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Feature

Moving Forward: Connectivity and Logistics to Sustain Bangladesh's Success

Bangladesh has been successful on many counts. The economy grew 6 percent a year between 2000 and 2017, and the poverty rate fell by more than half. All sectors experienced growth, but the contribution of agriculture to GDP declined, as Bangladesh became an important player in the textile and ready-made garments global value chain, which accounts for more than half of manufacturing employment and 84 percent of all exports in the country. Employment in the textile and ready-made garment sector grew 11 percent a year between 2003 and 2010, outpacing all other nonagricultural sectors (Farole and Cho 2017). The sustainability of this growth model is now being challenged, as Bangladesh's competitiveness based on low wages is eroding. Rising wage demands from workers, intensifying global price competition, and inefficient logistics are putting significant cost pressure on Bangladeshi producers (Farole and Cho 2017). Since 2010 average annual employment growth in textile and ready-made garment sector has dropped to only 1.5 percent, and the rest of the economy has not been able to pick up the slack. Vietnam is doing a better job than Bangladesh of taking advantage of China's shift away from garments (World Bank 2018). Bangladesh needs to increase its competitiveness to safeguard its comparative advantage in readymade garments and diversify its exports basket. It ranked 99th among 137 countries on the World Economic Forum's Global Competitiveness Index for 2018, well behind other Asian countries, performing particularly poorly on transport and logistics.

Congested, unreliable, and unsophisticated: Bangladesh's logistics system imposes high costs on the economy

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). Inventory carrying costs represent a significant share of logistics costs (figure 1). Transport represents the largest share of direct logistics costs and road transport is the dominant transport mode. Road transport rates in Bangladesh range from $0.06 for a 16-ton truck to $0.12 for a trailer. They are higher than in many developing and developed countries.

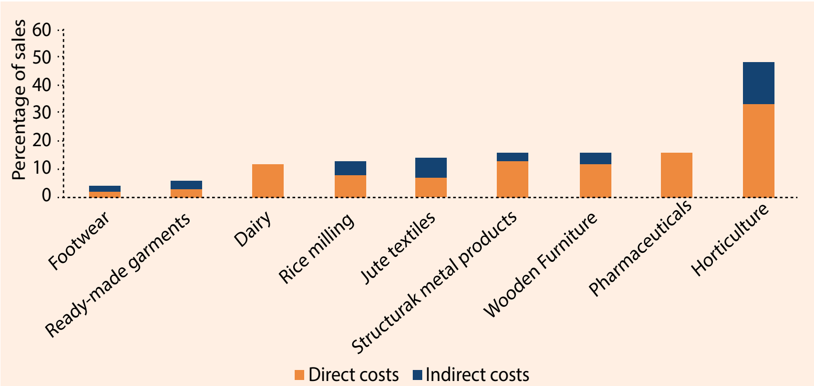

Figure 1 Logistics costs in Bangladesh, by industry

Congested and unreliable logistics system

Congestion and delays are pervasive problems across the national logistics system, from roads to seaports and land ports. Congestion on roads alone doubles standard trucking costs.1 Data from GPS devices that were fitted on trucks indicate that the average speed is about 19 kilometers an hour—less than half what it would have been under uncongested conditions. 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 Chittagong Port are 4 days for an export container and 11 days for an import container. Reducing dwell times would reduce logistics costs significantly.

Unsophisticated logistics system

Bangladesh's logistics system is unsophisticated. Efficient modern logistics systems are characterized by the use of different permutations of modes of transport in multimodal operations. Bangladesh's system is fragmented in terms of both logistics infrastructure and services. The core infrastructure for all modes of transport is in place, but there is a lack of intermodal facilities, and the few facilities that do exist are poorly operated. Most logistics service providers are active in only one service category of logistics; use of multimodal transport is extremely limited. About 91 percent of shippers surveyed reported few to almost no instances in which logistics service providers use multimodal transport to reduce logistics cost. Shippers typically work with more than one service provider to complete each shipment.

Fragmented, ineffective, and outdated governance led to inefficiencies in logistics

The role of the government in the logistics sector is to create an environment that is conducive to efficient logistics. Through policies, planning, and regulations the government sets the direction and the rules of engagement for the public and private players in the logistics sector. Adequate and effective policies, planning, and regulations and their enforcement should solve coordination problems and tackle market failures, ensuring that public and private players face incentives to provide efficient infrastructure and services.

Fragmented governance

Nine ministries and more than 20 government agencies play a role in setting policies and regulations, planning, operating infrastructure, and providing services. The fragmented governance of the logistics sector exacerbates the coordination problem intrinsic to infrastructure development, leading to transport modes that developed and evolved in silos, and even basic mismatch on infrastructure standards, such as bridges narrower than approach roads. In the few cases where transport modes are connected, public operators work in silos, requiring shippers and service providers to submit the same information several times. Overlapping mandates and shared ownership have made the planning, construction, and maintenance of transport infrastructure more complex than it should be. The lack of coordination leads to government-created externalities.

Ineffective governance

Bangladesh has been ineffective in tackling market failures in the logistics sector and in implementing and managing infrastructure.

Market failures

Logistics service markets in Bangladesh are not competitive. Trucking and inland water shipping operations are dominated by thousands of operators, many of them using very small fleets if not single units. Drivers unions, owners associations, or brokers related to them set prices and control access to cargo, interfering with the market mechanism and preventing full competition. More than 85 percent of shippers interviewed believe there is no competition in logistics service markets in Bangladesh. The involvement of unions and associations prevents direct interaction between service providers and shippers. Accidents caused by trucks and the damage to road and bridge infrastructure from truck overloading are two important externalities

Infrastructure implementation and management

Bangladesh has been inefficient in implementing and managing its infrastructure. Weak governance, including poor planning and implementation, and corruption are key factors behind the high cost of construction. Sectoral plans and policies focusing on the maintenance of transport infrastructure exist, but implementation has been slow. Without regular maintenance, infrastructure rapidly falls into disrepair, requiring expensive reconstruction to bring it back to adequate standards.

Outdated policies and regulations

The logistics services sector suffers from outdated policies and regulations. Much of the legislation and regulations that govern transport and logistics services date back to the pre-independence period, when the economy was mainly agricultural. One of the most important weaknesses in the policies in place is that they do not focus on services. The main sectoral policies focus mainly on the development of infrastructure for various subsectors. The modern national-level policies developed by many other countries address improvement of infrastructure, integration of various modes of transport, and improvement in the quality of services.

Making logistics more efficient would significantly boost export growth, with the benefits going largely to Greater Dhaka

A comprehensive approach that reduces dwell times at Chittagong Port by one day; increases the minimum speed along national highways to 40 kilometers an hour; and implements logistics policies to tackle the low quality of logistics services, facilitation payments, and other inefficiencies could reduce logistics costs for tradables by 26 percent. Such a comprehensive approach would increase Bangladesh's exports by 19 percent. Bangladesh's economic success has been unevenly distributed.

Achieving efficient logistics requires a system-wide approach

The comprehensive diagnostic presented in this report yields one main conclusion: A system-wide approach is needed to increase logistics efficiency. The report provides high-level direction on the policy domains that may be considered when designing such an approach. The overarching objective of increasing logistics efficiency can be split into four interlinked objectives.

1. Developing a system-wide strategy for increasing logistics efficiency

Bangladesh needs a coherent, integrated logistics strategy and master plan that leverage the strengths of each of the elements of the system. The strategy should ensure coordination among all public institutions involved in logistics and be co-developed with private sector shippers and service providers. The integrated strategy and master plan should be based on robust data and accompanied by a robust data management system for monitoring and continuous improvement.

2. Improving the quality, capacity, and management of infrastructure Connectivity needs to be improved by expanding existing links and building new ones. The solution is not just to invest more, however, but to invest better, by focusing on the service gap instead of the infrastructure gap and moving away from the build, neglect, rebuild mindset. Investing better also means increasing the resilience of the transport network to climate events. Improving the quality and management of infrastructure requires strengthening the regulatory framework and its enforcement. There is a need and an opportunity to rethink and improve the paradigm governing the provision of infrastructure services by allowing the private sector to play a larger role in the financing, management, and operation of infrastructure. The public sector will continue to play an important role in infrastructure provision and management. There is therefore a need to improve its management and implementation capacity, in order to get more out of scarce resources.

3. Improving the quality and integration of logistics services can be upgraded by ensuring competition in the markets. If service providers are remunerated based on the quality of their services, they will be incentivized to increase quality and innovate. Improving the quality and integration of logistics services also requires modernizing the regulatory framework and the procedures for trade and transport, insisting on minimum standards (without directly affecting the quantity of supply), and strengthening the enforcement of regulations. Helping breach information asymmetries between service providers and shippers, and between service providers and banks would also support the improvement and modernization of logistics services.

4. Achieving seamless regional connectivity Bangladesh can leverage its strategic location in South Asia to serve as a regional logistics node. To do so, it needs to improve infrastructure and services; standardize and harmonize regulatory practices with neighbors; and reform policies and regulations to cover the cross-border movement of goods, vehicles, and drivers and ensure appropriate cost recovery for services and infrastructure. Integration agreements should follow best practices and use international legal instruments for harmonization.

[Source:http://documents.worldbank.org/curated/en/720931558940164606/Moving-Forward-Connectivity-and-Logistics-to-Sustain-Bangladesh-s-Success]

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Business News

Highest ever export earnings in May

Bangladesh raked in $3.81 billion in exports in May, the highest single month receipts in history, riding on the higher shipment of apparels, official data showed June 11, 2019. The earnings clocked 14.78 percent year-on-year growth in May and also beat the monthly target by 9.23 percent.

