

Data Collection Survey
on
the Special Economic Zones
in
the People's Republic of Bangladesh

Final Report

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Data Collection Survey on the Special Economic Zones in Bangladesh

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List of Abbreviations

ADB	Asian Development Bank
ADBB	Annual Development Budget, Bangladesh
API	Active Pharmaceutical Ingredient
ASEAN	Association of South East Asia Nations
BAPI	Bangladesh Association of Pharmaceutical Industry
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BDS	Business Development Services
BEPZA	The Bangladesh Export Processing Zones Authority
BEZA	Bangladesh Economic Zones Authority
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BICF	Bangladesh Investment Climate Fund
BIFFL	Bangladesh Infrastructure Finance Fund Limited
BILS	Bangladesh Institute of Labor Studies
BIM	Bangladesh Institute of Management
BITAC	Bangladesh Industrial Technical Assistance Center
BIWTA	Bangladesh Inland Water Transport Authority
BIWTC	Bangladesh Inland Water Transport Corporation
BLPA	Bangladesh Land Port Authority
BMOGC	Bangladesh Mineral Oil & Gas Corporation
BOI	Board of Investment
BOP	Base of the Pyramid
BPDP	Bangladesh Power Development Board
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSTI	Bangladesh Standard and Testing Institution
BWDB	Bangladesh Water Development Board
CCI	Chamber of Commerce and Industry
CCI&E	Office of the Chief Controller of Imports and Exports
CETP	Central Effluent Treatment Plant
CFS	Container Freight Station
CoO	Certificate of Origin
CSR	Corporate Social Responsibility
DFID	Department for International Development

DOE	Department of Environment
DoT	Deed of Transfer
EGCB	Electricity Generation Company of Bangladesh Limited
ECC	Environmental Clearance Certificate
EIA	Environmental Impact Assessment
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
ERC	Export Registration Certificate
EU	European Union
EZ	Economic Zone
FBCCI	Federation of Bangladesh Chamber of Commerce and Industry
FCL	Full Container Load
FDI	Foreign Direct Investment
FS	Feasibility Study
FTA	Free Trade Agreement
GATS	General Agreement on Trade and Services
GDP	Gross Domestic Product
GIS	Geographic Information System
GNI	Gross National Income
GoB	Government of Bangladesh
GSP	Generalized System of Preferences
ICT	Inland Container Terminal
IDCOL	The Infrastructure Development Company Limited
IEE	Initial Environmental Examination
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
IRC	Import Registration Certificate
ISO	International Organization for Standardization
IT	Information Technology
IWM	Institute of Water Modelling
JBCCI	Japan Bangladesh Chamber of Commerce and Industry
JBIC	Japan Bank for International Cooperation
JCIAD	Japan Commerce & Industry Association in Dhaka
JERO	Japan External Trade Organization
JGESC	JICA's Guidelines for Environmental and Social Considerations

JV	Joint Venture
KEPZ	Korean Export Processing Zones
L/C	Letter of Credit
LCC	Location Clearance Certificate
LDCs	Least Developed Countries
LFS	Labor Force Survey
LIBOR	London Inter-bank Offered Rate
LIC	Low Income Country
MIDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MOA	Ministry of Agriculture
MOC	Ministry of Commerce
MOEF	Ministry of Environment and Forest
MOPEMR	Ministry of Power, Energy & Mineral Resources
MOF	Ministry of Finance
MOHPW	Ministry of Housing and Public Works
MOHFW	Ministry of Health & Family Welfare
MOI	Ministry of Industries
MOLGRO	Ministry of Local Government, Rural Development and Cooperatives
NBR	National Board of Revenue
NEXT 11	NEXT Eleven
NGO	Non-governmental Organization
ODA	Official Development Assistance
OJT	On-the-Job Training
P-EPZ	Private Export Processing Zone
PPP	Public Private Partnership
PRSP	Poverty Reduction Strategy Paper
PSDSP	Private Sector Development Support Project
PGCB	Power Grid company of Bangladesh
RAJUK	Rajdhani Unnayan Kartripakkha
RHD	Road and Highway Department
RMG	Ready-made Garments
SAARC	South Asia Association for Regional Cooperation
SAFTA	South Asia Free Trade Agreement
SOBs	State-owned Banks
SOEs	State-owned Enterprises

SCITI	Small & Cottage Industries Training Institute
SME	Small and Medium-sized Enterprise
SPA	Specialty Store Retailer of Private Label Apparel
SPC	Special Purpose Company
SWOT	Strengths, Weaknesses, Opportunities, Threats
TA	Technical Assistance
TRIPS	Agreement on Trade-related Aspects on Intellectual Property Rights
TSL	Two-step Loan
TVET	Technical and Vocational Education and Training
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
USAID	United State Agency for International Development
VGf	Viability Gap Fund
WB	World Bank
WTO	World Trade Organization

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Final Report

Summary

Summary of the Report

Chapter 1: Frameworks of the Survey

(1) Background of the Survey

- The People's Republic of Bangladesh (hereinafter referred to as Bangladesh) is situated at the alluvial plain in the eastern corner of the Indian sub-continent, where three major rivers (Ganga, Brahmaputra and Meghna) run through from Himalayan Mountains to the Bay of Bengal. The country is known as one of the over-populated nations with over 160 million habitants. This population is much bigger than that of Japan, especially considering that its territorial land is only 140,000 square kilometers, which is 40% of Japan's. The population density of the country in the year of 2009 accounted for 1,127 persons per square kilometer which is the most densely populated nation in the world except for those smaller-sized nations have a population of less than 10 million.
- According to the statistics released by the World Bank, Gross National Income (GNI) per capita of Bangladesh was US\$700 in the year of 2010 which is classified as one of the poorest countries in the world. In the recent years, Bangladesh, however, enjoys steady growth in its economy with more than 6% per year, due mainly to the reasons that the nation has a sound performance in the Ready-made Garment (RMG) Industry and Money Transfer by the overseas workers of Bangladesh who have migrated into Middle Eastern countries and other areas. Bangladesh is well recognized as one the Next Eleven (Emerging Economic Nations Group following the BRICS countries), due to its huge supply capacity of competitive labor forces and relatively large domestic consumer markets which are considered to be engines for higher development potentials. The country is catching the eyes of Multinational Corporations (MNCs) whose are looking for investment destinations with higher economic growth. However, the aggregate amount of Foreign Direct Investment (FDI) to Bangladesh and its contribution ratio against the Gross Domestic Products (GDP) remain at lower level.
- The Outline Perspective Plan of Bangladesh 2010-2021(Vision 2021) is the supreme socio-economic development plan in Bangladesh and the plan has set a target to get in the group of middle income nations by 2021. It is said that the annual economic growth rate during the 6th Five-year plan (2010-2015) was set as 8%, and domestic investment ratio against GDP which remains at 24% presently shall be drastically increased to; 32~33% in 2015 and 38~40% in 2021. In particular, domestic investment by the private sector which remains approximately at 19% in the past five (5) years shall be increased to 25% in 2015. In order to promote the industrialization program, enhancing diversification and promoting investment activities, introduction of industrial policies, up-grading the level of industrial technology at the private sector, and development of power supply and transportation infrastructures are matters of importance. However, promotion of industrialization by attempting foreign investment is imperative under the circumstance of limited capacity of domestic capital and technologies.

Under such background, shortage of well-developed industrial parks, which are suitable for the locations of foreign multi-national industries has been a major constraint in Bangladesh. Although the Government of Bangladesh (GoB) has been intensively developing Eight (8) Export Processing Zones (EPZ) since 1990s and positively accepting Foreign Direct Investment (FDI), Five (5) EPZs along the Dhaka – Chittagong economic corridor, namely; Dhaka EPZ, Adamjee EPZ, Comilla EPZ, Chittagong EPZ, and Karnaphule EPZ, are fully occupied. On the contrary, Mongla EPZ, Ishwardi EPZ and Uttara EPZ which are located at a distance from major core cities such as Dhaka with poor transportation and living conditions, have not been well accepted by the investors and a large number of slots remains unoccupied.

- GoB has, under such circumstance, decided to suspend the development of new EPZ and to establish Thirty (30) Economic Zones throughout the Nation considering the phenomena that the slots of lands in the major EPZs are nearly sold-out, and promoting diversification of industries by accelerating a linkage between export industries and domestic industries. After the launching of the Bangladesh Economic Zones Act in October, 2010, GoB has established the Bangladesh Economic Zones Authority (BEZA) which is responsible for the development and operation of SEZs. BEZA has chosen Seven (7) candidate sites out of Thirty (30) long-listed candidates in 2012 and they wish to conduct a Preliminary Feasibility Study (F/S) and they have also dispatched a delegation for inviting Japanese Investors to their prospectus.

With due attention to such a background, survey activities have been conducted by focusing on data and information gathering related to the SEZ, followed by evaluation and selection of the best suitable candidate sites for location of Japanese firms. Discussion and recommendations have been made for JICA.

(2) Objectives of the Survey

Objectives and targeted areas of this Survey may be summarized as follows;

1. To gather related data and information and analyze and compile systematically the bottle necks and issues with regard to the development of SEZs in Bangladesh by reviewing the statistics and reports released by the GoB, and conducting interview and questionnaire surveys to Japanese entities and the related authorities/organizations,
2. To gather the detailed information on the proposed candidate sites identified by the development of SEZs in Bangladesh and conduct site reconnaissance surveys to several priority sites and select the most appropriate candidate sites,
3. To analyze and consolidate the assistance programs for the development of SEZs by JICA (Assistance Model for the development of SEZs, Selection of the most appropriate candidate sites for SEZs, Policies and Strategies for inviting FDI to Bangladesh, development of Off-site Infrastructures and etc.) by keeping in mind the results which were arisen from the activities stated herein above (1) and (2), and referring to the related policies and plans adopted by the GoB and intents of Japanese entities,
4. To conduct the Workshop and Seminars both in Bangladesh and Japan in order to familiarize

the outcomes of the Survey by keeping in mind the effective assistance for promoting the investment of Japanese entities in Bangladesh.

Chapter 2: Findings on Economic Structure, Investment Environment and SEZs in Bangladesh

(1) Macroeconomic Environment surrounding Bangladesh

- In Bangladesh the Third Industry accounts for approximately fifty (50) percent in the distribution of Economic performance at the GDP basis which is the biggest sector in Bangladesh economic activities, followed by the Secondary Industry which accounts for approximately thirty (30) % and the Primary Industry with approximately Twenty (20) % of the share. As to the average growth rate in each economic sector in the last 30 years, the fastest growing industry is the Secondary Industry with an annual growth rate of 7.2 %, followed by the Third Industry at 5.06% and the Primary Industry at 3.66%. According to “Bangladesh Economic Review 2012” being issued by the Ministry of Finance, the growth rate of the Bangladesh economy in the years of 2011~2012 was 6.32% which is slightly down. This down tone phenomenon is observed as minimal within the background of the stagnant global economy which was led by poor performance of the European Economy. Such growth was contributed mainly by steady growth in the Agriculture Sector which recorded five (5) percent growth for the last two (2) years and remarkable growth recorded in the sectors of Industries and Services. In addition to that, money transfer by Bangladesh overseas workers which has recorded 10.24% growth even in such a poor global economic performance, has contributed greatly to the improvement of the Trade Balance. Under such macroeconomic environment, GDP per capita in the year of 2012 reached US\$772 while Gross National Income (GNI) per capita reached to US\$848 respectively, up from a GDP per capita of \$747 and GNI per capita of \$816 in the previous year.
- As to the performance of Bangladesh foreign trade, constant in-balance has been recorded as a result of the phenomena that the amount of imports exceeds that of exports. Since the Balance on Services and the Balance on Income show negative, money transfer by Bangladesh overseas workers fill these deficits and eventually showed records of minor surplus in the Current Account. These structures have remained since 2006.
- As to the amounts of FDI in-flowed to Bangladesh are in constant increase since 2005 and the amount of investment in the year 2011 was U.S.\$1,136.4 million which is exceeded the amount before the Lehman Shock. The most common type of investment component was “Equity” followed by “Reinvestment” and “Intra-company”. As to the destination of such FDI, approximately 83% went to the engineering industry while 6.79% went to textile industries followed by the chemical industry with 3.84% and food and agro-processing industries with 2.3%. Saudi Arabia, the U.S.A., Hong Kong, Korea, Germany, Malaysia, Thailand and Netherlands are major investors to Bangladesh and amount of investment from Japan is increasing in the recent years.

(2) National Development Goal and Industrial Policy of Bangladesh

- The supreme socio-economic development paper in Bangladesh is the Outline Perspective of Bangladesh 2010-2021 (Vision 2021) which sets various goals such as the eradication of poverty, provision of educational opportunity, reduction of jobless rate, enhancement and improvement of power supply capacity, and increasing income level. It can be summarized that the ultimate goal under the said paper is to get in the group of middle-income countries (US\$2,000 per capita in GNI) by 2021.

The 6th Five-year Plan (2011-2015) was prepared by the Planning Commission in order to break down the philosophy of Vision 2021 into a detailed development program. Under this Five-year Plan, the average annual growth rate on GDP was set as 7.3%, the share of manufacturing industry at the target year of 2015 was set as 21% and it was declared that the unemployment rate was to be reduced from 25% to 17% by creating 104,000 employment opportunities. The plan invites positive participation of the private sector for the development of various infrastructures including SEZ through the Public and Private Partnership (PPP) method. In order to increase the income level, the plan intends to realize a structural reform by shifting the workforce from the primary sector like the agriculture sector, which has vast working population, to the secondary (mining sector) and service sectors.

- The National Industrial Policy (2010) which was established by the initiatives of the Ministry of Industries in September 2010 provides distinct directions in the development of Industries during the planning periods of the 6th Five-year Plan. Under this policy, the energy of the private sector was set as a core engine for realization of the plan and in particular focuses the development of Information Technology-related products and service industries backed-by Information Technology (IT), and promotion of SME as its policy issues to be addressed. The policy puts “economic development through the promotion and diversification of exports” at the center point from the mid to long term. In order to promote exports, good industrialization policy is imperative and such industrialization policies shall focus on the improvement of the trade-deficit by developing import-substitution industries and improvement of competitiveness through the experiences of domestic markets. Particular attention was given to the provision of employment opportunities to those who left the primary sector, in particular at the food and agro-processing industry sub-sector.
- As to the law that rules the activities related to foreign investment in Bangladesh, the Bangladesh Foreign Investment (Promotion and Protection) Act (1980) is identified. This Act ruled out the procedures required for establishing permanent establishment by foreign firms in Bangladesh, details of incentives on the investment, controls on foreign exchange systems, compensation against the asset requisition of foreign firm, national treatment of the foreign firms and others including tax reduction, application of transferable tax against imported machinery, reductions in tax regarding intellectual property rights, and tax exemptions for companies that desire to export goods.
- At the level of SEZ Development, there are several implementation agencies based on

different jurisdictional acts which make the systems rather complicated. As the oldest organization involved in such activity, the Export Processing Zone (EPZ) system has commenced its services with the Bangladesh Export Processing Zone Act in 1980 which has eventually expanded its premises to eight (8) locations. In 1996, the Bangladesh Private Export Processing Zone Act was launched and currently two (2) Private EPZs are under development. The regulatory body of the Private EPZ is the “Private EPZ Governor’s Board” attached to the Prime Minister’s Office. In the recent years, the GoB has introduced a concept of Economic Zone with an attempt of obtaining the activities of the EPZ into the domestic economy. The jurisdictional legal system for this activity is the Bangladesh Economic Zone Act which was launched in October, 2010. Although the Bangladesh Economic Zones Authority (BEZA) has been created and involved in the promotion of EPZ systems in the country, functions of the organization are yet to be fully performed. In the meantime, a new type of SEZ which is aimed at the development of specific industrial fields has been commenced. It came into effect in March 2010 when the Bangladesh Hi-tech Park Authority (BHTPA) was established based on the Bangladesh Hi-tech Park Authority Act. There are similar ideas in RMG and Pharmaceutical Industries to develop an industrial cluster for the use of their own industrial association.

(3) Industrial Structure and Industrial Cluster in Bangladesh

- The distribution of Bangladesh’s domestic industry share in GDP in fiscal year of 2012 was : primary industry accounts for 16.9%, secondary industry 27.6%, and tertiary industry 55.5%. The contribution of the manufacturing sectors to the entire GDP has been fluctuating between 17.0% and 17.3% during the last six years. Although in the Sixth Five-Year Plan the GoB has set a goal to raise the manufacturing industry’s ratio to 21% by 2015, the present status appears to require a significant addition in the future if this is to be accomplished. Among the manufacturing industry, the textile industry signifies the highest rate of shipment value, approx. 39%, followed by the food industry (approx. 25%) and the chemical products industry (approx. 13%).
- The reason why GoB has changed their policy from EPZ which they have been intensively developing in the past to SEZ is said to be that the GoB intends to accelerate its relations between the export industry and the domestic industry. Besides RMG industry being well recognized as the leading industry in Bangladesh, there are certain clusters in the Country in the fields of light engineering, agro-processing and foundry industries.
- Major manufacturing clusters in Bangladesh are Dhaka, Chittagong, Jessore, Comilla, and Bogra, while RMG industries are accumulated at Shirajganj, Munshigonj, Tangail, Comilla, Narayanganj, leather industries are located at Dhaka and Chittagong, Light Engineering industries are located at Chittagong, Dhaka, Jessore, and Bogra, Agro-processing industries are located at Jessore and Bogra, western part of the Country.

(4) FDI Policy and Financing and Foreign Exchange System

- Organizations which have been involved in the activities for promotion of FDI are the Board of Investment (BOI), Bangladesh Export Processing Zones Authority (BEPZA), Private EPZ Governor's Board, Bangladesh Economic Zones Authority (BEZA), Bangladesh Small & Cottage Industries Corporation (BSCIC) and Public Private Partnership (PPP) Office. There are some related laws to FDI; the Foreign Private Investment (Promotion and Protection) Act, 1980, the Investment Board Act, 1989, the Bangladesh Export Processing Zones Authority Act, 1980, the Bangladesh Private Export Processing Zones Authority Act, 1996, and the Bangladesh Economic Zones Act 2010 and they are regulating Foreign Exchange, ownership of lands by foreigner, restriction on the amount of capitals, incentives to foreign firms, preferential treatment and others.
- The financial system of Bangladesh is comprised of three broad fragmented sectors: Formal Sector, Semi-Formal Sector and Informal Sector which have been categorized in accordance with their degree of restraints. The formal sector, includes Banks, Non-Bank Financial Institutions, (FIs), Insurance firms, Capital Market Intermediaries like Brokerage Houses, Merchant Banks etc., Micro Finance Institutions (MFIs). The semi-formal sector includes those institutions which are regulated otherwise but do not fall under the jurisdiction of the Central Bank, Insurance Authority, Securities and Exchange Commission or any other enacted financial regulator. This sector is mainly represented by Specialized Financial Institutions like House Building Finance Corporation (HBFC), Palli Karma Sahayak Foundation (PKSF), Samabay Bank, Grameen Bank etc., Non-Governmental Organizations (NGOs and discrete government programs. The informal sector includes private intermediaries which are completely unregulated.
- The taka, Bangladeshi currency was declared convertible on current account transactions (as of March 1994) in terms of Article VIII of IMF Article of Agreement (1994). Bangladesh has adopted a Floating Exchange Rate regime since 2003. Under the regime, the Bangladesh Bank does not interfere in the determination of exchange rate, but operates the monetary policy prudently for minimizing extreme swings in the exchange rate to avoid adverse repercussion on the domestic economy.
- Both foreign resident and foreign non-resident in Bangladesh can open bank accounts in Bangladesh but a certain restriction is imposed on non-residents. The enterprises in EPZs are approved to possess foreign currency with advantageous conditions. Remittance of technical fees and royalties against technical assistance/royalty agreement can be made up to 6% of annual sales in the previous year (or project cost) without the prior approval of Bangladesh Bank / Board of investment. In excess of 6%, the approval of Bangladesh Bank / Board of investment is required. Remittance of salary of the expatriate personnel can be approved up to 50% of the salary; however, remittance of savings of expatriate personnel at the time of leaving Bangladesh can be made. In the case of remittance exceeding US\$2,000, the application shall be submitted to the Bangladesh Bank. The enterprises in EPZs are free to remit dividends, interest, technical fee and royalty to overseas.

