, Ministry of Industries
	• Develop SME linkage policy.		
	• Decentralization and strategic regional development plan aligned with overall growth strategy.	Long-Term	PMO, Planning Commission

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ANNEX-1

LIST OF LICENSES/ REGISTRATIONS/ CONSENTS REQUIRED FOR SETTING UP A FACTORY IN BANGLADESH [1]

SL.	NAME OF THE LICENSE/ REGISTRATION/ CONSENT	AWARDING AUTHORITY
1.	Trade License	Relevant City Corporation or Union Parishad
2.	Tax Identification Number (TIN) Certificate	National Board of Revenue
3.	VAT Registration Certificate	National Board of Revenue
4.	Foreign Investment Projects	Bangladesh Investment Development Authority (BIDA)
5.	Fire License	Fire Service and Civil Defence
6.	Environment Clearance Certificate	Department of Environment, Ministry of Environment, Forests and Climate Change
7.	Boiler License	Office of the Chief Inspector of Boilers
8.	Certification Mark (CM)	Bangladesh Standards and Testing Institution (BSTI)
9.	Import Registration Certificate	Office of the Chief Controller of Import and Export (CCI&E)
10.	Export Registration Certificate	Office of the Chief Controller of Import and Export (CCI&E)
11.	Warehouse License	Department of Fire and Civil Defence
12.	Approval for Gas Connection	Titas Gas Transmission and Distribution Company Limited
13.	Approval for Electricity Connection	Dhaka Electricity Supply Company Limited, Rural Electrification Board
14.	Approval for Water Connection	Dhaka Water Supply and Sewerage Authority
15.	Approval for Deep Tube well	Dhaka Water Supply and Sewerage Authority
16.	Approval of Factory Plan	Department of Inspection for Factories and Establishment (DIFE)
17.	Factory License	Department of Inspection for Factories and Establishment (DIFE)
18.	Construction Permit/ No Objection Certificate	Relevant Upazilla/ Union Parishad or Rajdhani Unnayan Kartripakkha (within Dhaka city)
19.	Trademark Registration Certificate (if applicable)	Department of Patents, Designs and Trademarks (DPDT)
20.	Approval for obtaining foreign loan (if applicable)	Bangladesh Investment Development Authority
21.	Approval for opening foreign currency account (if applicable)	Bangladesh Bank

[1] *Depending on the nature of the factory and products and place of the factory, additional sector-specific licenses or consents may be required for setting up a factory*

LIST OF LICENSES/ REGISTRATIONS/ CONSENTS REQUIRED FOR SETTING UP A SERVICE BUSINESS IN BANGLADESH [2]

SL.	NAME OF THE LICENSE/ REGISTRATION/ CONSENT	AWARDING AUTHORITY
1.	Trade License	Relevant City Corporation or Union Parishad
2.	Tax Identification Number (TIN) Certificate	National Board of Revenue
3.	VAT Registration Certificate	National Board of Revenue
4.	Fire License for the office premise	Fire Service and Civil Defence
5.	Labour registration	Department of Inspection for Factories and Establishment.
6.	Cellular Mobile Telecom Operator (if applicable)	Bangladesh Telecommunication Regulatory Commission
7.	Mobile Number Portability Services (MNPS) (if applicable)	Bangladesh Telecommunication Regulatory Commission
8.	Broadband Wireless Access (BWA) (if applicable)	Bangladesh Telecommunication Regulatory Commission
9.	International Gateway (IGW) Services (if applicable)	Bangladesh Telecommunication Regulatory Commission
10.	Interconnection Exchange (ICX) Services (if applicable)	Bangladesh Telecommunication Regulatory Commission
11.	International Internet Gateway (IIG) Services (if applicable)	Bangladesh Telecommunication Regulatory Commission
12.	National Internet Exchange (NIX) (if applicable)	Bangladesh Telecommunication Regulatory Commission
13.	Call Centre (International & Domestic) (if applicable)	Bangladesh Telecommunication Regulatory Commission
14.	Nationwide Telecommunication Transmission Network (NTTN) Service Provider (if applicable)	Bangladesh Telecommunication Regulatory Commission
15.	Vehicle Tracking Services (if applicable)	Bangladesh Telecommunication Regulatory Commission
16.	Internet Protocol Telephony Service Provider(IPTSP) (if applicable)	Bangladesh Telecommunication Regulatory Commission
17.	Internet Service Provider(ISP) (if applicable)	Bangladesh Telecommunication Regulatory Commission
18.	Public Switched Telephone Network (PSTN) Operator (if applicable)	Bangladesh Telecommunication Regulatory Commission
19.	International Terrestrial Cable (ITC) Services (if applicable)	Bangladesh Telecommunication Regulatory Commission
20.	VSAT Provider/User (if applicable)	Bangladesh Telecommunication Regulatory Commission
21.	VSAT Provider with HUB (if applicable)	Bangladesh Telecommunication Regulatory Commission
22.	VoIP Service Provider (if applicable)	Bangladesh Telecommunication Regulatory Commission
23.	Tower Sharing Licenses (if applicable)	Bangladesh Telecommunication Regulatory Commission
24.	TVAS Registration Certificate (if applicable)	Bangladesh Telecommunication Regulatory Commission
25.	Payment service provider/Digital Wallet service	Bangladesh Bank
26.	Payment System Operator	Bangladesh Bank
27.	Courier Service (if applicable)	Post and Telecommunication Division
28.	Manpower outsourcing service (if applicable)	Bureau of Manpower Employment and Training (BMET), Ministry of Expatriates' Welfare and Overseas Employment
29.	License for CNG filling station (if applicable)	Department of Explosives, Ministry of Power, Energy and Mineral Resources.
30.	Travel Agency permit (if applicable)	Ministry of Civil Aviation and Tourism.

[2] *Depending on the sector of the service, additional sector-specific licenses or consents may be required for setting up the business.*

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