The previous single month highest export was recorded at $3.67 billion in January this year. The apparel shipment took the overall export earnings to $37.76 billion between July and May, up 11.92 percent year-on-year, according to data from the Export Promotion Bureau. Between July and May, the export of garment, which makes up more than 80 percent in the total exports earnings, grew 12.82 percent year-on-year to $31.73 billion. Some $15.69 billion came from knitwear export and $16.06 billion from woven export. The garment export was 6.95 percent higher than the 11-month target of $29.67 billion set by the government. The buyers' confidence in the country has improved significantly owing to the inspection and remediation of garment factories by the Accord and the Alliance, the two western brands' platforms set up to improve the workplace safety in the sector. "I am cautiously optimistic that the export of garment will continue to grow from Bangladesh," Ibrahim said. The businessman, however says, manufacturers are not getting better prices from the retailers and brands. Apart from apparel, some other sectors also fared well. The shipment of frozen and live fish such as shrimp and crabs rose 1.87 percent to $474.02 million and that of agricultural products such as tea, vegetables, fruits, spices, dry food, and tobacco surged 40.3 percent to $854.46 million. Pharmaceuticals, cement, salt and ores, petroleum byproducts, plastic goods, ceramics, handicrafts, cotton, cotton products (yarn and wastes of fabrics), carpet, terry towel, footwear, wigs, and furniture performed better in the 11-month period.

However, leather and leather goods and jute and jute goods continued their poor show. Leather and leather goods fetched $943.83 million, down 5.53 percent year-on-year. This is largely because many tanneries that have shifted to the leather estate in Savar have not started full production yet. The sector is the only segment that had crossed the $1-billion export mark after the garment sector and it still has the opportunity to repeat the success at the end of the fiscal year. Exports of jute and jute goods, another important foreign currency earner, fell 19.99 percent year-on-year to $773.57 million. The sector's earnings are declining mainly because of higher use of jute goods like sacks in the domestic market and the anti-dumping duty slapped on it by India. Home textiles, building materials, ships and bicycles also performed poorly.

Bangladesh fastest economy in Asia-Pacific: ADB

Bangladesh has achieved the fastest growth in the Asia-Pacific economies comprised of 45 countries, according to the Asian Development Bank (ADB). The country attained 7.9 percent growth which was the fastest expansion since 1974 in the outgoing fiscal year of 2018-19, according to the Manila-based donor. The bank predicted that the growth will be 8 percent in the FY2019 and FY2020, terming it a new record. “Bangladesh will continue to be the fastest in the Asia-Pacific,” the bank said in its Asian Development Outlook (ADO). ADB Country Director for Bangladesh Resident Mission Manmohan Parkash handed over the ADO to Prime Minister Sheikh Hasina at her office in the parliament. The ADO, the annual publication of the ADB, evaluates and forecasts economic performance of the 45 Asian and Pacific countries. It said the growth will be moderate across most of developing Asia -- 5.7 percent in 2019 and 5.6 percent in 2020 from 6.2 percent in 2017 and 5.9 percent in 2018.

South Asia will see buck trend of slowing growth in Asia -- 6.8 percent in 2019 and 6.9 percent in 2020. The ADO said the key attributors of this growth are strong leadership, good governance, stable government and continued political calm, sound macroeconomic policy and right development priorities. The drivers of the growth have been identified as higher public investment, stronger consumption demand, revival in exports, improved power supply and higher growth in private sector credit. The ADO pointed out that Bangladesh has favourable trade prospects despite a weaker global growth while exports and remittances are likely to increase further. It also mentioned that strong public investment due to continued policy environment and expeditious implementation of large infrastructure projects and higher tax collection with expanded tax base will move Bangladesh economy further. It said Bangladesh’s banking system reforms will attract higher private investment which will support the growth. The prime minister said the government is gradually advancing the economy in a well-planned manner. “We’ve done our analysis before formulating the budget this year also,” she said. The premier mentioned that when Awami league was in the opposition, her party had also taken various types of economic programmes for the sake of the country, PM’s Press Secretary Ihsanul Karim said while briefing journalists. “Our Father of the Nation Bangabandhu Sheikh Mujibur Rahman had a vision for developing the country in totality and reducing the gap between the rich and poor and urban and rural areas. We’re working towards that direction,” Hasina said. She said the government is setting up 100 economic zones in the country where investors from across the globe can set up their industries. Parkash highly appreciated the government’s economic plan under the leadership of Hasina, saying all of its development programmes are people-centric. Principal Secretary M Nojibur Rahman and Finance Secretary Abdur Rouf Talukder were also present at the meeting.

Record FDI in 2018

Bangladesh received net foreign direct investment (FDI) amounting to $3.61 billion in 2018, its highest yet thanks to the one-off payment of $1.47 billion by Japan Tobacco Inc. to purchase Akij Group’s tobacco business. The inflows are an increase of 67.94 percent from a year earlier, according to the United Nations Conference on Trade and Development (Unctad). The power sector attracted the highest amount of FDI of $1.01 billion, followed by food at $729.69 million, textile and weaving at $408.08 million, banking at $282.54 million, telecommunication at $219.87 million, leather and leather products at $110.55 million and trading at $101.91 million. The other sectors received $748.65 million, according to the Bangladesh Investment Development Authority (BIDA), which unveiled the compiled investment data of the Unctad at a media briefing at the capital's Pan Pacific Sonargaon hotel on June 24, 2019.

Of the $3.61 billion that came into Bangladesh last year, $1.12 billion were in the form of equity, $1.30 billion as reinvested earnings, and $1.18 billion as intra-company loan. Country-wise, China was the biggest source for FDI inflows last year at $1.03 billion, followed by the Netherlands at $692 million, the UK at $371 million, the US at $174 million, and Singapore at $171 million. Japan though does not feature in the top five as Japan Tobacco has thus far released $600 million and that too from the Netherlands. FDI flows have declined all over the world, but in Asia they increased, particularly in Bangladesh, said Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh. Merger and acquisition of big companies is one of the reasons for the higher inflows to Asia. "Such deals indicate that foreign companies' interest in local assets is growing," Mansur said. In future, more deals such as Japan Tobacco's acquisition of Akij's tobacco business may take place in Bangladesh. "Bangladesh is now a proper place for FDI as every indicator of the country is in favour of business," Mansur added.

Some major Japanese companies have already signed agreements with the BEZA for investing in Bangladesh. "I am expecting $5 billion investment from China soon," he added. Previously, the economy was confined to exports and imports, but now it is expanding to investment, said Abul Kalam Azad, principal coordinator for the SDG affairs at the Prime Minister's Office. But Bangladesh's inflows pale in comparison with neighbouring India, up 6 percent to $42.29 billion from the previous year. In South Asia, Pakistan received $2.35 billion, Sri Lanka $1.61 billion, the Maldives $551.8 million, Nepal $160.8 million and Bhutan $5.9 million.

Buying houses asked to get registered with Textile Department

The government has asked all the buying houses operating in the country to get registered with Department of Textile (DoT) within next two months, officials said. The Ministry of Textiles and Jute (MoTJ) issued an amended circular on May 28, fixing the timeframe in this regard. "Buying houses need to be registered within 60 days after the issuance of the circular," the circular reads. The time could be extended by 60 more days, provided buying houses have valid reasons. According to 7(1) provision of the circular, the government can take legal action against those who will fail to receive registration within the stipulated time, it added. Earlier on April 01, MoTJ issued a circular fixing the registration fee and explaining the details of the application process, renewal, registration suspension and cancellation, ministry officials said. The April circular, however, didn't fix any timeframe for registration of buying houses, paving the way for their operation in the country without any regulation, they said. Earlier, the government had empowered the DoT as the sponsoring authority to provide services to the country's textile and clothing sector by enacting Textile Law 2018. The law also brought the buying house owners under the department for the first time, officials said. All textile and clothing industries including readymade garment, cotton and fabrics and buying houses must be registered with the department for running their business in the country, they added.

According to the notification, the buying houses would have to submit their applications to the DoT along with the documents of updated trade licence, income tax certificate, certificate of incorporation for limited company, estimated yearly turnover and bank solvency certificate. The government has set registration fee at Tk 20,000 which has to be paid through bank draft or pay order. Subject to receiving documents and inspection report if necessary, the registrar would give registration within 60 days and the validity of registration certificate would be three years, it explained. Bangladesh Garment Buying House Association (BGBA) president Kazi Iftekhar Hossain welcomed the move. The mandatory registration with the authority within a timeframe would bring all the relevant industries, buying houses with local and foreign investment and liaison offices of buyers and brands under regulation, he added. Presently, a buying house can operate its business only by obtaining a trade licence from the authorities concerned and there is no obligation to get registered with a supervising body or an association, according to industry people. Some 400 garment-buying houses registered with the BGBA while more than 1,000 buying houses run across the country sans any affiliation with the trade body, they added. Buying houses play an important role in garment-export earning as the majority of apparel factories are dependent on them, they said.

Unconsumed solar power sale to national grid growing fast

The sale of solar power from consumers' end to the national grid under the Net Metering System (NMS) is growing fast as its volume has already reached 8.213 MW across the country. According to official statistics, now all the six government distribution utilities are purchasing solar power from 359 consumers in May which was 179 in February last, reports UNB. The six utilities are Power Development Board (PDB), Dhaka Electric Supply Company (Desco), Dhaka Power Distribution Company (DPDC), Rural Electrification Board (REB), West Zone Power Distribution Company Ltd (WZPDC), and Northern Electricity Supply Company Ltd (Nesco).