- Financing systems in Bangladesh are controlled separately by foreign currency and local currency. Foreign based enterprises can take out a short- term loans from local banks or foreign banks without permission of the Bangladesh Bank with maximum 50% of gross capital. The enterprises, exceeding 50% of which is owned by foreigners or foreign companies shall obtain prior approval of BOI to take out a long-term loan, and the maximum loan amount is the amount of capital in general when the foreign person or foreign entity of a company owns shares in excess of 15%. Foreign companies located in the EPZ are not allowed to take a loan of local currency. Local banks are not allowed to make a loan to foreign based company in foreign currency. The foreign based enterprises outside EPZs who will take a loan from overseas in offshore transaction, the enterprises shall submit the application to BOI together with financing plan in advance. The purpose of such financing is limited to the import of capital goods and etc., and the name of imported goods, unit price and quantity shall be described in the application. The term of repayment shall be maximum 6 years. The enterprises in EPZs can freely take a loan in offshore transaction and two generation loans.

- Infrastructure Financing available in Bangladesh are Government owned specialized FIs, Donor agencies such as and Japan ODA and Private Financing (Banks and NBFIs). IDCOL was established in 1997 and obtained license from the Bangladesh Bank as a NBFIs in 1998. IDCOL is playing a major role in bridging the financing gap for developing medium and large-scale infrastructure and renewable energy projects in Bangladesh. BIFFL was incorporated by the Ministry of Finance in 2011 to provide long-term financing in local currency to infrastructure projects. Currently, the only finance facility available in Bangladesh is Investment Promotion and Financing Facility (IPFF) of IDA, World Bank. The IPFF Project aims to accelerate private sector-led growth through providing term finance for infrastructure development and promoting domestic infrastructure finance capacity in Bangladesh. The Private Sector Development and Support Program (PSDSP) of the World Bank is having funds for SEZ development worth US\$127 million, a portion of which will be utilized for economic zones development in Bangladesh

Many private financing institutions are engaged in infrastructure financing in Bangladesh which include commercial banks (public and private) and non-banking institutions. Common terms and conditions of the infrastructure project financing in Bangladesh by private banks and FIs are: Debt-equity Ratio: 80 %: 20% and 70% : 30%, Rate of Interest: LIBOR + less than 1% + 2.5% margin of Local Financial Institutions, Repayment Period: 10-15 years, Grace period: 5-7 years, and a Special Purpose Company (SPC) shall be formed as a legal entity.

- The following challenges and constraints in project financing are pointed out;
 - ① Lengthy approval process involving several ministries and authorities
 - ② Lengthy process in obtaining foreign loans approval
 - ③ Lack of capacity of local banks and related regulatory authorities
 - ④ Lack of experience of Local Developers in infrastructure development, financing and

management

- ⑤ No local administrative capacity to implement zone development projects
- ⑥ Poor project management causes delay in initiating commercial operation

(5)The Labor Market and Industrial Human-Resource Development System

- In 2010, there were 56.7 million people in the labor market of Bangladesh (male: 39.5 million, female: 17.2 million), while the number of people in the workforce who were employed was 54.1 million (male: 37.9 million, female: 16.2 million). The number of people in the labor market in rural areas is overwhelmingly larger than that in urban areas. The population of young workers (aged between 15 to 29 years) stood at 13.2 million, comprising 23.3% of the total labor force. The composition of the employed workforce by industry (percentage) in 2010 was as follows: agriculture: 25.72 million (47.56%), manufacturing: 6.73 million (12.44%), other industries: 2.85 million (5.28%) and services: 19.11 million (35.35%). The composition of the employed workforce by occupation (percentage) in 2010 was as follows: professionals and engineers: 2.41 million (4.4%), managers: 0.69 million (1.3%), office workers: 1.00 million (1.9%), services: 3.00 million (5.5%), sales clerks: 8.11 million (15.0%), agriculture, forestry and fishery: 25.69 million (47.4%), manufacturing and transportation: 12.38 million (22.8%) and other: 1.08 million (2.0%).
- Generally speaking, people in Bangladesh are considered to be decent and friendly. Women are in demand as workers, because they have manual dexterity and good eyes. However, some consider that “people in Bangladesh are passive, not aggressive and faceless,” “they need to check and consult with someone before doing anything” and “they have poor time management.” Basic education is not always available to everyone in Bangladesh. Some workers from villages and rural areas have not completed primary education. That is why some Japanese companies are even giving their workers basic education. Compared to India, fewer workers are able to speak English in Bangladesh.
- If Thirty (30) percent or more of the workers in a factory become members of the proposed union, such trade unions can be established and be registered with the regional registration office for trade unions and the director of the Labor Department, accompanied by the signatures of the chairperson and secretary. Workers are not allowed to establish three or more trade unions within one factory. Labor disputes have scarcely occurred in Japanese-operated companies, but there is the possibility that a dispute in a neighboring company will spill over into Japanese companies.
- Bangladesh’s education system consists of formal education and informal education. Formal education consists of primary education, secondary education, technical and vocational education, as well as advanced education. In informal education, there is education available for people at the bottom of the pyramid (BOP) provided by Madrasahs (Islamic schools) and NGOs. There are technical and vocational education systems given at Technical Education Institutes and Polytechnic Institutes and students can receive such education after completing their junior secondary education and passing the JSC examination.

- In Bangladesh, several governmental organizations have been promoting industrial human-resource development, in addition to those carried out by universities, vocational schools and polytechnic institutes. Multiple donor organizations have also been supporting industrial human-resource development. In case of the former, there are BITAC, BIM and SCITI while, TVET Systems may be identified as a typical technical human resources development program which is conducted by ILO and Directorate of Technical Education. Objectives of TVET are to establish a market-oriented and flexible technical and vocational education and training system that develops skills that meet modern industries and the needs of underprivileged young workers. Duration of this program is 5 years.

(6) Types and outlines of SEZs (including EPZs and Industrial Parks) in Bangladesh

- There are 5 kinds of industrial lands in Bangladesh: Export Processing Zones (EPZ), Private Export Processing Zones (Private EPZ) and Special Economic Zones (SEZ), Industrial Estate by BICIC and small industrial parks by the private sector which are not approved as an Economic Zone. EPZ operated by BEPZA and Private EPZ are bonded areas and there are bonded areas and domestic areas in SEZ. Mostly foreign based firm and export-oriented domestic firms are located at these special industrial areas. Currently, only EPZs among the three types are in operation substantially.
- Issues that faced by EPZ are that the plots in 5 EPZs other than Uttara EPZ, Mongla EPZ and Ishwardi EPZ are almost fully occupied and there is no plot available in these 5 EPZs. Although there is a plan to develop SEZ, it will take at least several years and there is no industrial land available for immediate occupation by investors.
- There are two Private EPZ approved by GoB; the Korean EPZ and Rangunia EPZ. A part of the Korean EPZ was developed in 2012 and a factory was located on it which is currently under operation, while the Rangunia EPZ is now under planning.
- SEZ being introduced recently consist of the following areas;
 - ① Export Processing Area: Specified for export oriented industries
 - ② Domestic Processing Area: Specified for industries to be established to meet the demand of the domestic market
 - ③ Commercial Area: Specified for business organizations, banks, warehouses, offices or any other organization
 - ④ Non-Processing Area: Specified for residence, health, education amusements, etc.

(7) The international competitiveness in attracting FDI to Bangladesh

- According to the World Economic Forum – The Global Competitiveness 2012–2013, Bangladesh was ranked at 118th out of total 144 countries, which is verifying that
- Bangladesh moved down 10 points from the rank of 108th in the previous year.
The factors to strengthen the competitiveness of Bangladesh and potential growth are identified as follows:
 - ① Institutions : Strength of investor protection

- ② Macroeconomic environment : Gross national savings versus GDP
- ③ Health and primary education : Business impact of HIV/AIDS,
- ④ Goods market efficiency : Extent and effect of taxation, Agricultural policy costs, Business impact of rules on FDI
- ⑤ Labor market efficiency: Hiring and firing practices
- ⑥ Financial market development : Financing through local equity market, Legal rights
- ⑦ Market size : Domestic market

And the following issues shall be addressed: ①How to utilize gross national savings for investment? ②How to take advantage of domestic and foreign market size in order to strengthen industrial competitiveness and develop the industry?

- With regard to the competitiveness on FDI policy, the Malaysia Industrial Development Authority (MIDA) is the sole supervisory authority in Malaysia by providing a One-Stop-Service in the MIDA office, while BOI and BEZA are core organizations in Bangladesh providing similar services of which certain improvement is required. As to the industries under restriction, Bangladesh provides more free hands to investors while Thailand and Malaysia also strategically open certain areas in manufacturing industries for the investment by foreign investors. Regarding land ownership by foreign based firms, they are allowed to acquire lands for general use and subsidiary firms of these foreign based firms are allowed to acquire industrial lands in Bangladesh which is more deregulated than that of Thailand and Malaysia.
- As to the incentives for FDI, Thailand and Malaysia are strategically deciding regarding the target industries in details for FDI promotion, thus the target industries are very clear, while the industry for FDI incentives are described as a rule of thumb in Bangladesh. With regard to the exemption/tax holidays on corporate-tax, it is not easy to clarify which country has more advantageous tax systems due to different industries, areas of location and method of accounting applied by these countries. In Thailand, BOI decides its taxation industry by industry applying the rules strategically and flexibly which may be considered as strength.
- EPZ is the only industrial lands available for FDI in Bangladesh. There are 8 EPZ nationwide and available space in each EPZ is 90 – 186 hectares which accounts for 1,039 hectares (2,572 acres) in total. This is a comparatively small size in comparison with other countries.
- In Thailand, there are more than 60 industrial parks. Each industrial park has a large space of 155 hectares – 3,062 hectares. There is a lot of land available except in the suburban areas of Bangkok. Rental factories with the size of 400 m² – 1,000 m² are under construction, as there are strong needs for rental factories. Laem Chabang industrial park (569 hectares) is located 1 km distance from the Laem Chabang international port, the deep sea port. There are also many industrial parks located with 30 to 100 km of sea ports.
- In Malaysia, there are more than 200 industrial parks and 18 FIZ (Free industrial Zone). They are various sizes from 34 hectares to 1,419 hectares. There are many cases in which a rental factory is furnished in the industrial park. Pasir Gudang industrial park in Johor Darul Takzim is located 56km from Tanjung Pelapas international port, deep sea port, while Prai

industrial park (934 hectares) in Penang is located adjacent to Penang international sea port. Other industrial parks are located adjacent to or between 20 km – 60 km from the sea port.

- Corporate Tax in Bangladesh is 32.5% (listed company 37.5%, unlisted company 27.5%) being high. Corporate Tax was exempted 100% for 10 years in the case that the company was established on and before 31st December, 2011. However, corporate tax is exempted 100% for a maximum of 5 years in the case that the company was established after 1st January, 2012: 100% for the first 2 years, 50% for the second 2 years and 25% for the last 1 year. Duty free import of goods may be applied for manufacturing export products and Accelerated Depreciation on machinery and plant is also applied.

The corporate tax in Thailand is set as 23% in 2012 and 20% in 2013 being low. For projects of designated industries, the corporate tax can be exempted for a maximum of 8 years by approval of the BOI. Depending on the location, industry and individual project, duty free on goods and materials for capital investment is accepted.

Corporate tax in Malaysia is 25% which is low and the investor can choose one of the options as an alternative: Pioneer Status (70% of corporate tax is exempted for 5 years) or deduction of investment tax (60% of capital investment is deducted from the tax on earnings for 5 years). In factories in FIZ and bonded areas, duty free for the imported materials and parts may be applied.

- Preferential treatment in Bangladesh is across the board, but various treatments are applied in Thailand and Malaysia to various industries, various areas and various projects which are types of strategic treatment. As far as the export from Bangladesh is concerned, GSP facility is available at the import country which is a benefit for exporting industries located in Bangladesh.

Chapter 3: Legal systems and structure for the development of SEZ and its issues

(1) Background and objectives for legislating SEZ

- So far GoB has been involved in the development of EPZ. However, in 5 EPZs out of 8 EPZs, plots have almost been sold out and there is no vacancy. The export oriented industries invested and established in EPZ have contributed to the growth of GDP and increase of export in Bangladesh. But most of the industries are labor incentive industries which import raw materials and parts and process them to products by using cheap labor force. GoB considers that export oriented industries in EPZ do not have backward linkage with domestic industries outside EPZ and that there is less impact on the development of domestic industries and technical transfer from foreign based industries to domestic industries. GoB has financial constraints, being short of investment funds on the development of new industrial parks. How to utilize funds and the know-how of the private sector are becoming issues that need to be addressed by GoB.
- Objectives of SEZ development are defined as follows;
 - a. Since the government has financial constraints, placing emphasis on the development of

- SEZ to be invested, developed, managed and operated by the private sector rather than the development of SEZ by government funds. Thus the government can make use of dynamism, funds and manageability owned and provided by the private sector.
- b. SEZ is divided to Export Processing Area (bonded area), Domestic Processing Area, Commercial Area and Non-processing Area. Export oriented industries in Export Processing Areas are in linkage with domestic market oriented industries, the development of which will be aimed at. Further, the government intends to increase employment, upgrade and diversify the industry through FDI and technical transfer.
 - c. The government aspires for the development of industries in the underdeveloped regions such as Khulna Division and Rangpur Division, narrowing the regional gap for the balanced growth of the economy across the country.
 - d. The government desires to make SEZs the core industrial center for the development of industrial clusters and regional development

(2) Act, Regulations and Rules for the development of SEZ and its issues

- It is expedient and necessary to make provisions for the establishment of SEZs in all potential areas including backward and undeveloped regions and development, operation, management and control thereof including the matters ancillary thereof with a view to encouraging rapid economic development through increase and diversification of industry, employment, production and export.
- The Bangladesh Economic Zones Authority (BEZA) is the authority to be involved in the development of SEZ and the operation and administration of the Authority shall be vested in an Executive Board and the Executive Board may exercise all powers and perform all functions as may be exercised and performed by the Authority. The Executive Board in discharging its duties or performing its functions shall follow the orders, directives and guidelines given by the Governing Board whose chairperson is the prime minister from time to time and the Executive Board shall in the exercise of its powers and performing its functions, be accountable to the Governing Board.
- In order to achieve the objectives of BEZA, it is essential to develop a vision and plan for the development of SEZ, launching regulations and rules for SEZ Act, development and enforcement of the organization, capacity development on the staff, allocation of necessary funds and development of administrative systems and effective implementation are required. However, these resources and systems deemed to be under preparation.
- Although regulations and rules to the SEZ Act are essential for the actual development, management and operation of SEZ, a draft of Bangladesh Economic Zones Regulations is still under review by the Ministry of Law, Justice and Parliamentary Affairs. If the official approval of SEZ Regulations by the said ministry be delayed further, it would be great concern that such a delay will cause a serious adverse impact to a sound development of SEZ.

(3) Development and financing methods for SEZ projects and its issues

- SEZs in Bangladesh are developed by the following 4 models:
 - a. SEZ established through public and private partnership (PPP method)
 - b. Private SEZ established, owned, managed, and operated by private developer
 - c. Government SEZ established, owned, managed, and operated by the Government
 - d. “Special” Economic Zone established privately or by PPP or by governmental agencies or industrial associations for the development of any kind of specialized industry or commercial organization

Among these development models, GoB is looking for adopting ①PPP method and ② development and ownership by the Private Sector method, due to lack of financial and technological capability.

- In the development of SEZ, it will be most desirable to consider all possibilities of method to finance Government funds and private funds available in Bangladesh as well as overseas development funds and private investments, including Japan Official Development Assistance (ODA) loan for covering up the shortage of funds, if any.
- Financing needs for developing SEZ projects can be categorized by two main purposes which are off-site infrastructure and on-site infrastructure. In the case of development by private developer and PPP method initiated by private developer, the on-site infrastructures at SEZ are mainly financed by funds from the private sector. The sources of such funding could be both internal and external: equity by investor, equity from local or international financial institutions, and loans from the local and/or foreign financial institutions. There are long-term loans and short-term loans according to required conditions..
- GoB has recently created the Public-Private Partnership Office and Public-Private Partnership Act and it is recognized that SEZ development is one of the fields for which the PPP model is applicable. Under the PPP model, both the government and private sector provide funds to the projects but the amount of such investment is determined by a feasibility study conducted for the project. For implementing SEZ project by project financing, a special purpose company (SPC) shall be formed and all the capital outlays shall be paid to this SPC through which all the transactions of SEZ such as development, operation, implementation and maintenance will be managed.
- SEZ development under private initiative either locally or abroad, singly or jointly can be financed freely from their own sources as well as borrowing from local and external sources. If SEZ is developed under private-private partnership, formation of SPC is required to initiate, manage, implement and operate the project, and these SPC may be financed by yen loan under Japanese ODA program such as JICA overseas investment and/or two-step loan.
- In implementing the SEZ by private initiative, the project may suffer difficulties in mobilizing financial resources for off-site infrastructure development. In fact, all sorts of off-site infrastructures in the surrounding of SEZ should be funded by the government, since these facilities benefit not only the SEZ developer but also contribute to the development of the entire region. Thus, the SEZ developer needs strong support and collaboration from GoB for

facilitating such off-site infrastructures. However, bureaucracy and vertical administrative systems are prevailing in the public sector in Bangladesh. Thus there is a risk that the development process of SEZ may be jeopardized due to lack of concerted progress at various Government agencies involved arising from the lack of an appropriate body with distinctive leadership. In case of shortage of funding for the development of off-site infrastructures at GoB, soft loans from Japanese ODA program may be available for such objectives.

- Although the Ministry of Finance (MoF) will normally act as the borrower in the case of providing a Yen loan to Bangladesh, there will be two alternatives in the development of SEZ.

a. In case of BEZA being the implementing agency;

The Project Management Unit (PMU) shall be established in BEZA. Under the project management of PMU, each technical agency such as RHD and RWDB shall design infrastructure facilities, and prepare tender documents, construction management and operational management. However, the capability of BEZA on the project management and administration of foreign loans shall be carefully examined, since BEZA is newly established and such capability is yet proved.

b. In case of the Finance department of the Ministry of Finance being implementation agency;

PMU shall be placed in the Finance department of the Ministry of Finance instead of BEZA. There was the case that the Finance department of the Ministry of Finance became the implementing agency for execution of the “Emergency Disaster Recovery Project”, which was funded by Yen loan from JICA in 2008. Under the project management of the Finance department, technical agencies such as LFED, RHD and BWDB involved recovery works for various infrastructures.

(4) Issues on the Environmental and Social Considerations for the development of SEZ

- Legal systems related to Environmental and Social Considerations on SEZ Development

In Bangladesh, the Bangladesh Environment Conservation Act (Act No. 1 of 1995) and the Environmental Conservation Rules came into force in 1995 and 1997 respectively and all the SEZ Developers and its tenants are requested to acquire Environmental Clearance Certificates and are also required to comply with environmental standards in accordance with the above-mentioned Act and Rules. It is also obligated that the SEZ Developer and tenant to SEZ are requested to carry out an Environmental Impact Assessment (EIA).

- The Environmental Conservation Rules (1997) specify four categories (Green, Orange-A, Orange-B, and Red), according to the degree of influence on the environment and the place of implementation and also requests to carry out the procedure for acquiring an environmental clearance certificate. Any business entity must acquire an environmental clearance certificate step by step after acquiring a location clearance certificate for the development of land and infrastructure facilities on the business site. The companies located in an economic zone must comply with the environmental standards for the

atmosphere, industrial waste waters, exhaust gasses, bad smells, etc. in accordance with the Environmental Conservation Rules (1997).

- Bangladesh has ecologically critical areas designated by the Environment Conservation Act (1995), national parks and wildlife sanctuaries designated by the Wildlife Preservation Act (1973), and forest reserves designated by the Forest Act (1927) and any development activity including the development of SEZ is not allowed at these areas.
- According to the results of interview survey with BEZA, BEZA is not concerned with environmental management in the economic zones, since the Department of Environment of the Ministry of Environment and Forest has jurisdiction over environmental management. However the entire role of BEZA is not clear concerning the development of SEZ, the role of BEZA in terms of the environmental aspect should be examined immediately.
- The Department of Environment and BEZA are of the opinion that the economic zone developers and the companies located in the economic zones must comply with the environmental laws and regulations and obtain environmental clearance certificates. However, in case of Vietnam which is also promoting foreign investment similar to Bangladesh, certain systems have been introduced to reduce the burden on the environmental procedure by the companies located in its industrial complexes, with special attention to the point that they shall respond to the requirements of Japanese manufacturers who are seeking for relocation of their plants along with the China Plus One strategy. BEZA is expected to develop systems and procedures, studying systems and procedures that other countries have introduced to promote the invitation of foreign investment.