The sale, which started in the last quarter of 2018, reached 4.243 in February and now it stood at 8.213 MW in May, Power Division statistics reveal. On July 28, in 2018, the Power Division unveiled the Net Metering Guideline to buy rooftop solar power from consumers. Under the system, any consumer can set up a rooftop solar panel system, covering up to 70 per cent capacity of the sanctioned load and sell the additional or unconsumed solar power through a special metre under an exchange arrangement. Consumers can use their own solar power alongside that of the national grid. However, on holidays, when solar power is not used, they can sell power to the national grid. On working days, they can preserve their solar power at the grid, and sell it to their power supply company, or take it back for consumption. At the end of the month, bills are adjusted based on consumption and sale of solar power to the utilities. Consumers are paid by the distribution company at a bulk rate if the sale exceeds the consumption. The statistics show that the REB is leading the chart by buying 6.260 MW of unconsumed solar electricity from its 65 consumers across the country. The REB is followed by DPDC with its purchase of 862.5 kilowatt of solar power from 94 consumers while Nesco holds the third position with its buy of 368 kilowatt from a single consumer.

WZPDC is buying 328.86 kilowatt from 33 consumers while PDB is purchasing 259.85 kilowatt from 75 consumers and Desco 138.26 kilowatt from 91 consumers. Official sources said a meeting, held on May 19 at the Power Division with power secretary Dr Ahmad Kaikaus in the chair, reviewed the progress of the unconsumed solar power purchase from consumers under NMS. The committee instructed the utilities to move motivate the industrial consumers to set up rooftop solar power plants on their industries and take its benefit by selling their unconsumed power to the national grid.

Macroeconomics under pressure: CPD

The country's macroeconomics is currently under pressure, claimed Dr Debapriya Bhattacharya, distinguished fellow of Centre for Policy Dialogue (CPD) on June 11, 2019. He attributed the problem to revenue shortfall, problems in the banking sector and pressure on the Taka-Dollar exchange rate for to the problem, reports UNB.

"The pressure on macroeconomics will come down if these problems are solved," he told a media briefing on the 'State of the Bangladesh Economy and the Budget Challenges' at CIRDAP auditorium. He said that the next budget is "very important" for three reasons - implementation of Awami League's election manifesto, achievement of Sustainable Development Goals and the national 7th five-year plan. He pointed out that poor revenue collection has hurt the government's investment plans, prompting it to take loans at higher interest rate, which put pressure on the economy. "Cutting the interest rate alone cannot solve the banking sector's problems. Good governance is also needed," he added.

CPD's Senior Research Fellow Towfiqul Islam Khan, reading out the keynote paper, said that a liberal bank commission should be formed to resolve banking sector's problems. Khan noted that the budget implementation rate has gone down in the last decade to 75-80 percent from 93-94 percent. "VAT programming and increasing institutional capacity will help increase the rate," he added.

Land, flat sellers, buyers to require TINs in urban areas

Both the buyers and the sellers of land, building and apartment worth above Tk 1 lakh and located in city corporations, cantonment board and the municipality (paurashava) in a district headquarters will have to obtain taxpayer identification numbers, according to the proposed Finance Bill-2019 placed before parliament on June 13, 2019. Twelve-digit electronic taxpayer identification numbers (E-TINs) of the buyers and the sellers will also have to be included in the deed document relating to the transfer of such property during registration, it said. Finance minister AHM Mustafa Kamal has proposed an amendment to the Income Tax Ordinance-1984 in the bill in this connection. Officials of the National Board of Revenue said that this measure would widen the tax net significantly. Using the provision, tax officials will be able to trace the affluent people evading income tax, they said. According to the finance bill, private universities, private hospitals, clinics, diagnostic centres, firms and association of persons will have to obtain TINs and file returns of tax deducted or collected at source. The returns will have to contain detailed information and documents related to deduction. Tax on renewal of trade licences has also been proposed to increase significantly.

According to the proposal, traders in Dhaka and Chattogram city corporations will have to pay Tk 3,000 instead of Tk 500 for renewal of trade licence. The tax has been set at Tk 2,000 raising from Tk 300 for traders in any other city corporations, Tk 1,000 instead of Tk 300 for traders in any paurashava at any district headquarters and Tk 500 increasing from Tk 100 for traders in any other paurashava in the country. The move will increase the cost of holding trade licences.

The finance bill also proposed to impose 5 per cent tax at source on house rent, hotel room rent, convention hall, conference centre, community centre, restaurant and other space rent. Tenants like companies and other organisations specified in the income tax law will deduct the tax while payment of rent to house property owners. The provision will not be applicable to individual tenants. Tax at source at the rate of 5 per cent will also be applicable to rent or use of any vacant land or plant or machinery. The bill proposed to make e-TIN mandatory for obtaining or maintaining the electricity connection by all types of people, including house property owners and businesspeople, in City Corporation, cantonment board and paurashava areas in the country. Previously, e-TIN was mandatory only for electricity connection for commercial purpose. The finance minister also offered exemption from multilayer taxation on the distribution of taxed dividend to non-resident or foreign companies to encourage more foreign investment.

Telcos term tax hike unjust, seek reversal

Association of Mobile Telecom Operators of Bangladesh on Friday termed the hike in taxes on the mobile phone companies and telecommunication services as unjust and ruinous for the sector and sought a reversal of the move. In a statement issued by AMTOB secretary general SM Farhad, the association gave the reaction to the budget proposed for the fiscal year 2019-20 where taxes on the mobile phone companies and on their customers' phone usage were hiked. Finance minister AHM Mustafa Kamal placed the budget before parliament on June 13, 2019.

As per the latest government data, people are using 16.06 crore connections of the mobile phone operators. Of them, 9.37 crore connections are being used for internet services. 'We are deeply saddened to note that the proposed national budget undermines the significant contribution made by the telecom industry to implementing the vision of Digital Bangladesh,' the association said. It is widely recognised that the telecom sector in Bangladesh is saddled with the highest tax burden in the world, said AMTOB, adding that the industry experts as well as the policymakers had repeatedly raised alarm bells regarding the industry's sustainability given the tax burden. The damaging impact of this tax burden has resulted in three operators out of the total four at the moment languishing in losses for years, it said. In this backdrop, the imposition of minimum tax of 0.75 per cent of turnover so far meant that the investors of the three operators were forced to pay 0.75 per cent of their revenue even though they were making losses, it said. Slapping taxes on the industry would stall progress in attaining sustainable development goals, it said. The association hoped that the government would reverse its proposals in favour of the industry. It mentioned that the fourth industrial revolution powered by 5G, internet of things, artificial intelligence would require massive investment.

'In order to deliver this dream to all the people of the country, the telecom industry's health needs to be ensured for the nation's interest,' said AMTOB. 'Therefore, we are making the most ardent appeal possible to not just reverse the proposals for the sectors but to infuse a fresh thinking on taxation to ensure that the energy, vitality and the agility of the telecom sector can be fully utilised,' it said. Apart from increasing turnover taxes, SIM tax and supplementary duty on usage, the government in the proposed budget also raised import duty on smartphone to 25 per cent from the existing 10 per cent.

Transport operators to face higher tax

Road and water transport operators are set to face 25 percent higher taxes on their earnings from next fiscal year as the revenue authority feels tax collection from the transport sector is not up to the mark. "We get insignificant amount of taxes, especially from the land transport sector, although its share in GDP is quite high," said a senior official of the National Board of Revenue requesting anonymity. The spike in taxes, which comes five years after the NBR had increased the presumptive tax from road and water transport owners, is expected to fetch higher revenues, he said. Land and water transport accounts for nearly 8 percent of the country's GDP in fiscal 2018-19. Yet, tax collection from all vehicles, including personal cars, hover around Tk 1,000 crore, according to data from the Bangladesh Bureau of Statistics and the NBR. The latest data on tax collection from vehicles, including buses and trucks, is not available. The recently released NBR's annual report for fiscal 2016-17 showed that the tax collector got Tk 894 crore, up 21 percent year-on-year. It got Tk 10.94 crore in tax from inland water transport, up 58 percent from fiscal 2015-16. Currently, a bus owner has to pay Tk 9,000 for a 52-seater bus as tax every year and Tk 12,500 for a vehicle with more than 52 seats. The same Tk 12,500 tax is applicable for a five-tonne capacity truck. Owners of luxury and air-conditioned buses have to count Tk 30,000 for each bus. Inland water transport operators have to pay tax based on the carrying capacity of passengers and cargoes.

Owners of passenger carrying vessels have to pay Tk 100 for each passenger. Transport operators have to pay the tax for each regardless of their income per bus, truck or vessel, the NBR official said. The decision to increase the tax followed meetings with representatives of transport owners associations. It means if tax is hiked 25 percent, the total amount of presumptive tax for a below 52-seater will be Tk 11,250. A notification will be issued in this regard soon, the official added.

The transport sector is not in a good financial health, with operators functioning by borrowing from banks at high rates of interest. "Now we are being burdened with increased tax," said Ghosh, who is also the managing director of Shyamoli Paribahan, a major inter-district bus operator. Md Badiuzzaman Badal, senior vice-president of Bangladesh Inland Waterways Passenger Carrier Association, said they had a meeting with the NBR high-ups regarding the tax hike. "We have no disagreement with the 25 percent increase," he said. He, however, said the imposition of 5 percent value-added tax on passenger vessels would affect budget passengers. "We were told that VAT would be imposed on AC cabin passengers," he said. As a result of 5 percent VAT fares will increase. "From where do we get the money if we do not take the tax from passengers?" Overall, the NBR will have to collect Tk 325,600 crore in fiscal 2019-20, Tk 113,912 crore of which should come from income tax.

Market & Financial News

Agent banking accounts increase to 2.9 million

The number agent banking accounts and deposit collection through the banking has increased at the end of January-March quarter compared to the previous quarter. According to the quarterly data of January-March, 2019 of Bangladesh Bank (BB), deposit collection through the agent banking was Taka 37.345 billion, which was 20 per cent higher from Taka 31.124 billion in the October to December 2018. Besides, the number of agent banking accounts across the country also increased by 18 per cent or around 450,000 compared to the previous quarter, reports BSS on June 11, 2019. The number of accounts with agents increased to 29,06,655 in the January-March period of 2019, which was 24,56,982 in previous quarter. The number of agents increased to 4,866 from 4,493 of the previous quarter and the number of bank agent outlets also increased to 7,838 from 6,933 in the same quarter. Official data show that Bangladeshi expatriates sent Taka 71.83 billion through the agent banking channel, which was Taka 55.57 billion in the October to December quarter of 2018.

The central bank launched agent banking in 2013 by giving license to Bank Asia. A total of 21 commercial banks have already taken licenses from Bangladesh Bank while 19 banks are running their activities across the country. The commercial 19 banks, which are currently running agent banking activities, are Dutch Bangla Bank, Bank Asia, Al-Arafah Islami Bank, Social Islami Bank, Modhumoti Bank, Mutual Trust Bank, NRB Commercial Bank, Standard Bank, Agrani Bank, First Security Islami Bank, Mid Land Bank, The City Bank, Islami Bank Bangladesh Limited, The Premier Bank, United Commercial Bank Limited, AB Bank, NRB Bank, Brac Bank and Eastern Bank. Islami Bank Bangladesh Limited (IBBL) Deputy Managing Director Abu Reza Mohd Yeahia said agent banking is moving fast across the country since the banks are providing all sorts of efforts to bring the grassroots people under the banking services. “Agent banking is providing banking services by engaging representatives under a valid agency agreement,” he added.

Terming the agent banking a great initiative of the central bank, he said generally a bank needs a number of staff and huge expenditure to operate a branch. “If one bank can run its activities through agents, it will be helpful for both the bank and the customers,” he added.

Stock intermediaries asked to keep minimum capital: BSEC issues risk-based capital adequacy rules

The Bangladesh Securities and Exchange Commission has tightened the screws on market intermediaries including stockbroker, merchant banker, asset manager, fund manager, and credit rating company with mandating to maintain minimum capital requirement on continuous basis. A full functional stockbroker and dealer must maintain Tk 15 crore minimum amount of total capital requirement and the merchant banker Tk 35 crore to continue their operation in the capital market. The asset manager, fund manager, credit rating company must maintain minimum capital at Tk 10 crore, Tk 5 crore and Tk 5 crore respectively. If they go for additional operations, they would require maintaining additional capital. The commission has published the Bangladesh Securities and Exchange Commission (Risk Based Capital Adequacy) Rules, 2019 on its web site. Capital adequacy means the level of total capital against the total risk exposure of a registered entity that is required to be maintained as per the rules to ensure continuation of a safe and efficient operation and to withstand against any seen and unforeseen losses, the rules say.

The capital adequacy ratio would be measured by dividing the total capital by the total risk requirement and then multiplying the result with 100. Each registered entity must ensure for capital adequacy purposes that capital adequacy ratio must be maintained minimum 120 per cent, i.e. its total capital requirement must be, at all times, minimum 1.20 times of its total risk requirement and Its core capital must be, at all times, greater than its operational risk requirement.

The counting of the year-end capital adequacy must be part of the financial statements and the statutory auditor must also provide a separate report about the accuracy of the computation in the financial statements. The commission or the exchange, as applicable, must time to time implement an early warning system, by order in writing, to ensure the appropriate capital adequacy level if it falls below 120 per cent of the total risk requirement. The commission must impose any type of operational restriction or condition under the early warning system to maintain the appropriate capital adequacy level anytime. Each registered entity must maintain a mandatory provision at least 10 per cent of profit after tax of last year as capital reserve and the full amount of such reserve must be accounted for in computing total capital. Each registered entity which is providing margin financing must maintain a mandatory provision of 1 per cent of all outstanding margin exposures, the rules say.

Women entrepreneurs face less social barriers now: BIDS

Social barriers and a lack of access to finance, the two big obstacles for women to become entrepreneurs, have eased somewhat in the last 8-9 years, a recent study found. Social norms and attitude towards women becoming entrepreneurs have improved between 2009 and 2017, according to the study titled 'Women Entrepreneurs in SME: Bangladesh Perspective 2017'. "Women face some social and familial problems just because they are women. It is difficult to solve these problems overnight," said the study conducted by the Bangladesh Institute of Development Studies (BIDS).

Some 1,510 women with enterprises were surveyed for the study with a view to gauging the changes in circumstances for women entrepreneurship in the country since 2009. Iqbal Hossain, research associate of BIDS, presented the findings of the study at an event yesterday at the capital's Lakeshore hotel. Some 77.5 percent of the survey respondents said they faced no hold-ups from family, up from 22.4 percent in 2009, when the last edition of the study was published.

Impediments from society too declined to 40.9 percent in 2017 from 80.2 percent in 2009. Women-owned firms are found in all sectors of the economy, though they are most likely to be concentrated in trading-based or cottage industries. The majority of the firms have less than 10 employees (76.3 percent), most of whom are women. "Thus, development of women entrepreneurship will create opportunities for more female," said the report authored by Nazneen Ahmed, Monzur Hossain and Iqbal Hossain. The women entrepreneurs are still dependent on their families and husbands to run their businesses, according to findings of the study. But urban women appear to have higher capacity to run the businesses individually compared to rural entrepreneurs. The dependency is higher in case of raw material collection and marketing of the product.

The average investment made by the women entrepreneurs was Tk 22.14 lakh in 2017, up from Tk 3.65 lakh in 2009. And the investment was made with own sources mostly, followed by bank loans. Some 58 percent of the survey respondents said they had applied for SME loans and 92 percent received it too. But, 56.17 percent of the female entrepreneurs reported that the current SME loan amount was inadequate. About 39 percent of female entrepreneurs reported high interest and 35 percent complained of insufficient credit limit. For loans, about 30 percent did not need any collateral or security, while 23.6 percent reported to have kept land as collateral. Some 25 percent of the women entrepreneurs needed another person to be their guarantor. The study identified 11 constraints that women entrepreneurs still face in accessing finance. The constraints include: arranging guarantors, high interest rates, lack of proper information regarding the rules of loans, higher service charge and non-cooperation by banks. The study found that some commercial banks ask for collateral from women entrepreneurs even for a loan amount less than Tk 25 lakh, which is contradictory to the regulation of the Bangladesh Bank.

"Commercial banks usually apply their own rules and judgements to approve loans," it said, adding that many banks ask for guarantee from a male member of the family and sometimes a women entrepreneur fails to get loans if her husband is a loan defaulter. Subsequently, the study called for a more gender-neutral credit programme and adequate amount of loans for women entrepreneurs along with a three-month grace period. "Sensitisation of bank officials and organising awareness-raising programmes at different levels are necessary to support women entrepreneurs," the study said, while also recommending trade fairs for women entrepreneurs.

TAX, FISCAL POLICIES: Not inclusive enough

Tax and fiscal policies framed and applied by the government are not progressive enough to reduce inequality in the society, said analysts. Various exemptions and rebates, tax privileges given to different influential quarters, high dependence on indirect taxes and inadequate public investment in health, education as well as other social sectors never help the government achieve inclusive economic growth, five noted economists told this newspaper. The observation came when inequality has hit all-time high, raising questions about the quality of the country's much-lauded stellar economic growth, which is estimated to be 8.13 percent by this fiscal year. Official data show that Bangladesh recorded more than 6.5 percent GDP growth in the past decade. Yet inequality, in Gini coefficient or Gini index, rose to .482 in 2016, up from 0.458 in 2010, in a worrying development. The Gini coefficient is measured on a scale of 0 to 1; the closer it is to 1 the higher the inequality is in the society. At the same time, the pace of reduction of poverty has fallen, according to the latest Household Income and Expenditure Survey (HIES) of Bangladesh Bureau of Statistics (BBS).

The economists said tax and fiscal policies have a lot to do in addressing the inequality in society. Debapriya Bhattacharya, distinguished fellow of the Centre for Policy Dialogue (CPD), said a number of features of Bangladesh's fiscal policy actually fosters the macroeconomic determinants that affect the employment growth and income opportunities in the country. "This, in turn, is inhibiting the country's transition towards economic inclusiveness," he said. "Our analysis shows large- and medium-scale manufacturing industries have been significant contributors in the recent GDP growth. However, their growth has originated from enhanced productivity, rather than increased employability. So, the growth could not actually benefit a large section of the population, whose income level did not rise." Moreover, Debapriya said, the SMEs and micro industries, which are more labour-intensive in nature, did not post growth as much their larger counterparts achieved.

Zahid Hussain, lead economist at the World Bank's Dhaka office, said tax policy is one of the most important aspects of a country's business environment and the distribution of income and wealth. "It incentivises investment, corrects large inequities in the distribution of income and wealth and generates the revenue needed to fund essential public goods," he said. According to Zahid, one of the basic concepts of designing and implementing an equitable taxation system is to spread the taxes as wide as possible to minimize the individual tax burden. And direct tax, which is linked to the taxpayer's ability to pay, and hence are considered to be more progressive, he said. Yet, indirect tax, which is paid by everyone regardless of financial situation to buy goods and services, is used by the tax authorities to generate revenue. Over 68 percent of the total tax in Bangladesh came from indirect taxes in fiscal year 2017-18, he said. "Indirect taxation imposes a greater relative burden on the poor than on the rich."

Debapriya Bhattacharya said the share of direct taxes covers only a quarter of the total revenue collection, and it has somewhat stagnated in the recent past. "It essentially means that the government continues to depend more on indirect tax, which has negative implications for distributive justice."

Raising private investment to be tricky: Analysts

The government's target to raise private investment to 24.2 percent of GDP will be challenging given the trend in last several years and the ongoing liquidity crisis in the banking sector. Private investment has been hovering around the 22-23 percent mark for long. For instance, this fiscal year it reached 23.40 percent of GDP, up from 22.07 percent five years ago, according to the Bangladesh Bureau of Statistic (BBS). Bangladesh needs additional Tk 23,000 crore to achieve the investment target, said Abul Kasem Khan, former president of Dhaka Chamber of Commerce and Industry.