(5) Issues on the management and operation of SEZ and attracting FDI

- As to the Issues on the management and operation of SEZ, ① lack of grand design and roadmap for SEZ development, ② lack of competent human resources and capacity development at BEZA, ③ Lack of SEZ Regulations and unclear Accreditation Criterion for SEZ developed by private developer, ④ Lack of support to private developer, and ⑤ Necessity for improving managerial systems in BEZA are identified.
- As to the issues regarding the promotion of FDI, ① Overcoming the demerit in investment, ② Securing competitive advantage with neighbor countries, ③ Firm FDI strategy and distinctive concept of SEZ, ④ Improving the image of Bangladesh and positive overseas promotion are identified.

(6) Comparison and Analysis on the SEZ Development Model in Asian Countries

- For emerging countries, SEZ systems have effectively functioned as a strategy to invite foreign direct investment (FDI) and improve infrastructure. Inviting foreign investment by the SEZ system is an important measure to nurture industries, which means to realize nurturing of enterprises, acquiring foreign currencies through product export, job creation, nurturing related service industries, and other goals.

- There are two distinctive types in this system: a type that establishes special economic zone laws, and a type that takes preferential measures under investment promotion and encouragement laws. While the SEZ aim at carrying out strategic and precursory development in specially designated areas, investment promotion laws apply preferential treatment to the designated areas and often target inducing investment in local areas. India, Cambodia, Myanmar and Viet Nam belong to the group of the former systems, while Thailand, Malaysia and Viet Nam belong to the group of latter systems. The Government of Viet Nam applies both strategies depending on the areas in the Country.

Chapter 4 : Attitude Survey to the Japanese Companies on SEZ Development

(1) Objectives and method of the attitude survey

- Along with the development of SEZ/Industrial Park in Bangladesh, an attitude survey has been carried out for the potential Japanese companies who might invest in Bangladesh with an attempt to assess preferential needs of Japanese companies on their investment to Bangladesh and to identify specific requirements toward the development of SEZ in Bangladesh.
- The attitude survey was conducted by questionnaire survey and interview survey separately. The questionnaire survey was conducted towards 1,867 Japanese manufacturing companies having operations in China with annual sales of more than 5 billion yen. Given that such Japanese companies chosen will have shown a clear trend towards the transfer of their production bases from China to Southeast Asian countries due to the sharp rise in labor costs in China and considering the disrupted relationship between Japan and China, the Survey Team has chosen these companies on the assumption that some of their production bases are likely to be transferred to Bangladesh. The interview survey has been conducted by visiting those trading houses and real-estate development corporations to collect information on the investment environment and issues in Bangladesh.

(2) Results of the questionnaire survey and its analysis

- The Survey Team have got answers from 179 firms out of 1,867 firms. The majority of attribution on the responded companies were; transportation equipment, chemical/medicine, electronic parts industries, and etc. About a half of them were small or medium-sized companies with a paid-up capital of below 300 million yen. About 10% of the responded companies (18 companies) chose Bangladesh as a candidate country. Of these, four (4) companies belong to the electronic parts, devices, and circuits industry. Although it was predicted before the survey that companies would come from the industries who are looking for a lower labor cost, such as the textile and RMG industries, in reality such process and assembling industries as the electronic parts, devices, circuits and chemical and medicine industries showed interest in investing in Bangladesh. The companies being categorized as SMEs with a paid-up capital of below 300 million yen account for 10 companies, which is more than a half.
- As to the elements which the investors consider important when they make a decision to

invest, the following answers were obtained; ①Availability of utility-type infrastructures such as electricity supply, water supply, fuel (gas), telecommunications, drainage and waste disposal facilities, and access to international ports were chosen as an important item by 88% of the companies, ②Labor conditions which may be represented as consistent supply of inexpensive labor and high-quality human resources (managers and engineers) were chosen as an important item by 80% of the companies, ③Country risks which may be represented by security, political situation, natural disasters and necessity to provide bribes were chosen as an important item by 71% of the companies, ④Industrial infrastructure which consists of the existence of a good logistic services provider, raw material suppliers and subcontractors were chosen as an important item by 70% of the companies.

- As to the factors in which Bangladesh is inferior to other countries, ①Conditions of the basic infrastructure, ②Country Risks, ③Degree of development of the industrial infrastructure, and ④Living environment (residential environment for Japanese staff, etc.) were listed as the highest ranking. Of the respondent companies, 26% answered “We cannot choose any factors as we do not know it well.” This means that Bangladesh is not well known by Japanese companies and it may lead to a recommendation to conduct promotion activities in order to increase the presence of Bangladesh.
- With regard to the requirements on the basic infrastructure, “Stable power supply” got an exceptionally higher score, while “Possibility of procuring raw materials” and “Concerns over the local logistics conditions and reliable companies” got higher scores in the industrial infrastructure, which means that establishing a supply chain is essential for the investor.
- As to the living environment, “Existence of residential districts and accommodation facilities where Japanese people can stay safely” obtain extremely higher scores followed by “Existence of reliable hospitals to which Japanese people can visit”
- Suggestions gained through questionnaire survey are the industries which may be interested in investing into Bangladesh are not only such labor-intensive industries as textile and RMG industries, but also such process- and assembling-type industries like the electronic parts industry and chemical industry have potential. Thus, the development of SEZ in the future shall be designed to cater such process- and assembling-type industries besides those labor-intensive industries. Since the elements on which the companies put preference when choosing a production base include the condition of basic infrastructure, labor conditions, country risks, and the degree of development of the industrial infrastructure, directives of SEZ Development shall be considered for these elements well. Due attention shall be paid to the living environment of Japanese employees and the development of safe residential and reliable medical facilities.

(3) Results and analysis of the interview survey

- The Survey Team members have directly visited those trading houses, real-estate developers who are considering to invest in the future and to those manufacturing and logistic companies. The number of these firms were eleven (11) in total, which consists of 5 trading houses, 3 real-estate

developers, 2 manufacturing industries and 1 logistic service provider.

- Suggestions gained through the interview survey were; potential of domestic markets is very much promising and demands for industrial lands will be increasing sharply, in particular the potential in food, home electronics, and pharmaceutical industries (generics) are promising. Thus, the development of SEZs by responding requirements of such emerging industries is important.
- So far the Bangladesh economy was led by export industries which were generated by preferential tariffs given by America and European Commissions. However, it is now anticipated that the industries shall aim at the domestic market and markets in SAARC and South Asian countries, although Bangladesh is not a member country of ASEAN.
- Demand for industrial sites around major cities such as Dhaka and Chittagong is higher, as well as at the sites near international ports and airports.
- The development of SEZ without a fear for infrastructure development is anticipated. Intensive negotiation with Government authorities shall be processed on the supply of energy and development of ports for importation of coal, logistic services and development of power station are also anticipated.
- Besides the problems concerning SEZ/Industrial Parks, there are problems related to logistic networks. Comprehensive measures shall be taken, including the construction of roads that connect EZ/Industrial Park with ports and airports, the stable operation of railways, and distribution through the use of inland waterways and inland container terminals.

(4) Summary of the attitude survey

- Target Industries : Before the survey, it was assumed that such labor-intensive industries as the textile and RMG industries would draw higher interest. However the electronic parts industry and the chemical industry also gained higher scores as the results of questionnaire survey. In addition, certain expectations are expressed to the potentials of food, home electronics, and medicines (generic) industries, according to the results of the interview survey. When considering target industries for the development of SEZ/Industrial Parks, it seems necessary to include not only labor-intensive industries, but also process- and assembling-type industries such as the electronic parts industry and the chemical industry.
- The basic infrastructure, competitive labor market, country risks, and the degree of development of the industrial infrastructure are identified as key elements which shall be prepared when SEZs are developed. In addition, companies expressed in the interview survey expressed certain expectations for the Bangladesh Government's support for energy supply and dissolving issues concerning logistic services. Considering these points, it seems necessary to pay full attention to the basic infrastructure and industrial infrastructure so that investors' endeavors can be concentrated on their own businesses, when developing SEZ/Industrial Park. Given that companies have anxiety about country risks, with regard to the living environment for Japanese employees, it is important to develop safe residential environments where Japanese people can stay and provide reliable medical facilities that Japanese people can visit.

- As twenty-four (24) % of the responded companies answered “We do not know Bangladesh well” in the questionnaire survey, the presence of Bangladesh in Japan is not high. It seems important to establish sound policy and organizations who are involved in the promotional activities to publicize Japanese companies with more precise information on the advantages of Bangladesh and its SEZ/Industrial Parks from both a hard and soft perspective.

Chapter 5: Exploring and Selecting Candidate SEZ Sites

(1) Background and objectives for selection of the candidate SEZ site

- It is clearly declared in its supreme socio-economic developments plans such as Vision 2021 and 6th five-year development plan in Bangladesh that the Nation has to join the group of middle income countries by promoting the intensification of industry and transforming working force from the primary industry to second and third industries. In Bangladesh, the textile and RMG industries are outstanding among others and well known as the second largest manufacturing country in apparel and RMG products which accounts for approximately 70% of the entire export. In Bangladesh, eight (8) EPZs have been developed since 1980s and these EPZ have contributed to accommodate RMG and other industries in its premises. On the other hand, production activities within these EPZs do not have much linkage with other industries located outside EPZ and the regional economy, and this has been an issue to be addressed. Although these EPZs have been fully occupied now due to steady growth of the Bangladesh economy except in 3 EPZs located at the western part of the Nation, GoB has decided not to develop new EPZ anymore but they have introduced a policy to develop SEZs. Bangladesh however is facing a shortage of industrial lands, due to many populations living in relatively narrow territorial lands of Bangladesh. Although GoB has an intention to convert such lands held by the GoB to SEZ and Industrial Parks, the nation has not enough finance and technologies for the development of SEZ and is seeking for help and support from external stakeholders.
- On the other hand, GoJ has decided to conduct a data collection survey on SEZs in Bangladesh in order to accelerate the development of SEZ which in turn help support the relocation of Japanese SMEs to Bangladesh. Thus, selection of the candidate SEZ site has been conducted with a precondition that such SEZ is used by Japanese investors. The selection has been focused to the candidate sites that Japanese business men can commute from major cities such as Dhaka and Chittagong where various infrastructure, utilities and amenities are well equipped. The primary reason to identify and choose candidate SEZ site is to accelerate the realization of SEZ by presenting a specific development concept to the selected SEZ sites. Two candidate SEZ sites have been chosen from short-term and long-term points of view and different development concepts were formulated for each site.

(2) Requirements for the selection of SEZ site and its evaluation axes

- Basic Conditions : the following points are set as basic conditions for making a short-list and

evaluation axes.

- a. The site shall be accessible within approximately 1.5 hours by car from the foreigner residential areas in Dhaka and Chittagong, taking commuting conditions of Japanese business personnel into account.
 - b. The site shall not be located where development activities are restricted due to existence of rare species and other reasons. The site shall not be a land of dispute.
 - c. The selected sites shall not be the subject of opposition neither by the Local Governments nor by the habitants for the development of SEZ
- As to the selection approach, it has been done by two stages; the first stage by qualitative evaluation and second stage by quantitative evaluation. The most suitable sites were selected from the view point of short-term and mid- and long term, then formulated development concepts.
 - Four axes were established for the evaluation of SEZ sites; ①Site Location, ②Surrounding Area, ③Natural Disaster, ④Infrastructure, which were sub-divided further into 44 evaluation pillars. Evaluation exercises were conducted with full marks of 1,000 points after all the evaluation pillars were weighted.

(3) Evaluation Results on the Proposed SEZ Sites

- The Survey Team has visited and made a reconnaissance survey for more than 20 sites during the survey period. Ten (10) candidate sites were selected as Short-listed sites, then the Survey Team has conducted a detailed evaluation exercise along with the evaluation axes. According to the ranking list among these short-listed candidate sites, the ranking shows that sites which are not particularly large scale (Sreepur, Rupgonj, Kaliganj, etc.) are ranked at higher position. Such sites have received higher evaluation points for their anticipated low degrees of difficulty in developing SEZs, thanks to their locational relationships with Dhaka.

(4) Directives on the development of SEZ/Industrial Park in Bangladesh

- As it was previously examined, Bangladesh has not only a resource of abundant cheap labor, but also the manufacturing technology and networks that mainly the textile and RMG industries have been striving for until now. Furthermore, it is worth noting that it has geopolitical advantage, being located at the junction of SAARC, ASEAN, and the Chinese economic blocks. There are adequate factors such that development of distinctive economic zones by making the most of these potentials can expedite differentiation from other competing countries, including Cambodia and Myanmar. Development of distinctive economic zones also has a possibility to mitigate the negative side of Bangladesh; for example, vulnerable industrial infrastructure (electricity, gas, and physical distribution), the industrial safety issue, and the risks of the governments' governance and riots. According to this analysis, Bangladesh has the following possibility in developing SEZs.
 - a. SEZ being targeted for Domestic Consumer Markets in the vicinity of Dhaka and Chittagong,

- b. SEZ being focused for the industries looking for lower production costs with labor-intensive manufacturing models,
 - c. SEZ with world-class facilities and supporting infrastructures and good governance,
 - d. SEZ at the adjacent areas to an international port, airport and land-port with excellent logistic services.
- Although it is imperative to respond to the requirements in the macro environment stated herein above, at the same time it is also important to comply with the requirements at the micro level; ① Diverse requirements for the needs on Industrial Lands, ② Weak Infrastructure and Environmental counter measures, ③ Development of Living Environment for Japanese Managers, ④ Development of Supporting Structure and Facilities (One-stop Services, Common Facilities and Incubational Services, Crime Prevention and Security Services, Logistic Center and others) for Japanese companies, ⑤ Consistent supply of Workforce by improving the working conditions and increasing life levels.

(5) Conceptual Development Plans for the highest priority candidate sites

- The conceptual development plans were formulated for the selected candidate sites; Sreepur which got higher evaluation scores from a short-term development point of views and Matarbari considering its great impact to the National economy from a long-term development point of view.
- Although the former site is now used as Cotton Research Institute, surrounding areas have already been waved by industrialization phenomena and it is said that the institute shall be relocated to other sites. Since the land is owned by the Ministry of Agriculture (MoA), negotiation for land title will be rather easier and 60ha of development area is compact. Site is located at higher elevation land, thus there is no fear for flood and no magnificent land fill is required. This site was selected considering the facts that the site is possible to develop within a shorter period of time and is located adjacent to the assembling plant owned by one of the Japanese auto makers.
- As to the conceptual development plan and development imagery of Sreepur, the central gate which is facing the National Highway No.3 will be the main gate to the SEZ. A logistic center and administration facilities for SEZ should be located at the main gate area. In addition to these administration facilities, a one-stop service center for the use of Japanese companies, and an incubation center together with common meeting rooms, reception areas, training rooms, research facilities and business rooms shall be installed. Lodging facilities and serviced apartments for Japanese managers who are paying a short-term visit to SEZ, hostel facilities for workers from distant regions and commercial facilities where sales of daily products to the habitants living inside SEZ should be established next to the industrial block. Approximately 41ha should be provided for the industrial sites, excluding on-site roads. Among the industrial sites, one section (approx. 4ha) shall be designated as the site for a rental factory that is providing floor spaces from 250m² to 2,000m² per one plot. As to the

size of one plot at the industrial sites, it is recommended to adopt flexible design which can divide or combine depending upon the requirements of the target industry and its scale; from a maximum size of 10 ha. per one plot, 2~2.5 ha. of the medium size and 1ha. of the minimum size. Sites should be equipped with proven infrastructure facilities including a power generation and sub-station for a sound power distribution within SEZ, and integrated waste water treatment facilities to process all waste waters within SEZ.

- Although the candidate site at Matarbari island got the lowest score in the evaluation exercise by the Survey Team, there is a plan for developing a large scale thermal power plant with a deep sea port (-18m) for receiving imported coals, for which JICA is currently conducting a Feasibility Study. Should a consistent power supply in larger scale and a deep sea port be developed by this power station project, development costs for a commercial port and industrial port may be calculated as the sunken costs, and development of key industries at the SEZ behind these ports can be achieved. This site has a very unique point that can provide space for the development of key industries which is very important for Bangladesh seeking for promotion and diversification of industry, thus the Survey Team has selected this site as one of the highest priority sites with a longer term perspective of 10 years.
- Scale of this site is as large as 900ha. which consists of Matarbari Island and the opposite shore of the river, the Maheskhali Islands. The area is currently used exclusively for saltpans, ownership of which is considered to be the GoB. The unique characteristic of this site is its ability to formulate deep sea ports and SEZ adjacent to the mega-scale thermal power plant for which JICA is conducting a Feasibility Study.
- As the key element of a conceptual development plan and development imagery, the deep water basin developed for importing coal for the thermal power station shall be expanded (slip 400m, length 1,000m). A quay with length of 1,000m shall be developed as a commercial port for which quays for container cargo, general cargo and bulk cargo will be provided. The remaining 1,400m of seawall will be developed as an industrial port, while maintaining a quay for heavy industry for cement and steel plants, shipbuilding and other heavy industries. Breakwaters shall be constructed and maintained so the harbor entrance/exit can be used as a wharf and to reduce sedimentation at the access channel. At 2 km off-shore from Matarbari Island in the Bay of Bengal, it will reach a depth of minus 10 ~ 15 meters, while soon beyond that reaches a depth of more than minus 20m, and it should be possible for 200,000-300,000 ton DWT tankers to anchor at the basin by maintaining an SPM (Single Point Mooring). Matarbari Island shall be used as a tank yard for imported crude oil, and a petroleum complex comprising an oil refinery and petrochemical plant shall be developed at the opposite shore. The tank yard and petroleum complex together will cover approximately 240ha, and it will be possible to develop an oil refinery with a capacity of approximately 100,000 barrels/day scale as well as associated petrochemical plants.
- Along with the development of deep sea ports at Matarbari, certain value chains will be developed among key industries such as the heavy machinery industry (steel and iron, etc.) and the petrochemical industries. It will attract a diverse range of industries which in turn will

lead to the development of industrial estates for other industries such as manufacturing and assembling. Such industries as shipbuilding and steel re-rolling and foundry industries which are currently operated in the vicinity of Chittagong were expressing their interest to re-locate their plants to Matarbari areas, because of more business opportunities attributed by the calls of bigger ships to new ports and un-interrupted supply of electricity at competitive rates.

- Residential facilities shall be built at the proposed site to house resettled residents who have been working at saltpans or in the fishing sector, etc. Also, those facilities shall include various commercial buildings and facilities to accommodate Japanese business persons, workers from distant areas, commercial and administration services, etc. A new complete city will be built next to the oceanfront industrial zone. The area for this new city may require approximately 140ha. for accommodating around 8,000-10,000 households.

Chapter 6: Proposed Assistance Schemes in the development of SEZ, Off-site Infrastructures and promotion of FDI to Bangladesh

(1) Assistance needs for the development and operation of SEZ

- Assistance for the development of Legal Systems related to the development of SEZ is worth consideration as it relates to Governmental agencies. Although BEZA Act was launched upon the establishing of BEZA, Rules and Regulation of the BEZA Act have not been launched by GoB, and earlier official launching is expected. Since these documents are defining all the specific conditions and requirements related to the development of SEZ, the roles of these documents are very important.
- Assistance for the planning of SEZ and supervision of regulatory procedures
Since BEZA is entrusted to develop SEZs by themselves at the lands owned by GoB, they shall implement the project in close collaboration with the developers and/or investors in the private sector. However, the present organogram of BEZA does not show many persons having a proven experience and track record in the development of SEZ and Industrial Parks. Should BEZA take lead roles as the developer for SEZ and Industrial Park in many locations, they need to recruit a qualified engineering staff.
- In order to make effective development of SEZ, a multiple approach is required for the development of various transport infrastructures and utilities which will help support the activities of SEZ. Although many number of implementation agencies will be involved in the development of such diversified infrastructures and utilities, there is no coordinator in Bangladesh. It is recommended to dispatch an expert to the Planning Commission or the Prime Minister's Office who are responsible for inter-ministry coordination unlike ordinary line ministries, for integrated planning and process management on several key infrastructures and utilities.
- Since 2006, the World Bank and IFC Group has been assisting the development of legal systems and selection of candidate SEZ sites and provision of Feasibility Study. However, it is said that BEZA has requested Divisional Governments to nominate suitable sites in the

selection processes of the candidate SEZ sites, and the chairman of the BEZA management committee has decided the candidate sites solely which makes it sound like the decision was not made based on the results of rational analysis. Since linkage between export industries and domestic industries became a matter of importance upon the establishing BEZA, it may be said that due attention shall be paid to the linkage between SEZ and traditional industrial clusters when one plans the SEZ and Industrial Park. This means that a well-balanced planning is essential between the industrial development at rural areas and the development of SEZ and Industrial Parks which will be done based on economic rationale judged by the private developers.