Private investments are constrained by a lack of land, reliability of energy supply, poor connectivity, cumbersome regulatory processes as well as regulatory unpredictability, high corporate taxes, limited access to long-term finance and shortage of skills, said Zahid Hussain, lead economist of the World Bank's Dhaka Office. Without removing the constraints, it will be difficult to achieve a sustained increase in the private investment rate. Public investment has increased because of higher expenditure in investment projects, mostly under the annual development programme, he said. "Many of these projects are yet to be completed. Their crowding-in effects on private investment cannot materialise until the projects are up and running." Kazi M Aminul Islam, executive chairman of the Bangladesh Investment Development Authority, emphasised massive policy reforms to create a business-friendly environment for boosting private investment. He also stressed the need for improving ease of doing business in cooperation with concerned ministries to continue with the growth momentum and achieve the target of becoming a middle income and high-income country within the stipulated timeframe. Kazi Akram Uddin

Ahmed, former president of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), blamed the liquidity crisis in the banking sector for the stagnant private investment scenario despite the government's positive intents.

To scale up private investment Ahmed suggested providing incentives for fresh investment. "There are some constraints due to which we are not getting the expected result with private investment," said Abdul Matlub Ahmad, former president of the FBCCI. The absence of ease of doing business, cost of financing and lack of quality power supply are the major reasons for the slow growth in private investment. However, he is optimistic about the government removing many bottlenecks next fiscal year. He too called for bringing discipline to the banking sector as well as cutting down on the mounting default loans for boosting investment.

IMF mission sounds alarm as banks' stressed assets soar

The International Monetary Fund (IMF) has expressed concern over the rising trend in stressed assets in the banking sector. The Washington-based lender recommended that the quality of assets should be improved immediately. Stressed assets are defined as the sum of gross non-performing assets plus restructured and rescheduled standard advances, the central bank explained. The visiting mission expressed such concerns at an introductory meeting, held at the Bangladesh Bank (BB) headquarters in Dhaka on June 16, 2019 with BB governor Fazle Kabir in the chair.

A five-member IMF Article IV Consultation Mission, led by Daisaku Kihara, Division Chief, South Asia 2 Division, Asia and Pacific Department, of the global monetary watchdog is now assessing the country's overall macro-economic situation. The IMF's latest observations came against backdrop of rising trend in stressed assets ratio as a percentage of total loans and advances in the banking sector. The stressed assets' ratio climbed to 20.5 per cent in 2018 from 19 per cent from the previous year as the volume of non-performing assets and rescheduled advances went up, according to the BB's latest Financial Stability Report (FSR). "The stressed assets ratio rose to 20.5 percent at end-December 2018, which was the highest in the past three years," the BB noted. Within a year, gross non-performing loans (NPLs) ratio increased by 100 basis points, rescheduled standard advances ratio increased by 40 basis points and restructured advances ratio increased by 10 basis points, according to the report. The rise in NPLs contributed mostly to the increase in stressed assets ratio in December 2018, it added. The meeting also discussed the latest situation on both NPLs and loan rescheduling position, according to sources. Besides, different macroeconomic issues, including foreign exchange reserves along with overall balance of payments (BoP) situation were discussed at the meeting, they added. When contacted, a top central banker said the stressed assets along with loan rescheduling issues were discussed at the meeting with the IMF mission. "Rescheduling is a recognised tool for managing NPLs but it should not be used improperly," the central banker told the FE.

The mission is expected to meet finance minister A H M Mustafa Kamal and senior officials of the ministry of finance (MoF) and the central bank during the visit that will conclude on June 27. Bankers do not disagree. "We've to improve our assets quality as early as possible," Syed Mahbubur Rahman, Chairman of the Association of Bankers, Bangladesh (ABB), told the FE. Mr Rahman, managing director (MD) and chief executive officer (CEO) of Dhaka Bank Limited, said there is no alternative to improving the assets quality in the banking sector. "The assets quality must be improved if we want to reduce our cost of fund," the senior banker noted.

New VAT act to up prices of goods: PwC

The new VAT law, to be effective from next month (July), will cause price hike of commodities at consumer level, the PricewaterhouseCoopers (PwC) has said. According to the new law, the products paying less than 15 per cent value added tax (VAT) would not get input tax credit. Thus, producers of these goods will be forced to raise their prices. "Now I am paying Tk 15 as VAT for some products. For these, I will have to pay Tk 17.70 as VAT from next month," said Pulak Saha, a partner of the PwC India, at a post-budget discussion in Dhaka on June 18,2019.

The finance minister had said in the past that he would formulate the tax structure in a way that prices of commodities would not go up, but would go down or remain same, he noted. The new act has decreased the VAT rate of some products to 10 per cent and 7.5 per cent from the existing 15 per cent. As a result, the products have lost the eligibility of enjoying input tax credit, and their prices will go up, Mr Saha added. He, however, opined that every reform measure has initial heat, but if that can be absorbed, a positive result will come in two to three years. Mamun Rashid, Managing Partner of the PwC Bangladesh, said his organization worked with the Ministry of Finance (MoF) for preparing recommendations on four issues - non-performing loans, national pension scheme, rejuvenating bond market, and crop insurance. He said the PwC Bangladesh was asked to make recommendations by analyzing how the neighboring countries are dealing these issues successfully.

Sushmita Basu, another partner of the PwC, said the proposed budget is a 'long-term growth-oriented' one. She noted that from fiscal year 2005-06 until now the country's foreign currency reserve, export, import and many other indicators have gone up. This 'growth-oriented' budget has been prepared to maintain the trend. The government has moved to raise the contribution of income tax to total revenue collection from the present 35 per cent to 50 per cent by 2021. It is possible by widening tax coverage, on which the finance minister has focused. Ms Basu further said the minister has also widened tax base to raise earnings. For example, he has imposed 15 per cent tax on the listed companies, if they provide stock dividend instead of cash dividend.

"In the past, dividend receivers paid tax. But this time the companies are taxed for paying stock dividend." She opined that the main targets of the proposed budget is widening coverage, tax base, and bringing investment. Ms Basu supported the proposal of taxing retained earnings of the listed companies, although representatives of foreign investors in the country have already criticised the move, saying it will lower investment flow. She said if retained earnings of the companies go to the shareholders as cash dividend, they will circulate the money in the economy either in the form of investment or spend for other purposes. The budget proposed to levy 15 per cent tax, if total retained earnings exceed 50 per cent of the paid up capital of a listed company, whether it pays dividend or not, she added

Article

A business environment for a developed Bangladesh

Dr. Md. Moniruzzaman

In the journey of progress, we are aiming for a developed Bangladesh by 2041. Only 22 years are left. We have to increase capita income to the level of more than US$ 12,000 from $ 1,751 (FY 2017-18, BBS) and many other steps need to be taken. The honourable Finance Minister said that the per capita income in the country will also increase to US$ 1,909 at an Executive Committee of National Economic Council (ECNEC) meeting on March 19, 2019. He also added that Bangladesh's Gross Domestic Product (GDP) is set to grow by 8.13 per cent-the highest ever in the country's economic history-in the current fiscal year (FY2018-19). The minister mentioned that "the macro-economic performance of the country is very good, which will contribute to achieving the robust GDP growth". He added that the production of the agriculture and manufacturing sectors were "also very good", while the export performance was "robust", leading to healthy per capita income and the GDP growth. It has been forecasted that the investment to GDP ratio will stand at 31.57 per cent-of which 8.17 per cent will come from public investment and 23.40 per cent from private sector investment. Additionally, the government will give more incentives to the private sector to encourage their engagement in mainstream economy.

Not only the per capita income but also the other aspects of a developed country such as high standard of living, high rate of literacy and quality education, pollution free environment, green GDP, green tax, improved communication infrastructure, sophisticated and modern port operations, high and speedy railway networks, human resources and cultural development and many issues need to be properly addressed. We need a strong and investor-friendly business environment to that end. A number of assessments and projections have been very encouraging about our business environment. Bangladesh has enjoyed robust growth for the past decade and, given its inherent strengths, especially a vibrant private sector, strategic geographic location and a large pool of inexpensive labour, the prospects for continuation of such growth are relatively good.

World Bank has already observed that Bangladesh has a track record for growth and development despite frequent natural disasters, fuel, food price and global financial crises and other challenges. Bangladesh was referred by Goldman Sachs (December 2005) as part of the 'Next Eleven' emerging markets. The other countries in this list include Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, South Korea, and Vietnam. JP Morgan (2007) included Bangladesh as a 'Frontier Five' country with impressive economic and investment potential while the other countries in this list included Vietnam, Nigeria, Kazakhstan, and Kenya. Bangladesh is on the growth trajectory where poverty was reduced by nearly a third whereas life expectancy, literacy and per capita food production have increased significantly over the past two decades. South Asia's largest shopping mall in Bangladesh is a testament to recent economic growth. Foreign Direct Investments (FDIs) are giving Bangladesh a much needed boost to become a persistent performer in the world economy. Bangladesh operates eight exporting zones nationwide which allow for 100 per cent foreign-owned ventures to operate. The Economist Intelligence Unit (EIU) has forecasted that real GDP of Bangladesh will expand at an average annual rate of 6.30 per cent, as it will be continuously supported by the steady expansion of private consumption and investment.