- Under the policy for which the development of SEZ shall be implemented by capitalizing the privatization methods, assistance to those developers who are involved in the SEZ is also important. It may be considered to provide seminars to the private sector developers on the development, operation and management of SEZ and assistance for business matching between the developers and the potential investors.

(2) Assistance needs for the development of Off-site Infrastructures

- The basic infrastructures in Bangladesh is yet to be well developed and assistance needs for the development of off-site infrastructures surrounding SEZs may be identified in the fields of: ① Transport Infrastructures, ② Energy development and supply systems, ③ Development of industrial water supply systems and waste water treatments

(3) Assistance needs for better promotion of FDI

- Considering premature organizational structure and human resources at BEZA and poor progress on SEZ development, an assistance program shall be extended to the following points: ① Assistance for reviewing and enhancing FDI policy and ② Assistance for formulating FDI promotion strategies and action plans. In terms of international competitiveness in FDI promotion, poor infrastructure is the weakness and most disadvantageous matter for Bangladesh. Filling up these disadvantages, there is no alternative but to tackle the improvement of the business environment.
- Although BOI, BEPZA, BEZA, and Private EPZ Governor's Board are FDI promotion organizations, belonging to the Prime Minister Office (PMO), they are bureaucratic vertical organizations, lacking horizontal collaboration. It is not likely that there is sufficient collaboration among those FDI promotion organizations and the Ministry of Industry (MoI) who is responsible for industrial policy, the Ministry of Commerce (MoC) who is responsible for trade policy, the Ministry of Finance (MoF) who is responsible for Monetary policy and foreign currency control, National Board of Revenue who is responsible for taxation, Customs for the collection of custom duties including Tariff Commission under the MoC, and Security Office who are involved in work permits. Further, it is said that the process for consensus in public - private dialogue is not sufficient according to FBCCI, and FDI policy in Bangladesh is, after all, not necessarily inclusive and integrated. FDI policy adviser being

delegated from JICA to PMO may assist various FDI promotion organizations to strengthen their coordination with each other, and assist to review the organizational structure and also for improvement towards the integrated and inclusive FDI policy and institutions. It is also recommended that the JICA FDI adviser and JICA Industrial Policy adviser being attached to MoI shall mutually corroborate and cooperate in the improvement of FDI policy.

- As to the FDI strategy of Bangladesh, the lack of specific strategy and action plans are critical points, considering phenomena on the relationship between the anchor industry and the associated industries. It looks like BOI, BEPZA, BEZA, MoI and Hi-Tech Park Authority individually and separately implement FDI promotion, because there is no an integrated strategy for FDI promotion. Lack of organizational structure to conduct a customer-oriented marketing may also be pointed out.
- Due to the lack of an overseas publicity strategy by Bangladesh which plays an important role for creating a positive image, few positive images of Bangladesh is recognized abroad. Similar to these publicity activities as “Cool Japan” by Japan, Korean’s “K-pop culture and fashion” and “A country of Smile” by Thailand, Bangladesh may advertise its culture, resource and other charms of the Country in order to raise awareness of the country which in turn will help support the development of business and economy of the Country.

(4) Assistance by International donors for the development of SEZ and its lessons

- SEZ development in Bangladesh has been supported mainly by the World Bank/IFC group in the aspect of legislation/institutions, infrastructure, and organization development, capacity development, and technical assistance. Basically the World Bank takes part in financing to the public sector organization, while IFC takes part in financing to the private sector. In the case of SEZ, if the developing entity is the public sector, the World Bank finances and if it is private sector, IFC finances. In the case of capacity building on technical assistance, the World Bank extends the assistance to government, and IFC does the same to governments as well as the private sector.
- The World Bank/IFC Group has extended broad assistances for SEZ development around the world, and there are lots to be learned from their financing and accumulated know-how. However, it is not verified yet that they have successfully achieved smooth performance in SEZ development in Bangladesh so far. Presumably, there are two disincentives in the background - the structure and attitude of the GoB and the approach by World Bank/IFC.
- There are many Government sub organizations in Bangladesh; Ministries, Authorities and Commissions which were established when a new act or ordinance are launched. Those organizations are relatively small and sub-divided and have characteristics of typical bureaucratic and vertical administration systems, and it takes time for them to share information and common understanding, collaboration and making consensus in order to solve issues covering a wide area. At the same time, it is not easy to execute an exchange of key staff among the different organizations, and there are certain difficulties in securing

trained experts, accumulating experiences and capacity building at an organization newly established.

- Although the World Bank plays an important role in supporting GoB, it will be difficult to achieve the designated objectives, unless the government has a clear vision and plan to integrate their policies on SEZ development, industrial development and regional development. They have also supported in making the standardized procedure for SEZ development in view of governance and compliance, but it unlikely to carry on smoothly due to shortage of human resources and capacity.
- Apart from the approaches by the World Bank, this Survey has been conducted with a clear objective to help support Japanese enterprises especially SMEs for the promotion of their overseas business and investment activities. What is important for JICA is to demonstrate one feasible and successful SEZ development at its earlier stage, showing certain outcomes and a good SEZ model. In order to achieve these objectives, a good coordination shall be made between the GoB/BEZA, relevant organizations and the private sector like FBCCI to explain its objectives, target and method, and time framework and to exchange views for a mutual understanding and cooperation, and most importantly consent and commitment with top priority from them shall be secured for the project proposed by JICA.

(5) Assistance menu and recommended assistance programs related to the Survey

- Four (4) directives for the development of SEZ were proposed along with the recommendation that Bangladesh should develop SEZ focusing its strengths and unique characteristics. These are: (1) SEZ to be located at the vicinity of Dhaka and Chittagong and designed for penetrating into the emerging domestic markets, (2) SEZ focused on the labor-intensive industries which seeking for a cost-competitive productions, (3) World-class SEZ and Industrial infrastructures that supersedes the similar facilities in the neighboring countries and (4) SEZ and Logistic Cluster which will be build adjacent to the International gateway port, Airport and Land Ports. Keeping these directives on the development of SEZ in mind and reflecting the interests of the Bangladesh Government and Private developer, the Survey Team has discussed and made the following recommendations for assistance program by GoJ and JICA.
- The Japanese Official Development Assistance program has been provided mainly through JICA, the implementation agency in the forms of Financial Cooperation schemes (provision of Yen Loan), Grant Aid scheme, Technical Cooperation scheme, and Overseas Investment and Finance schemes. Keeping those assistance menus in mind, the following recommendations have been made for the development of economic infrastructures and industrial infrastructures that support the development and operation of SEZ and Industrial Park.
 1. Development of Satellite Cities centered on SEZ at the vicinity of Dhaka City
 - ① Development of SEZ tailored for Japanese SMEs at Sreepur or alternate Site
 - ② Capacity Development at BEZA

- ③ Assistance to Bangladesh SEZ Developers
 - 2. Development of Logistic Networks connecting various SEZs at the vicinity of Dhaka
 - ① Development of Inland Container Terminals
 - ② Development of Major Trunk Roads as a component of logistic networks connecting various SEZs
 - 3. Implementation of Integrated Water Resources Development and Flood Mitigation Project at the Buriganga and Dhaleswari River Basins, Western part of Dhaka City
 - ① Development of Flood Retarding Basins for Flood Mitigation and Supply of Industrial Water
 - ② Flood Mitigation and Improvement of Inland Water Transport by River Training
 - 4. Development of a Deep Sea Port and SEZ for development of Fundamental Industries
 - ① Development of a Deep Sea Port
 - ② Development of Heavy Industrial Belt
 - ③ Development of Access Highway, Railway and Industrial Water Supply Systems
 - 5. Development of Private EPZs for promotion of Cross Border Trade and Investment
 - ① Development of EPZs adjacent to major land ports
 - 6. Positive conversion of idle lands owned by State Owned Enterprises to SEZ
 - ① Flush out idle lands and its development as SEZ at the vicinity of Dhaka and Chittagong
- Action plans for the above mentioned program were proposed.

Chapter 7: Publicity Activities on the development of SEZ performed

(1) Objectives of the Publicity Activities on SEZ Development

- The Survey Team is requested to conduct (1) A Workshop (Report on the findings) for Bangladesh authorities concerned and such International Development Institutions as the World Bank, IFC and others on the development of SEZ which will be conceptualized for investment by Japanese entities, (2) A Seminar for the Japanese business community in Bangladesh in order to make public the findings derived by the Survey, (3) A Seminar in Tokyo for Japanese entities in order to make public the findings derived by the Survey. In addition to these objectives, the Survey Team has invited those Bangladesh developers, who have properties and intentions to develop these properties as SEZ, to these events and requested them to make presentation on their capability and business plans. Along with these activities, issues to be addressed in the development of SEZ/Industrial Parks were shared by Governmental authorities concerned and these developers and several requirements from both sides became clear. This achievement may contribute to accelerate the realization of SEZ/Industrial Park in Bangladesh.

(2) Activities of Workshop for the Bangladesh Governmental Authorities

- The Workshop was held in Dhaka and had fifty-two (52) participants, although it was originally designed to have approximately thirty (30) participants. The Workshop

commenced at 19:00 hours in order to avoid the negative impact by Hartal which were frequently happening at that time. The report on the findings with seven (7) recommendations delivered by the Survey Team which was conducted following the speech of the BEZA Chairman and gave a great impact to the audiences, in particular to the Bangladesh developers.

- Since the presentations made by five (5) Bangladesh developers which cover the development of SEZ/Industrial Parks with detailed descriptions of their capability and business plans, was the first time in Bangladesh, it gave a great impact to the attendance, who came from various Bangladesh Government authorities. The following developers gave presentations.
 - Bangla Business Partners, Japan
 - Kunimoto Industrial Park
 - Haq's Bay Industrial Park
 - Chittagong Industrial Park Ltd.
 - Bengal Development Corp.

(3) Activities of Seminar for Japanese business community in Bangladesh

- The Seminar was held at 15:00 hours on Friday, June 7, 2013 at Lakeshore Hotel, Gulshan, Dhaka with more than 60 audiences. The event was jointly sponsored by JICA Bangladesh Office and the Joint Venture of the Survey Team and co-sponsored by JETRO Dhaka Office.
- The welcome speech on behalf of the sponsors was given by Mr. Kei Toyoma, Senior Representative of JICA Bangladesh Office followed by the presentation of findings by the Survey Team members; Junichiro Motoyama, Ph.D., Team Leader, Mr. Tetsuo Yasui, Mr. Minoru Saji and Mr. Zakir Hossain. The closing remarks were delivered by Ms. Nahko Sako, Deputy Representative of JETRO Dhaka Office. Five (5) developers in the private sector and Bangladesh Hi-tech Park Authority made their presentations, and details of these organizations are as follows;
 - Bangla Business Partners, Japan
 - Kunimoto Industrial Park
 - Haq's Bay Industrial Park
 - Chittagong Industrial Park Ltd.
 - Bengal Development Corp.
 - Bangladesh Hi-Tech Park Authority
- Through organizing this Seminar, it was found that members of Japanese business community in Dhaka have limited knowledge and information on SEZ and most of them are interested in when these SEZs will be opened for public. A few members of the audiences was skeptic to the activities of the implementation agencies who are involved in the development of SEZs. The Presentations given by 5 developers and Bangladesh Hi-Tech Park Authority which introduced various development concepts on the Industrial Parks were very rare in Bangladesh and it gave a great impact to the audiences.

(4) Activities of SEZ Seminar in Japan for the Japanese firms

- The Seminar was held at 13:00 hours on Thursday June 27, 2013 at the International Conference Hall at The Tokyo Chamber of Commerce and Industry (TCCI) with the sponsorship of the Japan International Cooperation Agency (JICA) and the Joint Venture of the Survey Team and co-sponsored by JETRO, TCCI and Japan-Bangladesh Committee for Commercial and Economic Co-operation. 128 people attended the Seminar.
- The key note speech titled as “Current trend of Investment and Expansion of business by Japanese companies to Bangladesh” was delivered by Mr. Takashi Suzuki, Director of Asian Cooperation Division, Trade and Economic Cooperation Department and Former Representative of JETRO Dhaka Office followed by a Report from the Survey Team titled as “Current and Future of Special Economic Zones in Bangladesh” was delivered by Junichiro Motoyama, Ph.D., Team Leader of the Survey Team. The people in attendance were deemed to be serious in discussing various topics, since several questions were lodged on the details of incentives given by Bangladesh authorities, the development plan for a deep sea port in Bangladesh and others in the Questions and Answers time.
- After these speech and report, presentations by four (4) Bangladesh developers who are involved in the development of Industrial Parks was delivered. Business matching by these 4 developers was conducted after the programs at the foyer of the conference hall and many of those in attendance were visiting their booths.

Chapter 8: Conclusion and Recommendations

(1) Conclusion

1. Consolidation of SEZ Development Policies and its Implementation Agencies

Development strategy in Bangladesh was established along with several hierarchal structures: Outline Perspective of Bangladesh 2010-2021 (Vision 2021) , the supreme socio-economic development paper in Bangladesh, 6th Five-year Plan (2011-2015) , National Industrial Policy (2010) and Bangladesh Foreign Investment (Promotion and Protection) Act (1980). However, at the level of SEZ Development, there are several implementation agencies based on different jurisdictional acts which make the systems rather complicated. There are four (4) Governmental Authorities involved in these activities; BEPZA, Private EPZ, BEZA, and Bangladesh Hi-tech Park Authority. Besides these authorities, BOI is also involved in the development of Industrial Parks by the private developers. These authorities are requesting different procedures and providing different incentives which seems very complicated and may make the investors confused. In order to develop and manage the SEZ/Industrial Park in Bangladesh well, such complicated systems must be reorganized to a more simple structure (both in legal systems and implementation agency) in order for the foreign investors to understand easily.

2. Future Directives of SEZ development in Bangladesh

In the case of Bangladesh which is considered a late comer in the development of SEZ, it is suggested to review FDI policies at these neighboring countries and look forward to sustain a competitive edge in the Global market places by developing SEZs capitalizing on the “Strengths” and “Uniqueness” of Bangladesh. As the results of the analytical exercise recognized the “Strengths” and “Weakness” of Bangladesh, there will be four (4) directives; (1) SEZ being targeted for Domestic Consumer Markets in the vicinity of Dhaka and Chittagong, (2) SEZ being focused for the industries looking for lower production costs with labor-intensive manufacturing model, (3) SEZ with world-class facilities and supporting infrastructures and good governance, (4) SEZ at the adjacent areas to International port, airport and land-port with excellent logistic services. It is imperative to review and confirm these directives of SEZ development when developing the policy of SEZ development and conceptual design of SEZ.

3. Exploration and selection of candidate SEZ site

Bangladesh is, except those of city states and smaller states with population not exceeding ten (10) million, known as one of the most densely populated Nations in the World with its 1,127 persons per square kilometers. Unlike other countries, it is therefore difficult to find candidate sites for SEZ/Industrial Park on a larger scale. Contrary to the policy of BEZA, this Survey aimed at identifying candidate sites within a certain reach from the foreigner’s residential districts in Dhaka and Chittagong cities. Also, this Survey assumed the PPP method and/or Partnership (company merger, etc.) between Bangladesh and foreign firms (Japanese developer in mind) for the implementation. Thus, exploration of candidate site was focused to land owned by the private sector. Through this exercise, the Survey Team came to know that suitable land for the development of SEZ is available even in the vicinity of Dhaka city, if one does not stick to a plot of land with a larger scale. Although the Privatization Commission has been intensively processing their privatization program, it was said that a considerable number of idle lands are still available at non-performing or less-performing state-owned enterprises. These promising lands are located nearby Dhaka and Chittagong which suffers shortage of land supply for SEZ/Industrial Parks. It is therefore suggested to convert these idle lands to SEZ/Industrial Parks immediately.

4. Selection of Implementation Agency for ODA funded project

GoB has given the preference to the PPP method and Private-Private Partnership method for the development of SEZ. In such implementation methods, Japanese Yen Loans may be provided for the development of on-site infrastructures and off-site infrastructures. In case of on-site infrastructure development, a 2-Step Loan scheme is applicable. Should a project loan is provided for the development of off-site infrastructure, management and coordination capabilities of the implementation agency will be the key factor to manage a variety of different infrastructures. BEZA has no such experience in the past and only a few human

resources are available at BEZA. Alternative to BEZA's initiative, it may be suggested alternatively that such a multiple infrastructure management project may be managed by establishing a Project Management Unit (PMU) within the Ministry of Finance. Should there be any Yen loan provided for the development of SEZ after this Survey, careful attention shall be paid for project formulation and selection of the implementation agency.

5. Assistance for the Investors who wish to locate to Bangladesh immediately

It is assumed that a processes of Master Planning and Feasibility Study for provision of Yen loan, project appraisal and provision of a Yen Loan, selection of the Consultants, detailed engineering, selection of contractor through International competitive bidding, and construction works will take 3~4 years after the completion of this Survey. Even before completion of SEZ, there will be many Japanese companies visiting Bangladesh seeking a suitable plot of land. These potential investors shall have no choice but to be accommodated by smaller scale private Industrial Parks being developed by local developers. It is worthwhile to provide certain assistances by the Government of Japan and JICA to those investors.

(2) Recommendations

1. Assistance for policy formulation and legal systems development related to SEZ development

The rules and regulations attached to the Bangladesh Economic Zones Act which was launched in 2010, is still under review by the Ministry of Justice and yet to be launched. If such situation continues for long, Bangladesh might miss a good "China plus one" chance. At the development of SEZ, decision making shall be made based on the sense and interest of the private sector. Should the development be undertaken by the sense and decision of the public sector and its financing capability, there will be a risk deviating from the real facts under the market-oriented economy and it will be difficult to compete with the neighboring countries. Thus, it is suggested to provide assistances to the policy formulation and legal system development reflecting the benefits of decision making systems adopted in the private sector.

2. Assistance in the fields of Infrastructure development

- It is clearly identified through the interview survey to the Japanese firms already located in Bangladesh and questionnaire surveys to Japanese firms in Japan that consistent supply of electric power, gases and industrial water is the most important elements to maintain the consistent operation of the manufacturing activities.
- It is expected to make positive countermeasures for the development of such transport infrastructures as international gateway ports and international airports which will be used for the import of materials and export of the products, and major trunk roads and railway and inland water transport, those of which are in inadequate conditions at present. At Pangaon,

which is located at the opposite of Narayanganj City, south of Dhaka, an inland container terminal is about to open for public services, and it is anticipated that the similar facilities shall be developed at different locations and more in number in the future. In the meantime, a new inland container terminal along railway line is considered at Dhirasharam railway station where the Bangladesh Railway and Dhaka Bypass road cross. Furthermore, it is important that these core facilities shall be closely connected with the candidate SEZ site by major trunk roads. Development of a ring-shaped circular road is anticipated at the outskirts of Dhaka city by connecting the Dhaka Bypass which runs in the eastern part of Dhaka and Western Bypass which is planned in the western part of Dhaka.

- In the meantime, the Savar area, which is located at western part of Dhaka, is largely low-raid swampy area and the area is less utilized. A comprehensive water resources development and flood mitigation study shall be conducted at the entire catchment areas of the Buriganga and Dhaleswari Rivers and explore the possibility of land development at these low-raid swampy lands for industrial and residential use and explore a possibility for supply of industrial waters, besides establishing countermeasures in the fields of flood mitigation and prevention of other natural disasters.
- It is anticipated that the development of infrastructures in Bangladesh shall be implemented phase by phase by adopting priority among tremendous demanding projects, to meet the ultimate goal set by the supreme strategic paper: “Get in the Group of Middle Income Countries by 2021”. Among many others, development of off-site infrastructure adjacent to SEZ is recognized as one of the difficult projects, since it shall deal with a wide range of different infrastructure with varied implementation agencies. Thus, it is important to design the project with proper shape and sound implementation structure by allocating necessary times and resources for preparatory works.

3. Assistance for Human Resources Development

In whatever development projects, the importance of human resources is imperative compared to other resources. As to the capability of BEZA who is responsible for the development of SEZ, they have several issues which appeared from the facts that BEZA is a new organization and they are not equipped with experienced and qualified human resources. It is suggested that JICA shall fully deploy their assistance schemes such as “Project-type Cooperation” and “Dispatch of Expert” for the human resources development of BEZA. For example, preparation of assistance programs utilizing knowledge being developed by the private sector for Planning of SEZ, Project Management, Marketing and others may be considered. In such case, it is important to make proper coordination with the World Bank/IFC group, since they have been involved in the development of legal systems and selection of candidate SEZ sites in the past.

Data Collection Survey on the Special Economic Zones in Bangladesh
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Chapter 1: Framework of the Survey

Chapter 1: Frameworks of the Survey

1.1 Background of the Survey

The People's Republic of Bangladesh (hereinafter referred to as Bangladesh) is situated at the alluvial plain in the eastern corner of the Indian sub-continent, where three major rivers (Ganga, Brahmaputra and Meghna) run through from Himalayan Mountains to the Bay of Bengal. The country is known as one of the over-populated nations with over 160 million habitants. This population is much bigger than that of Japan, especially considering that its territorial land is only 140,000 square kilometers, which is 40% of Japan's. Population density of the country in the year of 2009 accounted for 1,127 persons per square kilometers which is the most densely populated nation in the world except for those smaller-sized nations which have a population of less than 10 million.

According to the statistics released by the World Bank, Gross National Income (GNI) per capita of Bangladesh was US\$700 in the year of 2010 which is classified as one of the poorest countries in the world. In the recent years, Bangladesh, however, enjoys steady growth in its economy with more than 6% per year, due mainly to reasons that the nation has a sound performance in the Ready-made Garment (RMG) Industry and Money Transfer by overseas workers of Bangladesh who have migrated into Middle Eastern countries and other areas. Bangladesh is well recognized as one the Next Eleven (Emerging Economic Nations Group), due to its huge supply capacity of competitive labor and relatively large domestic consumer markets which are considered to be engines for higher development potentials. The country is catching the eyes of Multinational Corporations (MNCs) who are looking for investment destinations with higher economic growth. However, the aggregate amount of Foreign Direct Investment (FDI) to Bangladesh and its contribution ratio against the Gross Domestic Products (GDP) remain at lower level.

As to the foreign trade of Bangladesh, RMG Products account for approximately 75% of the entire export followed by Fish and Sea Products, Jute Products, and Leather Products. Bangladesh however has been recording in-balance of foreign trade due to large amounts of imports of such resources and materials as Oil, Steel and various intermediate products. Such an in-balance of foreign trade is filled by the money transfer of overseas workers and foreign aid from the International Development Institutions. However, earnings from RMG export and money transfer from overseas workers is influenced by the economic performance of Europe and America and Middle Eastern Countries, thus it is imperative that Bangladesh pursue the diversification of export markets, enhancing further industrialization programs and promotion of investment activities, in order to make steady economic growth to realize its goal of getting in the group of middle income nations.

The 「Outline Perspective Plan of Bangladesh 2010-2021(Vision 2021) is the supreme socio-economic development plan in Bangladesh and the plan has set a target to get in the group of middle income nations by 2021. It is said that the annual economic growth rate during the 6th Five-year plan (2010-2015) was set as 8%, and domestic investment ratio against GDP which remains at 24% presently shall be drastically increased to 32~33% in 2015 and 38~40% in 2021. In particular, domestic investment by the private sector which remains approximately at 19% in the past five (5) years shall be increased to 25% in 2015. In order to promote the industrialization program, enhancing diversification and promoting investment activities, introduction of industrial policies, up-grading the level of industrial technology at the private sector, and development of power supply and transportation infrastructures are matters of importance. However, promotion of industrialization by attempting foreign investment is imperative under the circumstance of limited capacity of domestic capital and technologies. Under such background, shortage of well-developed industrial parks, which are suitable for the locations of foreign multinational industries, has been a major constraint in Bangladesh.

Although the Government of Bangladesh (GoB) has been intensively developing Eight (8) Export Processing Zones (EPZ) since 1990s and positively accepting Foreign Direct Investment (FDI), Five (5) EPZs along the Dhaka – Chittagong economic corridor, namely; Dhaka EPZ, Adamjee EPZ, Comilla EPZ, Chittagong EPZ, and Karnaphule EPZ, are fully occupied. On the contrary, Mongla EPZ, Ishwardi EPZ and Uttara EPZ which are located at a distance from major core cities such as Dhaka with poor transportation and living conditions, have not been well accepted by the investors and a large number of slots remains unoccupied.

GoB has, under such circumstance, decided to suspend the development of new EPZ and to establish Thirty (30) Economic Zones throughout the Nation considering the phenomena that the slots of land in the major EPZs are nearly sold-out, and promoting diversification of industries by accelerating a linkage between export industries and domestic industries. After the launching of the Bangladesh Economic Zones Act in October, 2010, GoB has established the Bangladesh Economic Zones Authority (BEZA) which is responsible for the development and operation of SEZs. BEZA has chosen Seven (7) candidate sites out of Thirty (30) long-listed candidates in 2012 and they wish to conduct a Preliminary Feasibility Study (F/S) and they have also dispatched a delegation for inviting Japanese Investors to their prospectus.

With due attention to such a background, survey activities have been conducted by focusing on data and information gathering related to the SEZ, followed by evaluation and selection of the best suitable candidate sites for location of Japanese firms. Discussion and recommendations have been made for JICA.

1.2 Objectives of the Survey

Objectives and targeted areas of this Survey may be summarized as follows;

1.2.1 Objectives of the Survey

- (1) To gather the related data and information and analyze and compile systematically the bottle necks and issues with regard to the development of SEZs in Bangladesh by reviewing the statistics and reports released by the GoB, and conducting interview and questionnaire surveys to Japanese entities and the related authorities/organizations,
- (2) To gather the detailed information on the proposed candidate sites identified by the development of SEZs in Bangladesh and conduct site reconnaissance surveys to several priority sites and select the most appropriate candidate sites,
- (3) To analyze and consolidate the assistance programs for the development of SEZs by JICA (Assistance Model for the development of SEZs, Selection of the most appropriate candidate sites for SEZs, Policies and Strategies for inviting FDI to Bangladesh, development of Off-site Infrastructures and etc.) by keeping in mind the results which were arisen from the activities stated herein above (1) and (2), and referring to the related policies and plans adopted by the GoB and intents of Japanese entities,
- (4) To conduct the Workshop and Seminars both in Bangladesh and Japan in order to familiarize the outcomes of the Study by keeping in mind the effective assistance for promoting the investment of Japanese entities in Bangladesh.

1.2.2 Targeted Survey Areas

- (1) The Survey Areas shall cover the entire territorial lands of Bangladesh, however, special emphasis shall be given to the economic corridor between Dhaka and Chittagong where the major domestic and foreign industries are accumulated and is considered as the areas fortunated with higher potential for attempting Japanese Investment in the future, However, those areas along the National Highway connecting Dhaka and Mymensingh where is one of the core cities in the northern Dhaka Division and Cox Bazar in Chittagong Division where a deep-water port and a large-scale coal-fired power station are planned, shall be included in the Study Areas.
- (2) With regard to the interview survey to Japanese entities, it has covered the branch offices and manufacturing plants of Japanese entity already located in Bangladesh including its Industry Associations as well as those Japanese entities in Japan which are deemed to be interested in developing and operating an SEZ and Industrial Park in Bangladesh. Those

Japanese entities/associations interested in locating its premises to any SEZ/Industrial Park in Bangladesh are also covered. The Survey included the questionnaire survey by mail and interview through telephone calls. Those local Governments in Japan such as Ota City Government in Tokyo Metropolis and Kawasaki City Government who have been involved very actively in the promotion and supporting of their Small and Medium Enterprises (SMEs) for the expansion of their business operations abroad, were also surveyed through interview survey by visiting in person, in addition to those entities who are interested in developing the SEZ and Industrial Park in Bangladesh.

1.3 Implementation Policy of the Survey

- (1) The Survey has been implemented with an attempt to contribute to the expansion of Japanese entities overseas along with the ‘New Growth Strategy’ being adopted by the Government of Japan (GoJ).

The identification of potential assistance schemes by JICA for the development and operation of SEZ and Off-site Infrastructure development are two major objectives under this Study, and it is considered that these projects will provide Japanese entities with very prominent business opportunities in the future. In the ‘New Growth Strategy’ being adopted by the GoJ, emphasizes that Japan should play a driving force for the growth of the Asian Economy and to conduct its business in versatile and strategic manners capitalizing on the inherent strengths of Japan, in order to take up the benefits of emerging economies in the Asia for the growth of the Japanese economy. Following these activities, the GoJ has introduced in June 2011 the policy for promoting expansion of Japanese SMEs to global markets which will be implemented by casting a full-range of institutions concerned both in the public and private sectors. Under this Study, appropriate suggestion and proposal shall be drawn in order to contribute to the development of Bangladesh industries and to promote regional development in Bangladesh, by keeping in mind the assistance policies of the GoJ to Bangladesh, and the demands and anticipation of the Japanese private sectors on this subject.

- (2) Close coordination with the medium and long term development policies of Bangladesh

In ‘Vision 2021’ and the 6th Five-year Development Plan which are recognized as the supreme socio-economic development plans in Bangladesh, it is emphasized that Bangladesh shall attract FDI intensively in order to become a member of the Medium-income Countries group by 2021 by performing annual economic growth at the rate of 8% or more. In ‘Vision 2021’, achievement through Private-sector Development is identified as the engine to achieve the goals set by the supreme development plans and in particular the development of Information Technology-related Products and the Service Industries backed by Information Technologies are categorized as the special field of importance, besides the

promotion of the SME sector. To appraise the major objectives under these policies, it is assumed that an Industrialization Program set with mid- and long term perspectives shall be intensively promoted to attain the further promotion and diversification of export trade. Along with these policies, development of the agro-processing industry and labor-intensive industries are highlighted, because these industries can easily provide employment opportunities to those who have spun out from the primary sector. At the same time, the policy papers pointed out the importance of development of such utilities and infrastructure as the supply of electric power and gases, International ports, highways, railways, and telecommunications for improving the nation's competitiveness in the global setting. Besides these industries, the policy papers also identified thirty-one (31) other priority industries such as the RMG industry, leather and shoes industries, ship-building, generic pharmaceutical industry and others. As to the methods to achieve these goals, the papers encouraged positive participation of the private sector for the development of SEZ and the Industrial Park by Public and Private Partnership (PPP) methods. Thus, the Study has been conducted with due attention and coordination with these GoB policies set in their supreme development plans.

(3) Gather the precise needs from the Private Sector on the SEZ/Industrial Park

In order to accelerate FDI from Japan to Bangladesh, it is essential to gather and grasp the bottlenecks, issues and needs for assistance from the GoJ on the development of SEZ/Industrial Parks from the Japanese entities already located and potential locators from Japan. In order to get the detailed needs for such objectives at the micro level, the Survey Team shall fully utilize the outcomes of similar surveys done in the previous study and conduct a fresh questionnaire survey focused on the planning, development and operations of SEZ and Industrial Parks as well as to conduct interview surveys with those who are deemed to be interested in developing these facilities, through the domestic preparatory works, survey works in Bangladesh and first and second domestic works. At the same time, an intensive survey for getting requirements from the private sector has been conducted in Bangladesh against the Federation of Bangladesh Chamber of Commerce and Industry (FBCCI), Industrial Associations, and major private entities, and the results of such surveys has been correctly reflected to the recommendations of this report.

(4) Make efficient use of the knowledge gained by Japanese SME Support Institutions and Industrial Park Developers

In the course of this Survey, the Survey Team has visited and made interview surveys to such local government offices as the Ota City Government, Tokyo Metropolis and Kawasaki City Government who are actively involved in promoting the expansion of SME operations to abroad and gathers and reflects the knowledge of these institutions into the course of the survey. In addition to these local governments, the Survey Team asked for the advice of

several Japanese trading houses and real estate developers who have showed their interest in developing and operating the Industrial Park in Bangladesh.

- (5) Make effective use of the knowledge gained through conducting SEZ and Industrial Park development projects in Asian Countries.

So far, a large number of SEZs and Industrial Parks have been developed in ASEAN and other Asian Countries and all those experiences and practices have to be reflected to the Survey. In particular, these experiences and best practices in Malaysia, Thailand, Viet Nam, and Indonesia which are deemed to contribute to the development of SEZ in Bangladesh have been fully utilized in conducting this Survey in order to contribute to Japanese SMEs' overseas expansion.

1.4 Implementation Structure, Composition of the Survey Team, Work Flow, and Schedules

This Survey has been conducted along with the following Implementation Structure, Composition of the Survey Team, Work Flow and Schedule.

1.4.1 Implementation Structure and Composition of the Survey Team

This Survey has been conducted by the Joint Venture consisting of the World Business Associates Co., Ltd., The Japan Research Institute, Limited, and Nikken Sekkei Civil Engineering Limited. The 3 companies were represented by the World Business Associates Co., Ltd. The Implementation Structure and Back-up Structure are shown in the following figures.

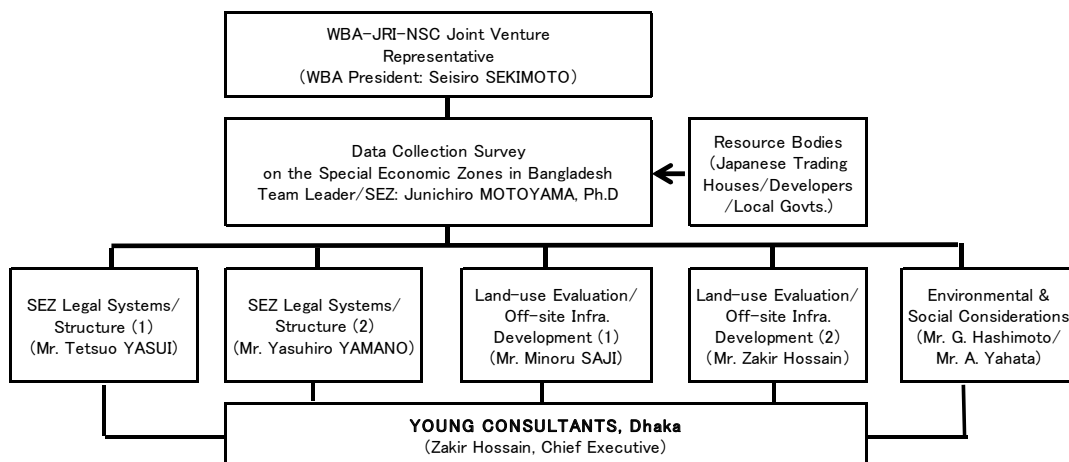


Figure 1-4-1: Implementation Structure of the Survey

The Scope of Work for each Survey Team Member is as shown in the following table;

Table 1-4-1 : Scope of Work for each Survey Team Member (Domestic and Overseas)

Proposed Candidate	Assignment	Scope of Works
J. Motoyama	Team Leader/SEZ	<ul style="list-style-type: none"> • Overall management of the Study Team • General appraisal on the investmental environment, policy & system and identification of issues • Advice for the design of Questionnaire Format for attitude survey • Establishing Evaluation Method and design of Evaluation Criteria and Scorecard • Exploring candidate SEZ sites and conduct of reconnaissance surveys and its evaluation • Recommendation for the development and operation of SEZ to the developer of SEZ and investor • Compiling needs for assistance by GoJ/JICA on SEZ development • Planning and conduct of Workshop/Seminar for publicity of SEZ systems in Bangladesh/Japan • Write-up of reports on the matters involved • Review and finalization of the Final Report
T. Yasui	SEZ Legal Systems & Structures ①	<ul style="list-style-type: none"> • Survey on the policy, administrative and supporting systems for the development of SEZ and identification of issues • Review the legal systems related to establishing BEZA including EZ Act and its Regulations • Survey on the administrative systems of BEZA and operation systems at SEZs for identification of issues and solution development • Compiling the results of Questionnaire Survey to Japanese entities and its analysis • Compiling the needs from Gob/Japanese entity for assistance from GoJ/JICA on SEZ development • Planning and conduct of workshop/publicity seminar on SEZ systems • Write-up of the reports with regard to the matters involved
Y. Yamano	SEZ Legal Systems & Structures ②	<ul style="list-style-type: none"> • Observation on the development activities of SEZ and identification of issues in comparison with that of South-east Asian Countries; presentation of success cases • Survey on the activity for SEZ development by PPP method and identification of issues • Recommendation on the development/operations of SEZ to SEZ developer and advise for effective promotion of SEZ to potential investor • Conduct of workshop/publicity seminar on SEZ in Japan • Write-up of the reports with regard to the matters involved
M. Saji	Land-use Evaluation/ Off-site Infrastructure Development ①	<ul style="list-style-type: none"> • Selection of the highest priority candidate SEZ sites having higher potential for investment by Japanese entity and conducting reconnaissance survey to those sites and data collection • Survey on the off-site infrastructures related to the highest prioritized candidate SEZ sites and recommendation of off-site infrastructure facilities for those sites • Creation of development concepts to those highest prioritized sites including off-site infrastructures • Compiling needs from Japanese entity for assistance from GoJ/JICA for the development of SEZ/off-site infrastructures • Conduct of workshop/publicity seminar on SEZ • Write-up of the reports with regard to the matters involved
Zakir Hossain	Land-use Evaluation/ Off-site Infrastructure Development ②	<ul style="list-style-type: none"> • Review the outline data of about 30 candidate SEZ sites • Review the data on the prioritized 7 candidate SEZ sites by BEZA and selection of about 10 prioritized candidate sites (preparation of the short-list) • Selection of the highest priority candidate SEZ sites having higher potential for investment by Japanese entity and conducting reconnaissance survey to those sites and data collection • Survey on the off-site infrastructures related to the highest prioritized candidate SEZ sites and recommendation of off-site infrastructure facilities for those sites • Survey on the financial sector and analysis of financing and investment systems in Bangladesh • Conduct of workshop/publicity seminar on SEZ in Bangladesh • Write-up of the reports with regard to the matters involved
G. Hashimoto (In Bangladesh) A. Yahata (In Japan)	Environmental & Social Consideration	<ul style="list-style-type: none"> • Design of Questionnaire Format for Japanese entities selected and its analysis • Conduct surveys in the fields of Environmental & Social Considerations to about 10 prioritized candidate SEZ sites • Conduct surveys in the fields of Environmental & Social Considerations to the highest prioritized candidate SEZ sites and data collection • Compiling the results of Questionnaire Survey to Japanese entities and its analysis • Conduct of workshop/publicity seminar on SEZ in Japan • Write-up of the reports with regard to the matters involved

This Survey has been conducted along with the following Survey Team Members and its Assignment Schedule.

Table 1-4-2: Assignment Schedule

Name	Firm	Class	2013						
			February	March	April	May	June	July	
J. Motoyama	WBA	2		3/6 [redacted] 3/23		5/8 [redacted]	6/12		
T. Yasui	WBA	3		3/6 [redacted] 3/18		5/23 [redacted]	6/12		
Y. Yamano	JRI	3		3/10 [redacted] 3/23		5/12 [redacted] 5/22			
M. Saji	NSC	3		3/6 [redacted] 3/15		5/10 [redacted]	6/11		
Z. Hossain (Bangladesh)	WBA	4		3/6 [redacted] 3/21	4/21	[redacted]	6/11		
G. Hashimoto	JRI	4		3/10 [redacted] 3/15		5/18 [redacted]	6/6		
J. Motoyama	WBA	2	2/20 <input type="checkbox"/>	2/28	4/1 <input type="checkbox"/>	4/24		6/14 <input type="checkbox"/>	6/27
T. Yasui	WBA	3	2/20 <input type="checkbox"/>	2/21	4/1 <input type="checkbox"/>	4/24		6/14 <input type="checkbox"/>	6/27
Y. Yamano	JRI	3	2/20 <input type="checkbox"/>	2/23	4/1 <input type="checkbox"/>	4/24		6/17 <input type="checkbox"/>	6/27
M. Saji	NSC	3	2/20 <input type="checkbox"/>	2/25	4/1 <input type="checkbox"/>	4/24		6/17 <input type="checkbox"/>	6/27
Z. Hossain (Bangladesh)	WBA	4							
A. Yahata	JRI	4	2/27 <input type="checkbox"/>	3/4	4/8 <input type="checkbox"/>	4/30		6/17 <input type="checkbox"/>	6/27

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Chapter 2: Findings on Economic Structure, Investment Environment and SEZs in Bangladesh

Chapter 2: Findings on Economic Structure, Investment Environment and Special Economic Zones in Bangladesh

This chapter consists of a brief review of the Macroeconomic Environment of Bangladesh, followed by the review of the Socio-economic Development Targets and Industrial Development Policies, Industrial Structure and Industrial Cluster, Promotional Policy on Foreign Direct Investment together with Financial Systems and Foreign Exchange Policies of Bangladesh. After these reviews, analysis has been made of the Structures of Labor Markets and Industrial Human Resources Development Systems which are recognized as one of the strengths of Bangladesh. This analysis has been followed by the Classification of Economic Zones including EPZ and Industrial Parks and identified issues in promoting FDI to Bangladesh along with the review on the International Competitiveness Analysis done by several authorities.