Foreign investors are allowed up to 100 per cent equity participation and all industries are open for private investment (exceptions are defense and armaments; nuclear energy production; forestry; currency printing, railways and air transport). The vast population of Bangladesh, with a large consumer market (young with rising incomes), is positive about private consumption. A strategic geographic location (located between South Asia and South East Asia) in the vicinity of India and China, as well as having low cost labour, makes Bangladesh a potentially attractive destination for foreign direct investment. The Foreign Private Investment Act provides legal protection from nationalization and expropriation, and guarantees the repatriation of capital and dividends. Bangladesh is a founding member of the South Asian Association for Regional Cooperation (SAARC, along with among others India and Pakistan) as well as the South Asian free trade area (SAFTA).

Though financial markets are underdeveloped, forecasts have assumed a steady increase in the size over the coming ten years, with higher availability of credit, stronger capital markets and further extension of micro-financing schemes. Bangladesh's business environment indicator is gradually nearing that of India, and the infrastructure ratings of both are comparable. In order to sustain its growth in export commodities and FDI, Bangladesh should remain competitive by offering attractive investment incentives. Low literacy levels and an underdeveloped infrastructure are holding the country back from reaching its full potential. Bangladesh still faces many bottlenecks in its trade and investment climate. Besides placing Bangladesh in the list of 'Next Eleven', Goldman Sachs also categorized Bangladesh as a country with broad-based weaknesses. Indicators that helped improve Bangladesh's ranking in the Global Competitiveness Index include the adequate state of infrastructure, adequate access to finance, low level of corruption and political stability. Despite various odds Bangladesh has seen an average more than 6.5 growth annually, making it an investment destination with huge potential, also because government policy is gradually being geared towards improving the business environment. One of the biggest short term challenges for Bangladesh is to improve the supply of electricity.

Bangladesh offers opportunities for investment under its liberalized Industrial Policy and export-oriented, private sector-led growth strategy. All but four sectors (i.e. arms and ammunition and other defence equipment and machinery, forest plantation and mechanized extraction within the bounds of reserved forests, production of nuclear energy, and security printing and mining) are open for private investment in Bangladesh. Bangladesh Investment Development Authority (BIDA) has been working to accelerate private investment and provide institutional support services to potential investors. For investors, the BIDA provides an overview of all business laws, rules and regulations most relevant to setting up commercial or industrial activities. The Ministry of Finance offers an overview of all policies and strategies related to economic perspectives.

In order to stimulate rapid economic growth of the country, particularly through industrialisation, the government has adopted an 'Open Door Policy' to attract foreign investment to Bangladesh. The policy provides an overview of fiscal and non-fiscal incentives. The following have been playing an important role at attracting foreign investments:

- STRATEGIC LOCATION OF BANGLADESH-With access to international sea and air routes, the location of the country is ideal for global trade.
- ADVANTAGEOUS TRADE AGREEMENTS- Most Bangladeshi products enjoy complete duty and quota-free access to countries of the European Union, Japan, USA, Australia, and other developed countries.
- ATTRACTIVE BUSINESS & INVESTMENT CLIMATE-Bangladesh has a rapidly growing domestic market and, with nearly 170 million people, there is obvious potential for a further increase in domestic consumption.
- YOUTH AND AMBITION-Bangladesh has a vast workforce. A growing segment of this workforce is skilled while others are semi-skilled. There is an abundant supply of

disciplined, easily trainable and low-cost workers suitable for any labour-intensive industry.

- LANGUAGE-Although Bengali is the official language, English is widely accepted as a second language.
- NATURAL RESOURCES-Bangladesh is endowed with an abundant supply of natural gas, water and fertile land.
- THE BANGLADESH EXPORT PROCESSING ZONES-The BIDA is responsible for attracting investment into Bangladesh and to ensure that investors receive the necessary assistance. The Bangladesh Export Processing Zones Authority (BEPZA) is the official organ of the government for promoting, attracting and facilitating foreign investment within different Export Processing Zones (EPZ). An EPZ is defined as a territorial or economic enclave, through which, goods may be imported and manufactured and reshipped with a reduction in duties and/or minimal intervention by customs officials. The primary objective of an EPZ is to provide special areas where potential investors can find a congenial investment climate, free from cumbersome procedures. An EPZ provides: Plots/ factory buildings in custom bonded area, infrastructural facilities, administrative facilities and fiscal & non-fiscal incentives.

The Open Door Policy aims to boost inward foreign investment with a number of tax holidays (5-10 years depending on location). Eight export processing zones EPZ's are already in operation where 100-per cent foreign-owned ventures are allowed to operate and are given equal treatment as local enterprises.

To ensure uninterrupted power supply, the Government of Bangladesh is setting up new power stations, including nuclear power plants, with foreign investments. The Foreign Private Investment Act provides legal protection from nationalisation and expropriation, and guarantees the repatriation of capital and dividends. As of now, indicators have shown that openness to trade in Bangladesh is much higher (trade openness of Bangladesh is equal to India) than openness to investment. There have been some improvements in the institutional framework for facilitating public and private investments such as the Special Economic Zones Act, Public-Private Partnership guidelines and the Bangladesh Infrastructure Finance Fund. With regards to intellectual property rights, Bangladesh has adopted protection in line with WTO standards (TRIPS agreement, trade related aspects of intellectual property rights). Significant customs modernisation is under way to facilitate speedy customs clearance through automation and to improve transparency in the customs clearance process. Import clearance and export procedures have been further simplified by reducing the number of signatures needed for clearance of consignments and the frequency of inspection of goods.

In order to maintain a conducive, business-friendly environment, the government should ensure that the ongoing momentum and vibrancy of the private sector continues; business environment is facilitated through fiscal and non-fiscal incentives and roads and railway infrastructure and networks are constantly improved. Additionally, enhancement of trade facilitation at ports and customs stations; e-governance, e-business and automation in banking and payment gateways; necessary utilities at SEZs and EPZs and smooth and effective logistics and supply chain management will be helpful. There should also be better practice of model business cases; diversification of exports and markets; market development; proactive financial sector and capital market, so that Bangladesh can continue to move towards higher growth trajectory.

[Dr. Md. Moniruzzaman is an Associate Professor at the Bangladesh Institute of Governance and Management (BIGM). This article was earlier published in the daily Financial Express on June 07, 2019]

News from Member Companies

Launching Jibika Phase II: A Vision towards Sustainable Village Cooperatives

A launching ceremony of phase II of the Jibika project, a collaboration between BRAC and Chevron, was held on July 4, 2019 in Dhaka. Various Government of Bangladesh, BRAC, Chevron, IDEA and Village Development organization representatives were in attendance. Muhammed Ahsanul Jabbar, Additional Secretary, Energy and Mineral Resources Division, Ministry of Power, Energy & Mineral Resources, Government of the People's Republic of Bangladesh attended as chief guest. Also present were Ismail Chowdhury, Director, Corporate Affairs, Chevron Bangladesh; Alexander Yelland, General Manager, Corporate Affairs, Chevron Asia South; and Anna Minj, Director, Community Empowerment, Gender Justice & Diversity, Integrated Development Programme, BRAC. Matiul Islam Nowshad, CMgr, Senior Director, Operations and Strategic Initiatives, BRAC chaired the event.

The program highlighted the achievements of Jibika Phase I, followed by an outline of Phase II's vision and objectives to strengthen the governance of the 110 Village Development Organizations (VDOs), developed under this project. Muhammed Ahsanul Jabbar lauded the partnership

Picture Caption : *At the launching ceremony of phase II of the Jibika project, a collaboration between BRAC and Chevron; Sitting from the left: Anna Minj, Director, Community Empowerment, Gender Justice & Diversity, Integrated Development Programme, BRAC, A. Matiul Islam Nowshad, CMgr, Senior Director, Operations and Strategic Initiatives, BRAC, Muhammed Ahsanul Jabbar, Additional Secretary, Energy and Mineral Resources Division, Ministry of Power, Energy & Mineral Resources, Government of the People's Republic of Bangladesh, Alexander Yelland, General Manager, Corporate Affairs, Chevron Asia South, Chevron and Ismail Chowdhury, Director, Corporate Affairs, Chevron Bangladesh.*

between BRAC, the world's largest development organization, and Chevron, Bangladesh's largest international oil company, in bolstering the socio-economic development of vulnerable communities residing near Chevron-operated gas fields in Greater Sylhet. Mr. Ismail Chowdhury said Chevron's Corporate Social Responsibility programs impact thousands of lives in north-east Bangladesh. Jibika, the first project under the Chevron Bangladesh Partnership Initiative, is an example of a successful collaboration between BRAC and Chevron that has been supporting VDOs and promoting entrepreneurship amongst its members in the Sylhet, Moulavi Bazar and Habiganj districts.

Alexander Yelland acknowledged the Department of Cooperatives for their efforts in making a positive and sustainable change in the communities where Chevron operates. He appreciated the great work already done towards the capacity development and governance of these VDOs. Mr. Yelland also mentioned that Chevron's social investment programs primarily focus on economic development, health and education, thereby supporting several Sustainable Development Goals (SDG) adopted by the UN.

Anna Minj, conveying her wishes for the lasting success of Phase II, congratulated all the 110 VDOs for their efforts in leading the organizations towards sustainability. Matiul Islam Nowshad mentioned the role being played by Jibika and other projects under the Integrated Development Program in various rural areas of Bangladesh, empowering underprivileged people with the right knowledge, resources and capacity. He emphasized BRAC's mission to continue working for underdeveloped areas and the marginalized. He expressed his desire to see many such impactful collaborations between BRAC, GoB and private sector organizations like Chevron.

The Jibika project was designed to promote entrepreneurship for sustainable income growth of the poor and marginalized farming households around Chevron-operated gas field areas in Greater Sylhet. Phase I of the project successfully established 110 Village Development Organizations, which later achieved registration from the Department of Cooperatives. Starting with seed money of 3-5 lacs, each VDO now has an average operating capital of 6 lacs. BRAC and its implementing partner IDEA have also facilitated intensive trainings on leadership, fund management, cattle and vegetable rearing, etc. for the communities. From the year 2015-2019, about 20,000 people in the community have benefited from the Jibika project. Following the successful completion of phase I, phase II of the project is designed to further strengthen the governance and management of the Jibika cooperatives and help them achieve long term sustainability by 2022.

Bonayan- a key climate change reduction strategy through afforestation.

Deforestation is the second leading cause of global warming and produces about 24% of global greenhouse gas emissions. According to National Geographic, Bangladesh is one of the most vulnerable nations to the impacts of climate change. The country is continuously facing the adverse effects of deforestation by way of extreme hot weather, shifting of the seasons, recurring floods, cyclones and hurricanes, lowering ground water, and other natural calamities.

Bangladesh Government's 2021 national goal of "Environment Protection" in alignment with the United Nations Sustainable Development Goal no. 13 (Climate Change) and Goal no. 15 (Life on Land) aim to address this concern. The objective is to strengthen resilience and adaptive capacity to climate related hazards and natural disasters that will help ensure restoration of the ecosystem. One such prominent, widely praised initiative is the Bonayan Project. Bonayan, the flagship CSR Project by BAT Bangladesh initiated in 1980 has a firm vision to combat climate change and create a greener environment.

More than three decades back Bonayan identified the social, environmental and economic importance of tackling deforestation and since then, has been relentlessly working to make a positive impact in the lives of its beneficiaries.

BAT Bangladesh in collaboration with the Forest Department through its Bonayan Project distributes saplings free of cost to its beneficiaries. Bonayan being the largest private sector driven afforestation project in Bangladesh has distributed and planted around 100 million saplings in the last 39 years to rural communities in 16 locations including Greater Kushtia, Jhenaidah, Meherpur, Rangpur, Lalmonirhat, Manikganj, Tangail, Chattogram and Chattogram Hill Tracts.

This project has helped its beneficiaries in more ways than one. Statistics indicate that 80% of beneficiaries are generating sustainable income by tree plantation. Around 14% earned an annual income of BDT 20,000-30,000, 22% earn BDT 10,000-20,000 while the majority earns around BDT 5,000-10,000. Plantation of medicinal plants has allowed 14% beneficiaries to use such plants for their medicinal properties. Wood from the trees is being used to make furniture while fresh fruits from the trees are being sold by farmers allowing them to make some extra earning. Many families are now able to send their children to school with the income earned from free plantation. Bonayan has actively involved the community people in planting trees which has helped in making surroundings greener. To add to that, the negative impact of Deforestation on human health, communities, and ultimately the environment has been significantly mitigated by the initiatives taken by Bonayan.

This year, an integrated campaign titled "Afforestation Campaign 2019" distributed five million saplings nationwide, of which 1 lakh saplings will be distributed to Rohingya Refugees in the Kutupalong Camp. The project already completed an 8-km roadside plantation starting from camp 4 to camp 11 as part of the project's "Rohingya Campaign" last year. Moreover, the campaign also aims to conduct post plantation awareness programme for the Rohingya community.

Bonayan has aided and supported some of the iconic landmarks of Bangladesh, including Shah Amanat International Airport, Lalon Shah Bridge, Jamuna Multi-Purpose Bridge, Lama-Alikadam highway, Polashbari Highway and etc.

BAT Bangladesh's flagship afforestation program has garnered several recognition and accolades including five national awards from the Government as well as an international award in 2014, the Asia Responsible Enterprise Award.

Bonayan has been making a difference not only in the lives of its beneficiaries but it also continues to support sustainable forest management, preserve biodiversity and ensure a better and cleaner environment for all of us.

Activities of the Chamber

FICCI Luncheon Meeting

FICCI Luncheon Meeting

June 18: The Monthly Luncheon Meeting of the Chamber was held on the day. The Chairman of the National Board of Revenue (NBR) Mr. Md. Mosharraf Hossain Bhuiyan, NDC was the Chief Guest on this occasion. The meeting began with welcome note by the Executive Director of the Chamber, Mr. Jamil Osman.

FICCI President Mr. Shehzad Munim delivering his speech

FICCI President Mr. Shehzad Munim, in his speech, said that the measures related to the imposition of 15 percent tax on retained earnings and reserve, and on stock dividend needed a review. Almost 36 percent to 40 percent of Bangladesh's foreign direct investment comes from retained earnings of MNCs operating in the country, He said, MNCs retain a significant amount of their earnings to invest for further growth. If MNCs give all the money as dividend, most of the money will go out of the country as most of the investors stay abroad. He also demanded reconsideration of some other tax measures including an increase in minimum tax on mobile operators. VAT at 7.5 percent on e-commerce would also affect the growth of the sector, he said. He said, some changes in the VAT law are difficult to understand and it needs to be ensured that they would not raise costs of business. He requested to allow six months so that MNCs can sort out all the small issues pertaining the law.

The Chairman, NBR Mr. Md. Mosharraf Hossain Bhuiyan began his speech by assuring that the NBR would review different issues with the business people so that the cost of doing business does not increase. NBR Chairman mentioned that achieving the 'biggest' revenue target would be a challenging task with so many tax exemptions proposed in the budget. He said, a Tk 3.25-trillion revenue target has been proposed for the fiscal year 2019-20 against their projection of around Tk 2.50 trillion in the budget. The government target is much higher than what was calculated earlier. He said, such a target stumbles against tax exemptions offered in the budget so many areas like agriculture, new investment, hi-tech park, and special economic zone. These offers would make revenue collection very challenging. If, however, the economy runs well, we will be able to attain the target," he said. Speaking as the chief guest, Mr. Bhuiyan said share market is reeling in rumors and most of the actors in the market are not well aware of their business. "So, we gave some fiscal relief to the investors in the capital market,". The NBR chief said that tax exemption threshold on dividend income is proposed at Tk 50,000 from existing Tk 25,000-a budgetary measure hailed by many quarters. But some businesses have raised concern over certain fiscal measures in the capital market, he stated. "We'll look into the matter for an amicable solution." Mr. Mosharraf also argued in favor of a tax hike on sugar and edible oil. The price of sugar will rise by Tk 5 a kilogram, which will not affect consumers as the price of the sweetener remains lower compared with other essential products including vegetables, he said. As per the estimation of NBR, the price of edible oil will also rise by Tk 3 to Tk 5 a kg due to the imposition of VAT and the price hike is tolerable..

NBR Chairman delivering speech in the meeting

After the Chief Guest's speech, there was a Q&A session. Mobile operator MD of Robi Mr. Mahtab Uddin Ahmed said that the proposed increase in minimum tax on the telecom sector to 2 percent from 0.75 percent was discriminatory for the sector in terms of the foreign investment protection act. He requested the NBR Chairman to withdraw the tax. Otherwise, the operators would not be able to survive, he said. Bangladesh Association of Software and Information Services president Syed Almas Kabir demanded VAT exemption for e-commerce for the next five years. On listening to their queries the Chairman, NBR assured them that he would look into those proposals.

After the Q&A session, Mr. Francois de Maricourt offered a formal vote of thanks to the Chief Guest, FICCI members, distinguished guests and media representatives for their participation in the FICCI Luncheon Meeting.

Other Activities of the Chamber

June 10: The 18th Executive Committee (2017-19) meeting of the Chamber was held on the day at the FICCI conference room. The meeting was chaired by the FICCI President, Mr. Shehzad Munim.

The 18th EC Meeting

June 11: A meeting of the Chamber's Election Board was held on the day at the FICCI conference room. The meeting was chaired by Mr. Syed Rezaul Karim.

Election Board Meeting

June 14:A meeting of the Chamber's Trade, Tariff, Taxation and Company Affairs was held on the day at the FICCI conference room. The meeting was chaired by its convener Mr. Abdul Kalek.

Trade, Tariff, Taxation and Company Affairs Subcommittee Meeting

June 16: A meeting between the Chamber's Executive Director Mr. Jamil Osman and Mr. Rakesh Chitkara Senior Director of Abbott Healthcare Pvt. Ltd. was held on this day.

Executive Director meeting with representative of Abbott Healthcare Pvt. Ltd

June 20: FICCI's delegation attended the meeting with Mr. Md Mosharraf Hossain Bhuiyan, NDC Senior Secretary IRD and Chairman National Board of Revenue on the day at the NBR Mini-Conference room. The meeting was chaired by Senior Secretary IRD and NBR Chairman Mr. Md. Mosharraf Hossain Bhuiyan NDC. Mr. Shehzad Munim, FICCI's President, FICCI's Executive Committee Members and FICCI's Trade, Tariff, Taxation and Company Affairs Subcommittee members were present in the meeting. The FICCI delegation suggested that the proposed 15 percent tax on their retained earnings and stock dividends will make a negative impact on the inflow of foreign direct investment (FDI). FICCI's delegation also requested the NBR Chairman to the withdrawal of withholding tax on supply of direct materials. Besides, VAT, SD and Customs issues were discussed in the meeting. The Chairman, NBR Mr. Md. Mosharraf Hossain Bhuiyan, NDC, assured that the NBR will review those issues so that multinational company could smoothly conduct their business.

FICCI's delegation discusses with Mr. Md Mosharraf Hossain Bhuiyan, NDC Senior Secretary IRD and Chairman National Board of Revenue

Enrollment of New Member

bKash Limited has become the ordinary member of the Chamber. bKash Limited's main business activities are to carry on Transact, undertake and conduct all types of mobile banking business and services at home and abroad.