2.1 Macroeconomic Environment surrounding Bangladesh

According to “Bangladesh Economic Review 2012” being issued by the Ministry of Finance, the growth rate of the Bangladesh economy in the years of 2011~2012 was 6.32% which is slightly downed from 6.7% in the years of 2010~2011. This down tone phenomenon is observed as minimal within the background of the stagnant global economy which was led by poor performance of the European Economy. Such growth was contributed mainly by steady growth in the Agriculture Sector which recorded five (5) percent growth for the last two (2) years and remarkable growth recorded in the sectors of Industries and Services. In addition to that, money transfer by Bangladesh overseas workers which has recorded 10.24% growth even in such a poor global economic performance, has contributed greatly to the improvement of the Trade Balance. Under such macroeconomic environment, GDP per capita in the year of 2012 reached US\$772 while Gross National Income (GNI) per capita reached to US\$848 respectively, up from a GDP per capita of \$747 and GNI per capita of \$816 in the previous year. The following table shows the movement of GDP and GNI in the last six (6) years.

Table 2-1-1 : Movement of GDP/GNI (2005~2012)

Item	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12*
GDP (In Crore Tk.)	415728	472477	545822	614795	694324	796704	914786
GNI (In Crore Tk.)	442935	507752	594212	670696	758928	869217	1004723
Population (In Crore)	13.88	14.06	14.24	14.42	14.61	14.97	15.16
Per Capita GDP (In Tk.)	29955	33607	38330	42628	47536	53238	60350
Per Capita GNI (In Tk.)	31915	36116	41728	46504	51959	58083	66283
Per Capita GDP (In US\$)	447	487	559	620	687	748	772
Per Capita GNI (In US\$)	476	523	608	676	751	816	848

Source: Bangladesh Bureau of Statistics (BBS) * Provisional

Source : Bangladesh Economic Review 2012

2.1.1 Movement of Bangladesh Economic Performance

In Bangladesh the Third Industry accounts for approximately fifty (50) percent in the distribution of Economic performance at the GDP basis which is the biggest sector in Bangladesh economic activities, followed by the Secondary Industry which accounts for approximately thirty (30) % and the Primary Industry with approximately Twenty (20) % of the share. As to the average growth rate in each economic sector, the fastest growing industry is the Secondary Industry with an annual growth rate of 7.2 %, followed by the Third Industry at 5.06% and the Primary Industry at 3.66%.

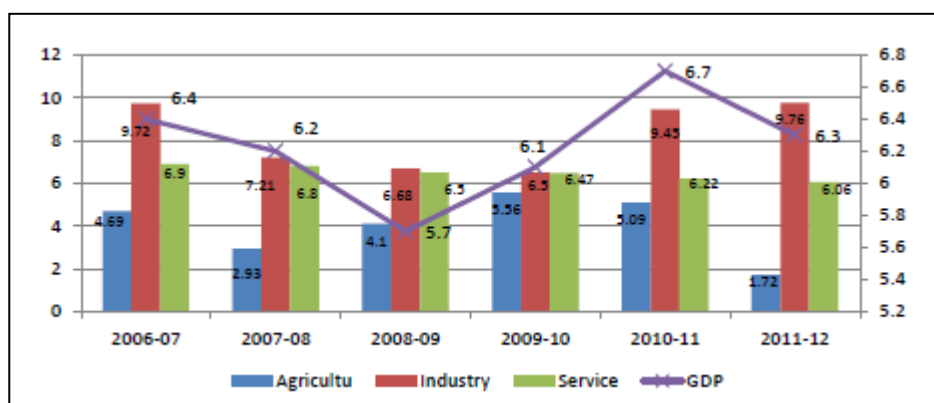
Table 2-1-2 : Distribution of share by Bangladesh Industries at GDP (1980~2012)

Share (in percent)									
Sector	1980-81	1985-86	1990-91	1995-96	2000-01	2005-06	2009-10	2010-11	2011-12
Agriculture	33.07	31.15	29.23	25.68	25.03	21.84	20.29	20.01	19.29
Industry	17.31	19.13	21.04	24.87	26.20	29.03	29.93	30.38	31.26
Service	49.62	49.73	49.73	49.45	48.77	49.14	49.78	49.60	49.45
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Average growth rate (in percent)									
Agriculture	3.31	3.31	2.23	3.10	3.14	4.94	5.24	5.13	2.53
Industry	5.13	6.72	4.57	6.98	7.45	9.74	6.49	8.20	9.47
Service	3.55	4.10	3.28	3.96	5.53	6.40	6.47	6.22	6.06
GDP (At producer prices)	3.74	3.34	3.24	4.47	5.41	7.02	6.22	6.59	6.39

Source: Bangladesh Bureau of Statistics (BBS) * Provisional

Source : Bangladesh Economic Review 2012

Based on these figures, it is observed that the growth rate of the Secondary Industry exceeds the average growth rate of the National economy but the growth rate of the Primary Industry is much lower than that of average growth rate. The following figure shows the growth rates of each industry.



Source : Bangladesh Economic Review 2012

Figure 2-1-1 : Growth rates of Bangladesh Industries

The following Table shows the growth rates of each Industrial Sector and Sub-sector during the period from 2005 to 2012. The Manufacturing Sector shows consistent growth during the period but the Agricultural Sector has been sluggish for a long time, while Finance, Education and Medical Sectors show steady growth.

Table 2-1-3 : Distribution of share by Bangladesh Industrial Sub-sector at GDP

Sector/Sub-sector	(In percentage)						
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12*
1. Agriculture and Forestry	16.98	16.64	16.18	15.91	15.81	15.58	14.90
a. Crops & horticulture	12.28	12.00	11.64	11.43	11.42	11.32	10.74
b. Animal farming	2.92	2.88	2.79	2.73	2.65	2.58	2.50
c. Forest and related services	1.79	1.76	1.75	1.75	1.73	1.69	1.66
2. Fishing	4.86	4.73	4.65	4.58	4.49	4.43	4.39
3. Mining and Quarrying	1.16	1.18	1.21	1.25	1.29	1.26	1.26
a. Natural gas & crude petroleum	0.71	0.72	0.74	0.76	0.77	0.73	0.71
b. Other mineral resources	0.45	0.46	0.47	0.50	0.51	0.53	0.55
4. Manufacturing	17.08	17.55	17.77	17.90	17.94	18.41	19.01
a. Large & medium scale	12.14	12.47	12.63	12.71	12.68	13.12	13.75
b. Small scale	4.94	5.08	5.14	5.18	5.26	5.22	5.26
5. Electricity, Gas & Water Supply	1.65	1.57	1.59	1.59	1.60	1.60	1.72
a. Electricity	1.38	1.30	1.31	1.31	1.32	1.33	1.45
b. Gas	0.19	0.19	0.19	0.19	0.20	0.19	0.18
c. Water	0.08	0.09	0.09	0.09	0.09	0.09	0.09
6. Construction	9.14	9.15	9.13	9.12	9.10	9.09	9.27
7. Wholesale and Retail Trade	14.08	14.24	14.37	14.41	14.36	14.33	14.26
8. Hotel and Restaurants	0.69	0.69	0.70	0.71	0.72	0.73	0.74
9. Transport, Storage & Communi.	10.07	10.18	10.44	10.65	10.79	10.70	10.72
a. Land transport	6.67	6.50	6.42	6.38	6.36	6.21	6.18
b. Water transport	0.89	0.85	0.82	0.79	0.75	0.72	0.69
c. Air transport	0.12	0.11	0.11	0.12	0.12	0.12	0.13
d. Support transport services, storage	0.31	0.32	0.33	0.34	0.35	0.34	0.33
e. Post & telecommunication	2.08	2.40	2.76	3.02	3.21	3.31	3.40
10. Financial Intermediations	1.72	1.76	1.81	1.86	1.95	2.01	2.07
a. Monetary intermediation(Bank)	1.28	1.31	1.34	1.38	1.44	1.47	1.51
b. Insurance	0.37	0.37	0.39	0.40	0.43	0.45	0.46
c. Other financial intermediation	0.07	0.07	0.07	0.08	0.08	0.09	0.09
11. Real Estate, Renting & other Business Activities	7.87	7.64	7.49	7.34	7.18	7.00	6.85
12. Public Administration and Defense	2.71	2.75	2.76	2.78	2.84	2.92	2.91
13. Education	2.49	2.54	2.58	2.64	2.71	2.78	2.84
14. Health and Social Work	2.27	2.29	2.31	2.34	2.38	2.42	2.45
15. Community, Social and Personal Services	7.25	7.09	7.01	6.93	6.83	6.71	6.61
GDP	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Bangladesh Bureau of Statistics, * Provisional

Source : Bangladesh Economic Review 2012

2.1.2 Movement in the Bangladesh Foreign Trade

As to the performance of Bangladesh foreign trade, constant in-balance has been recorded as a result of the phenomena that the amount of imports exceeds that of exports. Since the Balance on Services and the Balance on Income show negative, money transfer by Bangladesh overseas workers fill these deficits and eventually showed records of minor surplus in the Current Account. These structures have remained since 2006.

Table 2-1-4 : Movement on Trade Balance and Current Account Balance (2005~2012)

Particulars	(In Million US\$)							
	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12*
Trade balance	-3297	-2889	-3458	-5330	-4710	-5155	-7744	-7995
Exports f.o.b. (including EPZ)	8573	10412	12053	14151	15581	16233	22592	23992
Import, f.o.b. (including EPZ)	-11870	-13301	-15511	-19481	-20291	-21388	-30336	-31987
Services	-870	-1023	-1255	-1525	-1616	-1233	-2369	-2566
Receipts	1177	1340	1484	1891	1832	2478	2573	2684
Payments	-2047	-2363	-2739	-3416	-3448	-3711	-4942	-5250
Income	-680	-702	-905	-994	-1484	-1484	-1454	-1508
Receipts	116	136	244	217	95	52	124	195
Payments	-796	-838	-1149	-1211	-1579	-1536	-1578	-1703
of which official interest payment	-203	-204	-212	-234	-238	-215	-345	-373
Current transfers	4290	5438	6554	8529	10226	11596	12452	13699
Official	37	125	97	127	72	127	103	105
Private	4253	5313	6457	8402	10154	11469	12349	13594
of which workers' remittances	3848	4802	5979	7915	9689	10987	11650	12843
Current account balance	-557	824	936	680	2416	3724	885	1630

Source : Bangladesh Economic Review 2012

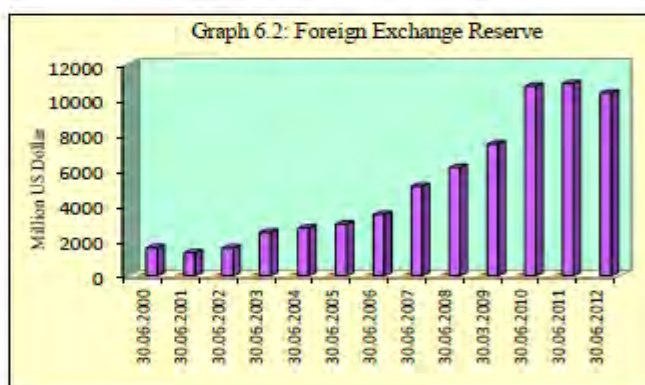
Along with the improvement of the Current Account Balance which is largely contributed to by the Money Transfer of Bangladesh overseas workers, the amount of foreign currency reserve has been drastically increased since 2000.

Table 2-1-5 : Movement on Foreign Currency Reserve of Bangladesh (2000~2012)

(In million US\$)

Date	Amount (In million US Dollar)
30.06.2000	1602
30.06.2001	1307
30.06.2002	1583
30.06.2003	2470
30.06.2004	2705
30.06.2005	2930
30.06.2006	3484
30.06.2007	5077
30.06.2008	6149
30.03.2009	7471
30.06.2010	10750
30.06.2011	10912
30.06.2012	10364

Source: Bangladesh Bank



Source: Bangladesh Economic Review 2012

2.1.3 Movement on Foreign Direct Investment to Bangladesh

According to The Global Competitiveness 2012/13 issued by World Economic Forum of Switzerland, Bangladesh is ranked at the 118th position out of 144 Nations around the World. Since several countries which are deemed to be the competitors against Bangladesh are ranked in higher positions in the same ranking, improvement of the investment environment is a key issue to be addressed with higher priority. Rankings of these competing countries are: Thailand (38th), Indonesia (50th), India (59th), Philippines (65th), Sri Lanka (68th), Viet Nam (75th) and Cambodia (85th).

According to the Bangladesh Economic Review 2012 issued by the Ministry of Finance, the amounts of FDI in-flowed to Bangladesh from 2001 to 2011 are as shown in the following table.

Table 2-1-6 : Movement on direct investment to Bangladesh by component elements
(2001~2011)

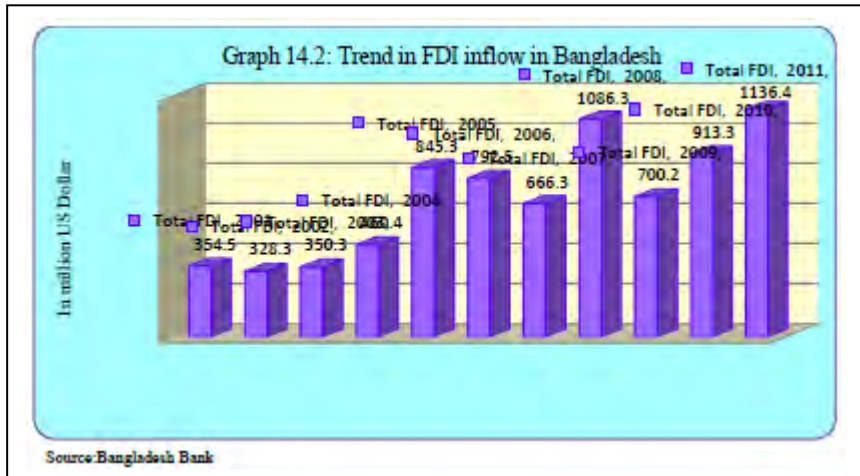
(In Million US Dollar)

Year	Components			Total FDI
	Equity	Reinvestment	Intra-Company	
2001	233.80	65.00	55.70	354.50
2002	133.80	116.80	77.70	328.30
2003	156.10	170.20	24.00	350.30
2004	155.90	239.80	64.70	460.40
2005	425.60	247.50	172.20	845.30
2006	503.70	264.70	24.10	792.50
2007	401.60	213.20	51.50	666.30
2008	809.25	245.73	31.33	1086.31
2009	218.55	364.94	116.67	700.16
2010	519.98	364.62	28.72	913.32
2011	431.85	489.63	214.90	1136.38

Source: Bangladesh Bank

Source : Bangladesh Economic Review 2012

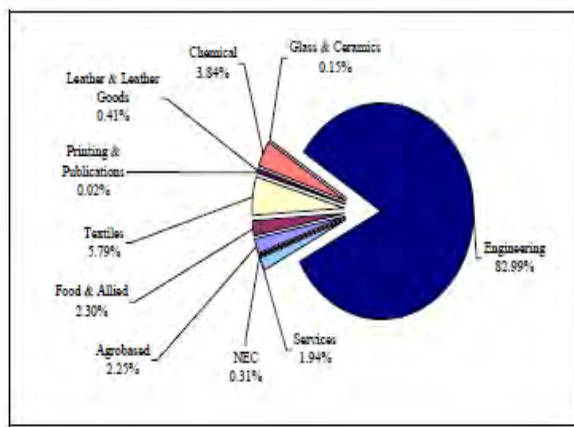
The most common type of investment component was “Equity” followed by “Reinvestment” and “Intra-company”. The following figure shows the amounts of FDI in-flowed into Bangladesh. The Amount of investment in the year of 2011 was U.S. \$1,136.4 million which exceeded the amount before the Lehman Shock.



Source : Bangladesh Economic Review 2013

Figure 2-1-2 : Amount of FDI in-flowed to Bangladesh (2001~2011)

As to the destination of such FDI, approximately 83% went to the engineering industry while 6.79% went to textile industries followed by the chemical industry with 3.84% and the food and agro-processing industries with 2.3%.



Source : Bangladesh Economic Review 2012

Figure 2-1-3: Major area of Investment by Foreign Firms and Joint Venture between Foreign and Domestic Firms (2011/2012)

According to the “World Trade and Investment Report 2012” issued by the Japan External Trade Organization (JETRO) , the drastic increase of FDI in-flowed to Bangladesh in the year of 2010/11 was caused by the huge amount of investment by Korea for an elevated expressway development project and investment for an automobile assembling plant in Bangladesh which accounted for approximately eighty (80) % of the entire investment. The U.S.A. and Germany were the second and third ranked Nations after Korea. Investment by the U.S.A is dominated by

the investment for smaller sized power generation plants which are required to cope with power supply shortages. In the case of Germany, investments for cement plants and textile industries are the typical projects.

As to the investment from Japan, it was U.S. \$10.40 Million which is a drastic reduction of 38.4% compared to that of the previous year. Descriptions of these investment projects were; Garment Manufacturing 4 projects, Leather Manufacturing 2 projects, IT-related Industry 2 projects, Solar Panel Manufacturing 1 project and Real-estate and Construction 1 project.

For the investment in the year of 2011/2012, investment in the fields of Light Engineering, Electric and Electronic Manufacturing, Food and Food-processing which came from Korea, the U.S.A., China, Singapore, Thailand and India were in the trend of increase. Meantime, Nipro of Japan has established a Pharmaceutical Manufacturing project in a joint venture with a local pharmaceutical firm. Although investment from Japan to Bangladesh has been dominated by textile and RMG industries in the past, one can see that Bangladesh is now attracting investment in certain new fields of industries. The following table shows the list of major FDI to Bangladesh.

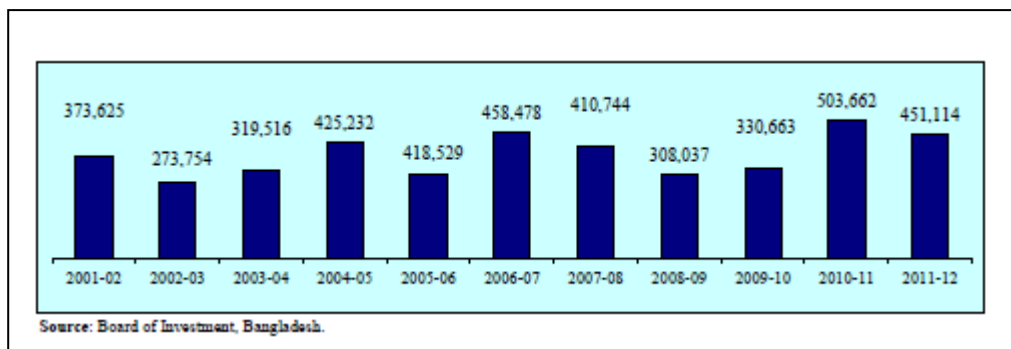
Table 2-1-7 : List of major countries on FDI to Bangladesh

Unit: Thousand US\$

No.	Country \ Year	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12
1	Saudi Arabia	1,846,273	0	0	1,732,578	471,820	7,086	0
2	U.S.A.	46,294	17,887	39,550	15,348	143,625	846,707	16,416
3	Thailand	2,774	3,996	0	54,908	3,043	97,523	1,177,723
4	India	27,605	31,062	24,293	58,851	15,515	68,020	197,099
5	South Korea	11,107	50,144	9,682	23,869	32,475	3,277,742	2,354,470
6	Malaysia	1,559	2,160	1,474	1,288	5,475	137,116	12,422
7	The Netherlands	19,288	22,648	23,247	1,085,455	9,064	113,352	67,977
8	China	15,733	8,768	22,167	19,031	27,180	73,090	49,279
9	U.K.	57,773	83,128	195,822	6,875	4,387	8,875	5,787
10	Pakistan	988	2,930	66,747	4,583	1,242	19,600	4,165
11	Japan	2,851	10,052	12,065	7,172	6,805	14,989	80,605
12	Denmark	14,060	6,702	462	4,285	1,200	687	3,910
13	Sri Lanka	0	0	5,207	2,206	1,118	1,051	98,489
14	Canada	152	671	7,964	1,178	1,203	1,846	3,148
15	Taiwan	1,423	14,134	150	2,841	10,961	21,637	7,214

Source : Prepared by the survey team based on Bangladesh Economic Review 2012

In the meantime, FDI provides a considerable number of employment opportunities in Bangladesh. Figure 2-1-4 shows a numbers of employment opportunities provided by the projects which were registered with the Bureau of Investment (BOI). According to these data, approximately 400,000 ~ 500,000 employment opportunities have been provided by FDI.