Key Economic Indicators

Consumer Price Index & Inflation Rate

CPI Classification	2015-16	2016-17	2017-18	2017-18			2018-19		
				Mar'18	Apr'18	May'18	Mar'19	Apr'19	May'19
1	2	3	4	5	6	7	8	9	10
NATIONAL									
General index	219.86	231.82	245.22	248.65	248.85	245.80	262.45	262.73	259.63
Inflation	5.92	5.44	5.78	5.68	5.63	5.57	5.55	5.58	5.63
Food index	234.77	248.90	266.64	271.27	271.42	265.27	286.78	286.46	279.83
Inflation	4.90	6.02	7.13	7.09	7.03	6.56	5.72	5.54	5.49
Non-food index	200.66	209.92	217.76	219.64	219.90	220.83	231.25	232.31	233.72
Inflation	7.43	4.61	3.74	3.52	3.49	4.08	5.29	5.64	5.84
RURAL									
General index	220.10	231.02	244.17	247.76	247.86	243.62	261.10	261.27	256.87
Inflation	5.26	4.96	5.69	5.63	5.59	5.07	5.38	5.41	5.44
Food index	230.31	243.08	259.86	264.50	264.56	257.06	279.85	279.59	271.64
Inflation	4.20	5.54	6.90	6.77	6.76	5.62	5.80	5.68	5.67
Non-food index	203.86	211.83	219.21	221.14	221.29	222.22	231.26	232.12	233.36
Inflation	7.22	3.91	3.48	3.52	3.44	4.07	4.58	4.89	5.01
URBAN									
General index	219.31	233.29	247.17	250.28	250.67	249.83	264.94	265.44	264.73
Inflation	7.11	6.37	5.95	5.76	5.70	6.48	5.86	5.89	5.96
Food index	245.66	263.09	283.19	287.79	288.18	285.30	303.69	303.23	299.83
Inflation	6.55	7.10	7.63	7.80	7.63	8.69	5.52	5.22	5.09
Non-food index	196.39	207.38	215.83	217.65	218.05	218.98	231.24	232.57	234.2
Inflation	7.72	5.60	4.08	3.51	3.57	4.08	6.24	6.66	6.95

Source: Bangladesh Bureau of Statistics


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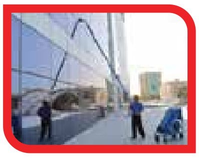
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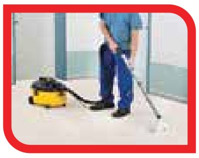
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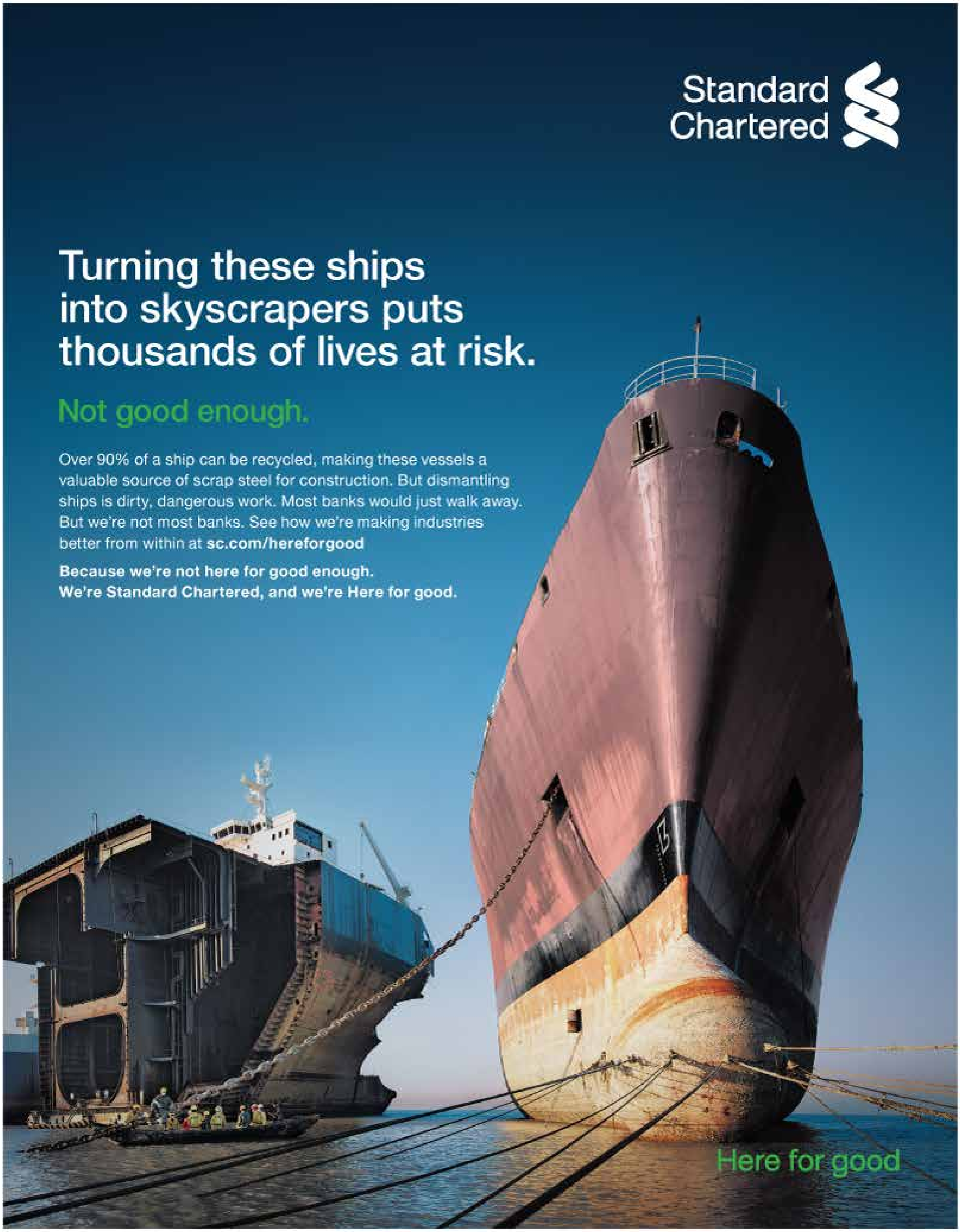
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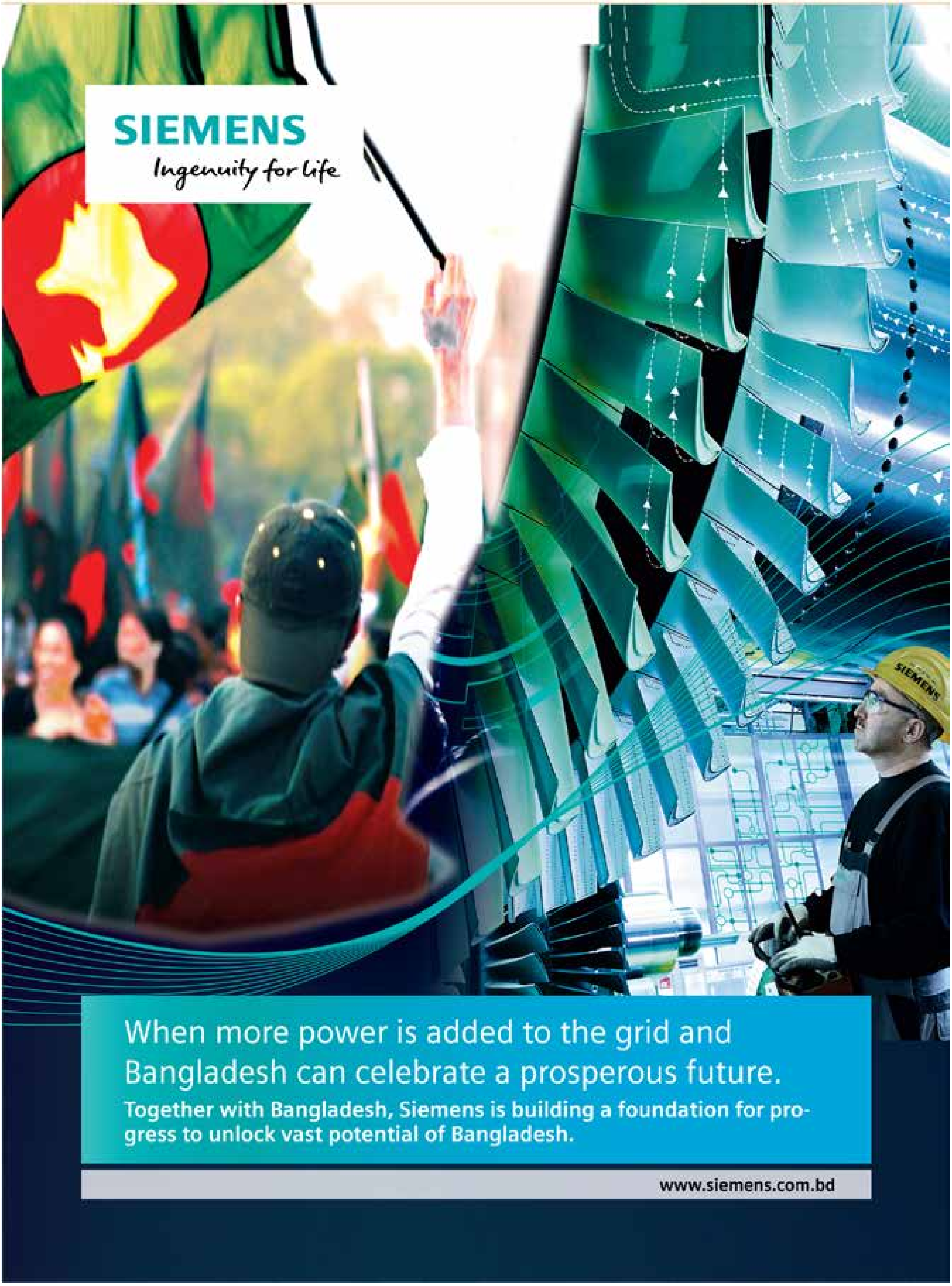
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