Source : Bangladesh Economic Review 2012

Figure 2-1-4 : Number of employment opportunities by the projects registered with BOI

2.2 Development Goals and Industrial Policies of Bangladesh

2.2.1 Outline Perspective of Bangladesh (Vision 2021)

The Outline Perspective of Bangladesh 2010-2021 (known as Vision 2021) formulated in June 2010 is known as the highest priority strategic paper in Bangladesh. The target year of this Plan is set at 2021 which marks the 50th anniversary of Bangladesh's independence. Although the objectives of the Plan span a wide array including eradication of poverty, offer of educational opportunities, reduction of unemployment rate, strengthening and improvement of power supply, and raising income level, the core of the Plan can be summarized as "to become a middle income country (GNI per capita of US\$2,000) by 2021."

2.2.2 The Sixth Five-Year Plan

The Sixth Five-Year Plan (2011-2015) was drawn by the Planning Commission in order to broken down the developmental philosophy of Vision 2021. In this Five-Year Plan, the philosophy of the developmental strategies and strategic indicators that Vision 2021 has set are indicated, and their implementation and achievement are delegated to the implementing ministries ("line ministries"). In this Plan, the objective average growth rate of GDP during the planning period is set at 7.3%, the manufacturing industry's share in the target year of 2015 is set at 21%, employment opportunities for 104,000 people should be created, and the present unemployment rate of 25% should be reduced to 17%. A method of Public Private Partnerships (PPP) is introduced to be actively used for the development of various infrastructural facilities, including SEZ, and active participation from the private sector is recommended. In order to raise the income level, a structural change is planned by shifting labor force from the Primary sector whose main industry is agriculture with a large employed population, to Secondary sector for raising the rate of the secondary sector whose main industries are mining and manufacturing and that of the service sector. The Plan designated 25 industries for priority.

2.2.3 National Industrial Policy 2010

National Industrial Policy 2010 which was instituted by its key player the Ministry of Industries, becomes a guideline for industrial development during the Sixth Five-Year Plan. The Policy considers the vitality of the private sector as the main engine for implementation of the Plan, and particularly designates the development of service industry utilizing devices related to IT technology and the development of SMEs as the Ministry's policy issues. The focus of the Policy is to promote the industrialization program from a mid-and-long term points of view through leveraging the vitality of the private sector, and the promotion of exports and multidimensional economic development are the base for realizing the policy. Promoting exports requires industrialization policies and their fundamental requirements consists of improvement of the trade balance through promoting alternative import industries and the cultivation of competitiveness based on experience in the domestic market. The Policy especially focuses on providing employment opportunities to those shifting workers who are formerly employed in the Primary sector by developing food and agricultural products industries. The Policy has designated 31 industries as its highest priority including the shipbuilding industry, ICT, and the textile industry.

2.2.4 Export Policy 2009

Export Policy (2009-2012) was instituted by the Ministry of Commerce playing a key role in September, 2009 and it became effective earlier than the Sixth Five-Year Plan. Some of the goals of this Policy are to promote liberalization of a trade system that corresponds to the regulations of World Trade Organization (WTO) and economic globalization, to promote labor-intensive industries and develop export oriented products, to develop high-quality commodities making use of latest technology and design, to diversify overseas markets, and to link with upstream and downstream industries for developing new export products. This Policy designates eight industries including ICT and pharmaceuticals as priority industries, and twelve industries as special promotional industries.

2.2.5 Foreign Private Investment (Promotion and Protection) Act (1980)

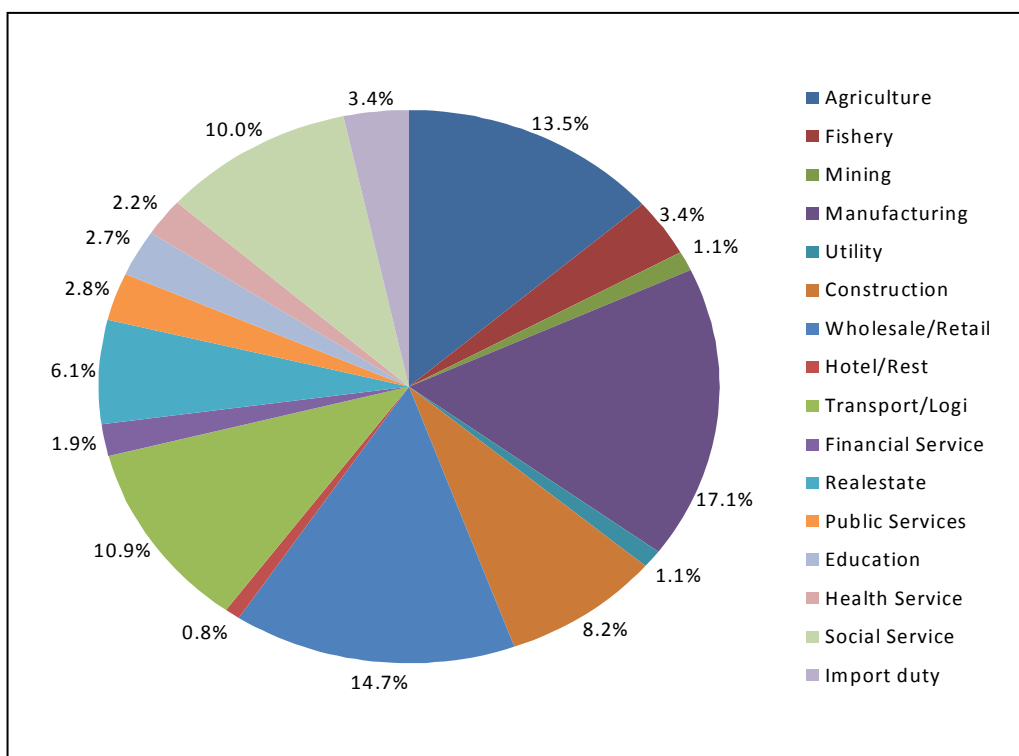
The Foreign Private Investment (Promotion and Protection) Act (1980) took effect in 1980, aiming to promote the private sector's direct investment in Bangladesh. It regulates, among other matters, procedures for opening a permanent establishment in Bangladesh by a foreign company, subjects of investment incentives, control and management of foreign currencies, compensation for confiscated assets of foreign companies, and remuneration of Bangladesh nationals by foreign firms and other entities. For incentives relating to foreign investment in Bangladesh, the Policy regulates tax holiday, a transfer tax levied on capital goods such as imported machinery equipment, exemption/reduction of tax on payment for intellectual

properties, exemption of tax for export-oriented companies, and other matters. There is no provision for priority industries.

2.3 Industrial Structure and Industrial Clusters of Bangladesh

2.3.1 Industrial Structure of Bangladesh

The performance of Bangladesh’s domestic industry in fiscal 2012 can be seen through the GDP component ratios as follows: Primary industry accounts for 16.9%, Secondary industry 27.6%, and Tertiary industry 55.5%. Their differences from fiscal 2011 are 0.9% reduction, ±0%, and 0.9% increase, respectively, signifying a discernible shift from Primary industry to Tertiary industry.

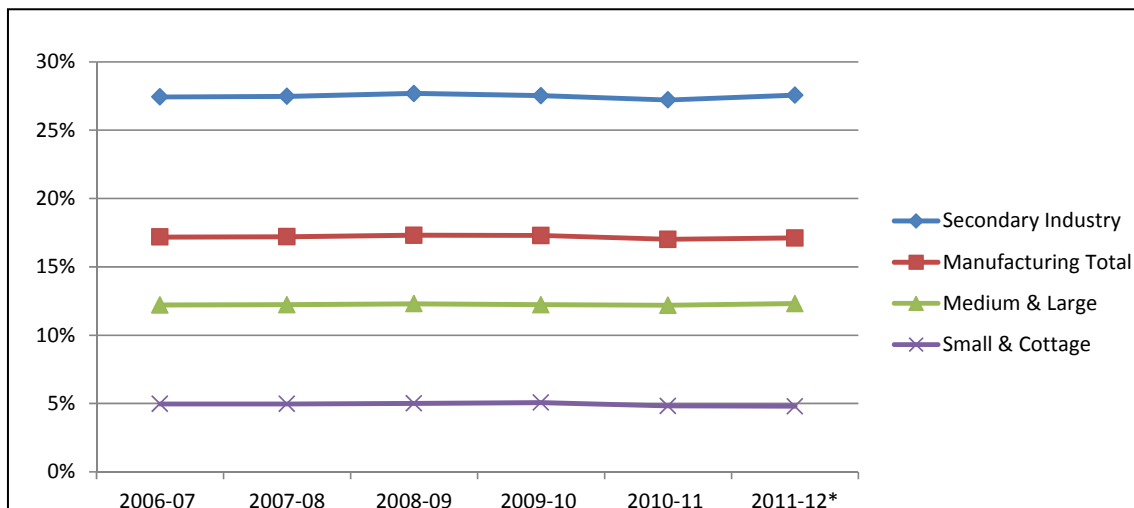


Source: Bangladesh Economic Review 2012

Figure 2-3-1: GDP Composition Ratios by Industry (2012)

Study on the manufacturing sectors’ contribution to GDP indicates that the entire manufacturing industry’s contribution has fluctuated between 17.0% and 17.3% during the last six years. Although in the Sixth Five-Year Plan the Bangladesh Government set a goal to raise the manufacturing industry’s ratio to 21% by 2015, the present status appears to require a significant efforts shall be done from this day onward if these targets are accomplished.

Statistics assembled by company scale show a tendency of slight reduction from 5.0% to 4.8% in case of SMEs, and gradual increase from 12.2% to 12.3% in case of larger corporations.

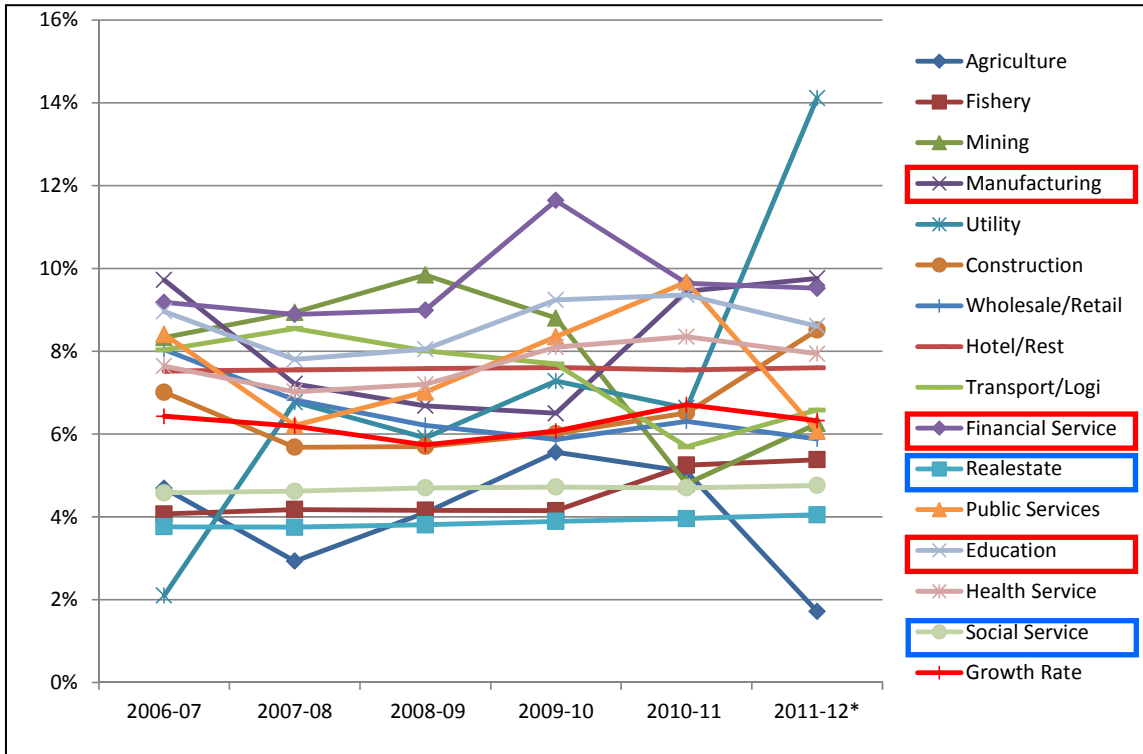


Source: Bangladesh Economic Review 2012

Figure 2-3-2: Movements of the Manufacturing Sectors Contribution (%) to GDP (2006 - 2012)

The top five sectors in terms of real growth rate in fiscal 2011 are Utilities (14.1%), Manufacturing (9.8%), Financial Service (9.5%), Education (8.6%), and Construction (8.5%). Especially, the Manufacturing sector is almost equal to Financial Service and Education and they are keeping higher and steady growth over the last several years.

Meanwhile, Agriculture (1.7%) and Fishery (5.4%) from Primary industry and Real-Estate (4.1%) and Social Service (4.8%) from Tertiary industry show low-level growth rates.



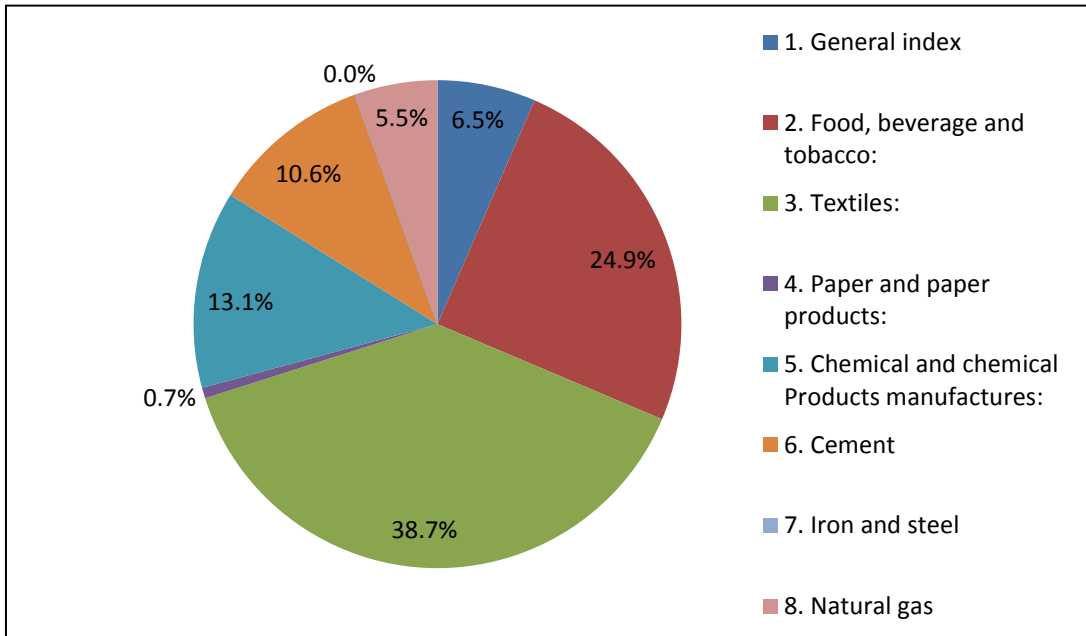
Source: Bangladesh Economic Review 2012

Figure 2-3-3: Movements of the Real Growth Rate of Each Sector (2006 - 2012)

2.3.2 Status of Main Industries

(1) The Rate of Industrial Shipment Value by Industry

Among the manufacturing industry, the textile industry signifies the highest rate of shipment value, approx. 39%, followed by the food industry (approx. 25%) and the chemical processing industry (approx. 13%).



Source: Bangladesh Economic Review 2012

Figure 2-3-4: Ratios of Shipment Value by Major Industries (2011/2012)

Table 2-3-1: Distribution of Shipment Value by Major Industries (2011/2012)

Industry		Items	
1. General index	6.5%	-	-
2. Food, beverage and tobacco:	24.9%	a. Fish and fish products	5.1%
		b. Vegetables	2.5%
		c. Bakery products	4.6%
		d. Sugar	0.7%
		e. Tea	1.7%
		f. Beverage	7.7%
		g. Tobacco cigarette	2.6%
3. Textiles:	38.7%	a. Jute	0.8%
		b. Cotton	4.0%
		c. Readymade garments	33.9%
4. Paper and paper products:	0.7%	-	-
5. Chemical and chemical Products manufactures:	13.1%	a. Fertilizer	0.7%
		b. Insecticides	-
		c. Matches	1.4%
		d. Pharmaceuticals	11.0%
6. Cement	10.6%	-	-
7. Iron and steel	-	-	-
8. Natural gas	5.5%	-	-

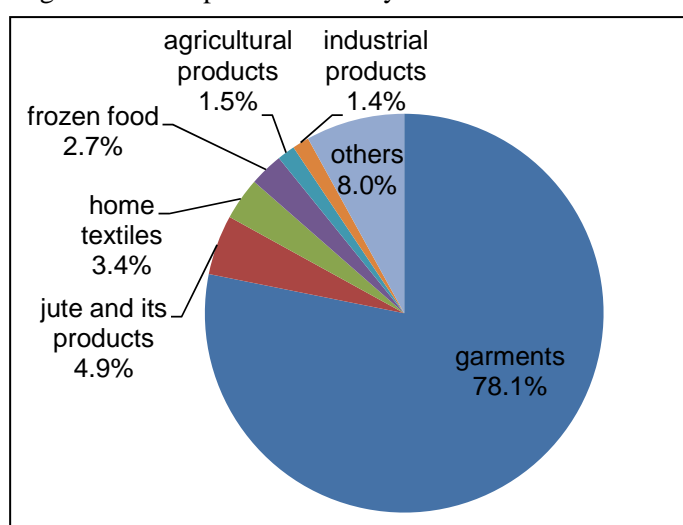
Source: Bangladesh Economic Review

Results of the detailed study indicates the largest value is marked by Textile and RMG industries with approx. 34% of share, followed by pharmaceuticals at approx. 11% and cement at approx. 11%.

(2) Tendency of Main Industries

1) Textile Industry

Among Bangladesh’s main export products, garments account for 78%, followed by jute and its products (4.9%) and home textiles (3.4%), and these figures indicate that the textile industry plays a significant role. One of the reasons why the textile industry is flowering is found in a situation where textiles are largely exported to Europe, the United States, and Japan, utilizing a benefit of preferential duty.



Source: Data compiled by JETRO

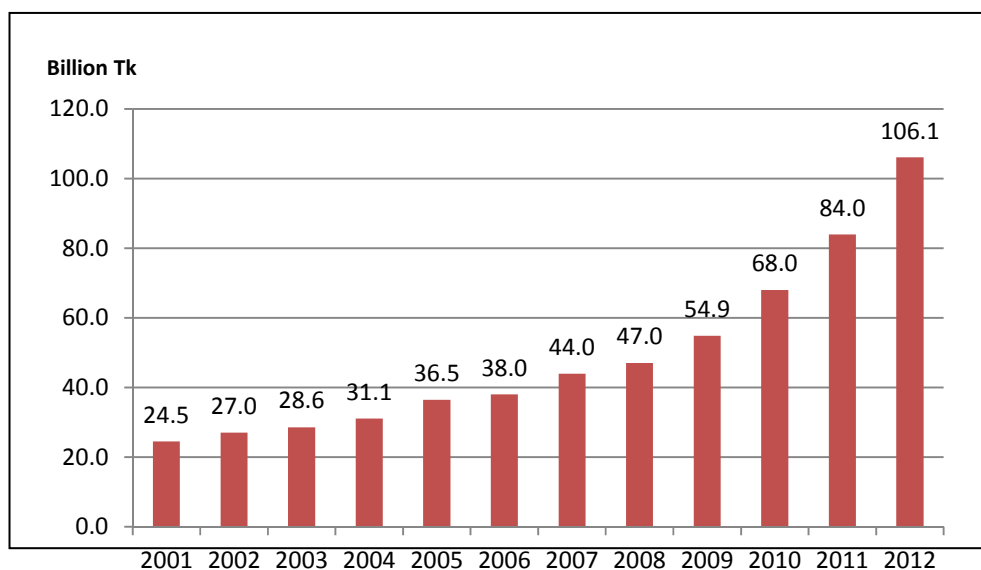
http://www.jetro.go.jp/world/asia/bd/stat_03/

Figure 2-3-5: Major Export Items of Bangladesh (2010/2011)

Regarding the Generalized System of Preferences (GSP), the rule of origins was mitigated by Japan, Europe, and the United in 2011, which will boost further increase of exports in the future.

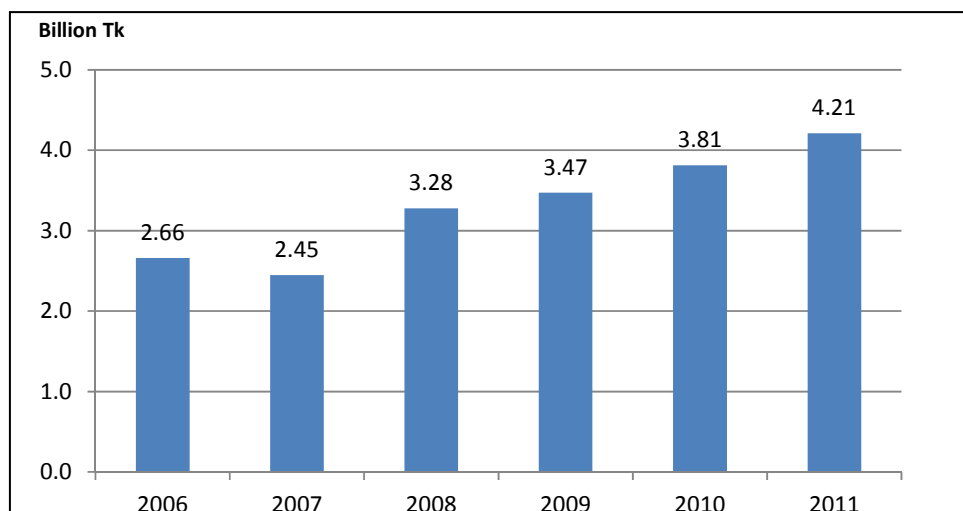
2) Pharmaceutical Industry

Bangladesh’s pharmaceutical industry accounts for approx. 11% of the country’s industrial shipment value, and is the second largest industry next to the textile industry. In recent years, its domestic sales keep growing at a growth rate of over 10% and the export sales also show steady increase.



Source: The Research Team’s adaptation from “The Present Stage of Bangladesh’s Manufacturing Industry” edited by Mayumi Murayama and Tatsufumi Yamagata, *Research and Study Reports*, Institute of Developing Economies, 2013.

Figure 2-3-6: Changes in Domestic Sales of Pharmaceutical Products



Source: The Research Team’s adaptation from “The Present Stage of Bangladesh’s Manufacturing Industry” edited by Mayumi Murayama and Tatsufumi Yamagata, *Research and Study Reports*, Institute of Developing Economies, 2013.

Figure 2-3-7: Changes in the Export Sales of Pharmaceutical Products

The reason for the growth of Bangladesh’s pharmaceutical industry is said to be attributed not only to the production of generic medicine, but also largely to the production of

patented products of other pharmaceutical firms by the approval stipulated in the WTO's TRIPS Agreement. The TRIPS Agreement allows Bangladesh to import, produce, and sell patented medicines without paying patent fees, as well as to export them to other emerging and developing countries that are subjected to the same conditions as Bangladesh. However, since this privilege will expire as of January 1, 2016, the Government has expressed a desire to prolong the preference, although the prospect for the extension is unknown at the present moment.

The breakdown of pharmaceutical products sales in Bangladesh is speculated as approx. 85% generic medicines and approx. 15% new medicines (original medicines). ("The Present Stage of Bangladesh's Manufacturing Industry" edited by Mayumi Murayama and Tatsufumi Yamagata, *Research and Study Reports*, Institute of Developing Economies, 2013.)

2.3.3 Industrial Clusters of Bangladesh

It is pointed out that there is a purpose to strengthen collaboration of domestic industry and export industry, as a policy shifts from conventional system of export processing zone to special economic zone system. As a main industry in Bangladesh, in addition to RMG industry, agro-processing industry and casting industry can be seen. Bangladesh Small and Cottage Industries Corporation (BSCIC) summarizes the number of small businesses in the 51 government districts nationwide, and in Figure 2-3-8: Bangladesh Industrial Map", the key industries are mapped by the number.

Since one of the objectives of special economic zone development is the collaboration with local industry and locating foreign industry, it is necessary to research and analyze the actual conditions of these community-based industrial agglomerations, and to reflect the planned economic zone after having verified the possibility of the linkage.

2.4 Policy on FDI Promotion, Financing and Foreign Exchange Systems

2.4.1 Policy on FDI Promotion in Bangladesh

2.4.1.1 Organizations involved in the promotion of FDI

The organizations which are involved in the promotion of FDI are as follows:

(1) Board of Investment (BOI)

BOI is the government organization to act as a window to advise and make necessary procedures for investment in Bangladesh. BOI was established in 1989 as an organization of the Prime Minister Office (PMO). However, the procedure for investment in Export Processing Zones (EPZ) shall be made at the Bangladesh Export Processing Zones Authority (BEPZA)

(2) Bangladesh Export Processing Zones Authority (BEPZA)

BEPZA is a government organization attached to the PMO which plans, develops, manages, operates and promotes investment. The details of BEPZA are described in 2.6.2 “Outline of Export Processing Zones and the issues”.

(3) Private EPZ Governor’s Board

Private EPZ Governor’s Board was established in 1996 attached to the PMO, in order to formulate policies for the declaration, development, operation, management and regulation of zones, and to review the performance of sponsor companies. The detailed description of this organization is shown in 2.6.3 “Outlines of Private Export Processing Zones”.

(4) Bangladesh Economic Zones Authority (BEZA)

BEZA was established in 2011, as government organization attached to the PMO to approve, develop, manage, regulate SEZ and promote investment. The detailed description of BEZA is shown in “2.6.4 Outlines of Special Economic Zones” and “Chapter 3 Legal system/institution and issues in relation to the development of SEZ”.

(5) Bangladesh Small & Cottage Industries Corporation (BSCIC)

BSCIC being established in 1957 is the government organization under the Ministry of Industries to implement Small and Medium Enterprises Policies. The Industrial Estates for SMEs and cottage industries are under the custody and jurisdiction of BSCIC, being not eligible for foreign direct investment. The details of these Industrial Estates are shown in “2.6.5 Outlines

of Industrial Estates”.

(6) Public Private Partnership Office (PPP Office)

PPP Office is the government organization in PMO to evaluate policy and its relation, alignment with higher policies, and to see the picture of PPP projects in all ministries and agencies, accessing the projects, advising and subsidizing expenses incurred for feasibility studies.

2.4.1.2 The laws relating to FDI Policy

The laws and acts relating to FDI in Bangladesh are as follows:

- (1) The Foreign Private Investment (Promotion and Protection) Act, 1980
- (2) The Investment Board Act, 1989
- (3) The Bangladesh Export Processing Zones Authority Act, 1980
- (4) The Bangladesh Private Export Processing Zones Authority Act, 1996
- (5) The Bangladesh Economic Zones Act, 2010
- (6) The Companies Act 1994
- (7) The Import Policy Order 2009 -2012
- (8) Export Policy 2009 – 2012
- (9) The Industrial Policy 2012
- (10) Policy and Strategy for Public-Private Partnership, 2012
- (11) The Bangladesh Hi-tech Park Authority Act 2010

Out of the above legislations, the laws relating to similar industrial parks as Special Economic Zones are (3)The Bangladesh Export Processing Zones Authority Act, 1980, (4)The Bangladesh Private Export Processing Zones Authority Act, 1996, and (5)The Bangladesh Economic Zones Act 2010.

- a. BEPZA is the implementing agency based on “The Bangladesh Export Processing Zones Authority Act, 1980”. BEPZA established 8 EPZs around the country.
- b. The Private EPZ Governor’s Board is the implementing cell in PMO based on “The

Bangladesh Private Export Processing Zones Authority Act, 1996". 2 private EPZs were approved by the government, being under development/planning.

- c. BEZA is the implementing agency based on "The Bangladesh Economic Zones Act 2010". BEZA will establish SEZ, and manage and regulate the development.

As to these industrial lands, detailed description is given at chapter 2.6.1 "Types of industrial park approved by government in Bangladesh".

2.4.1.3 Outlines of FDI Policy

Outlines of FDI Policy on The Foreign Private Investment (Promotion and Protection) Act, 1980, The Investment Board Act, 1989 and relating laws are as follows:

(1) Regulation on foreign investment

1) Unapproved industry and regulated industry in FDI

- a. FDI on the following 4 industries is unapproved:
 - Manufacturing of arms and ammunition or other defense equipment
 - Forest plantation and mechanized extraction of reserved forests
 - The production of nuclear energy
 - Security printing (currency notes) and minting.
- b. FDI on following 17 industries are regulated:
 1. Fishing in the deep sea, 2. Bank/financial institution, 3. Insurance Company, 4. Generation, supply and distribution of power, 5. Exploration, extraction and supply of natural gas/oil, 6. Exploration, extraction and supply of coal, 7. Exploration, extraction and supply of other mineral resources, 8. Large-scale infrastructure project (e.g. flyover, elevated expressway, monorail, economic zone, inland container depot /container freight station), 9. Crude oil refinery, 10. Medium and large industry using natural gas/condensate and other minerals as raw material, 11. Telecommunication Service, 12. Satellite channel, 13. Cargo/passenger aviator, 14. Sea bound ship transport, 15. Sea-port/deep sea-port, 16. VOIP/IP telephone, 17. Industries using heavy minerals accumulated from sea beach

2) Investment ratio

100% foreign ownership is permissible in principle, but there is a ceiling in the investment ratio and amount depending upon the industry. The joint-venture with foreign capital is permissible both in the public sector and private sector.

(2) Land acquisition by foreign companies

- a. Foreign enterprises registered in Bangladesh are allowed to purchase land. (Foreign

individuals are not allowed to purchase land.)

- b. In EPZs, foreign enterprises that are registered are not allowed to purchase land but can acquire the right of use under long term lease agreement (30 years).

(3) Regulation in capital

- a. In principle, there is no limit on paid-up capital except for financial institutions
- b. There is a minimum capital amount in financial institutions.
- c. Non joint stock company shall promptly be converted to a joint stock company in accordance with the proper legal process within 6 months since payment of capital exceeds BTB 400 million.

(4) Foreign investment incentives

Foreign investment incentives are applicable for export oriented industries, hi-tech industries and the industries utilizing local natural resources and industries depending upon domestic raw materials.

(5) Incentives

1) Tax exemption

- a. Corporate tax exemption will be allowed to the designated industry that starts up business from July 2011 to June 2013 as follows:

Designated industries:

1. API, radioactive medicines, 2. Contraceptive device, latex rubber, 3. Basic chemical product, chemical dye, 4. Electronic parts, 5. Natural fertilizer, 6. Biotechnology, 7. Boiler, 8. Compressor, 9. Computer hardware. 10. Energy saving device, 11. Pesticide, agrichemical, 12. Petro chemical products, 13. Medicines, 14. Processing of vegetables and fruits produced in Bangladesh, 15. Radioactivity used industry, 16. Textile machinery, 17. Tissue transplantation, 18. Industry designated in government gazette 19. Infrastructure industry (a. Deep sea port, b. flyover expressway, c. EPZ, d. flyover road, e. gas pipeline f. Hi-tech park, g. ITC village or Software technology zone, h. IT park, i. Big water treating plant and water pipeline j. LNG terminal, k. monorail, l. Urban high speed railway, m. Renewable energy, n. Port (sea/river), o. Toll road, p. Subway, q. Waste disposal center, r. Other industry designated by government gazette)

Dhaka-Chittagong District (except Narayanganj, Gazipur in Dhaka District and Rangamati, Bandarban and Khagrachhari in Chittagong District):

Tax exemption is applicable for 5 years from the month commencing commercial production in the designated industries of above 1-18.

- For the first 2 years, 100% tax exemption
- For the second 2 years, 50% tax exemption
- For the next 1 year, 25% tax exemption

Rajshahi, Khulna, Sylhet, Rangamati, Bandarban and Khagrachhari:

Tax exemption is applicable for 7 years from the month commencing commercial production in the designated industries of above 1-18.

- For the first 3 years, 100% tax exemption
- For the second 3 years, 50% tax exemption
- For the next 1 year, 25% tax exemption

Infrastructure business:

Tax exemption is applicable for 10 years from the month commencing the business in the designated industry of above 17.

- For the first 5 years, 100% tax exemption
 - For the next 3 years, 50% tax exemption
 - For the next 2 year, 25% tax exemption
- b. Private power generation company
For 15 years, 100% tax exemption
- c. Export Processing Zones
- For the first 2 years, 100% tax exemption
 - For the second 2 years, 50% tax exemption
 - For the next 1 year, 25% tax exemption

2) Other main incentives

- a. Accelerated depreciation is applied.
- The 1st year, 50%
 - The 2nd year, 30%
 - The 3rd year, 20%
- b. Duty free import of new machinery and parts or renewal of machinery in existing factories or expansion of factories is applied. For an industry exporting 80%-100% of its manufactured goods, a 1% duty is imposed on imported machinery. In other industries, a 3% duty is imposed on imported machinery.
- c. Avoidance of double taxation, in case of foreign investors on the basis of bilateral agreements.
- d. Oversea remittance of royalties and technical know-how fee is permitted.
- e. Facilities for full repatriation of invested capital, profit and dividend.
- f. Facilities for the repatriation of assets by closing businesses.
- g. 100 % ownership by foreign investors is permitted.
- h. Tax exemption on the interest of loans from overseas bank.
- i. Multiple- visa is issued to the foreign investor.
- j. Reinvestment of dividend available for remitting to home country is deemed to be new investment.
- k. Citizenship by investing a minimum of US\$500,000 or by transferring US\$1,000,000 to any recognized financial institution (non-repatriable)

- l. Permanent residentship by investing a minimum of US\$75,000 (non-repatriable)
- m. Tax exemption on capital gain accrued from sales and purchase of listing share

3) Incentives to Export oriented industry and Export related industry

- a. Import duty 1% on machinery and parts
- b. Bonded warehouse and back to back L/C
- c. Refund of import duty
- d. Irrevocable L/C, confirmed L/C, 90% loan on sales contract
- e. In accordance with the foreign currency regulations of the Bangladesh Bank, additional foreign currency allotment is provided to export oriented industries for advertising activity, opening foreign bases and participation in international exhibition
- f. Income tax on export sales in handicraft industry and household industry are exempted. In other industries, income tax on export sales is permitted to be refunded.
- g. Import of raw material, which is described in prohibited list and regulated list, are permitted, if it is necessary for production of export goods.
- h. The import of duty free samples for export products of a certain quantity are approved based on relative government policy.
- i. Supply of domestic made products, which is settled by L/C in foreign currency, is deemed as indirect export and all the incentives are given.
- j. Export credit guarantee system.
- k. 10% of products of enterprises in EPZ are permitted to export to domestic general custom areas subject to payment of taxes set forth, subject to the payment of duty as scheduled.
- l. Export oriented industries outside EPZ are permitted to sell 20 % of the products in the domestic market subject to payment of taxes as prescribed.
- m. Export oriented industries certified as incentive industry by the government can be assisted by special arrangement and venture capital.

* Aside from the above incentives, facilities based on export policy are applied to Export oriented industries and export related industries.

4) Incentives to the companies in EPZs

- a. Import duty free on construction materials, machinery, equipment and parts.
- b. Import duty free on the import of raw materials and export duty free on completed product.
- c. Avoidance of dual taxation
- d. Duty on dividend is exempted.
- e. GSP facility is available.
- f. Accelerated depreciation on machinery and plant
- g. Remittance of royalty, technical assistance fee and consultancy fee are allowed.
- h. Duty and quota free access to EU, Canada, Norway, Australia and etc.,

- i. 100 % foreign ownership is permissible.
- j. Enjoy Most Favorable Nation status.
- k. No ceiling on foreign investment and local investment
- l. Repatriation of capital and dividend is permissible.
- m. Foreign currency loan from abroad under direct automatic route
- n. Non-resident Foreign Currency Deposit is allowed for 'A' Type industry.
- o. Operation of foreign Currency account by 'B' and 'C' type industry is allowed.

(6) Taxation system

1) Corporate tax

a. Tax rate on listed company and unlisted company

Listed company: 27.5%, unlisted company: 37.5%

In case of a listed company, a 24.5% corporate tax is applied when dividends exceed 20%.

In case of a listed company, a 37.5% corporate tax is applied, when dividends fall below 10%.

b. Tax rate in designated industry

Mobile phone communication industry (unlisted): 45%, Mobile phone communication industry (listed): 35%, Financial Institutions (banks and insurance) : 42.5%, Merchant bank: 37.5%, Tabaco manufacturing (unlisted) : 42.5%, Tabaco manufacturing (listed): 35%

2) Bilateral Tax Agreement

1. Tax on interest, 2. Withholding tax on dividends, 3. Tax on royalties (Copy right, patent, remuneration on information etc.), 4. Tax on salary and remuneration

* Bangladesh concluded a bilateral treaty in relation to prevention of dual taxation in February, 1991 with 28 countries.

3) Tax on interest that falls below 10%.

4) Withholding tax on dividend:

Corporation: 20%, Individual: 10%, Non-resident outside Bangladesh: 25%

5) Tax rate on royalty, technology fee: 10%

6) Tax on salary and remuneration: The tax is imposed in the country where the payer stayed for more than 183 days in the fiscal taxation year.

7) Income tax: There are 5 ranks (10% - 25%) by annual income and by male and female and

by ages. Minimum tax amount is BTK 3,000

8) Value Added Tax: 15%

2.4.1.4 The procedure for Investment

The enterprises established in Bangladesh or the enterprises established in foreign countries but registered in Bangladesh can start business in Bangladesh. Establishment and registration of company is stipulated in The Companies Act 1994. The registration is managed at the Office of the Registrar of Joint Stock Companies

- (1) Registration of company (Office of the Registrar of Joint Stock Companies)
- (2) Draw up articles of incorporation (request Certified Public Accountant)
- (3) Acquire the approval of incorporation (Office of the Registrar of Joint Stock Companies)
- (4) Acquire Trade license (Municipal office or City Corporation where the company is located. Annual renewal is required)
- (5) Acquire Taxpayer Identification Number (TIN) (National Board of Revenue)
- (6) Registration at BOI
- (7) Open bank account (Commercial bank)
- (8) Acquire Work Permit and multiple visa (BOI)
- (9) Registration of business entity for VAT (National Revenue Authority)

2.4.1.5 Issues of Japanese based companies located at Bangladesh

The Board of Investment (BOI) was established to encourage investment in the private sector, to provide necessary facilities and assistance in the establishment of industries, investment promotion, and facilitation covers support, suggestion and aftercare support to the investors. BOI calls it “One -Stop-Service”. However, out of 8-9 procedures for establishing and starting up business, two procedures are taken at the BOI office but the rest of the 6 procedures must be taken at other offices than BOI. In real business after incorporation, the investors have to take tangled bureaucratic procedures such as land registration, construction permit for building factories under Building Act and Fire Prevention Act, and license for import and custom

clearance in import and export. It is not easy for new foreign investors to carry out smooth procedures under the opaque practices in an unfamiliar country and circumstances. Therefore, the foreign investors are forced to take more time, waste more money taking such procedures, which may sometimes cause delays in production and sales plans and consequently reduce productivity.

Inside EPZs, BEPZA office provides foreign investors with a One-Stop-Service covering most of such procedures. Thus the companies in EPZs can enjoy benefits which are not obtainable outside EPZ, and are assisted with carrying out smooth business activities in comparison with the foreign companies outside EPZ.

Japanese Commerce and Industry Association in Dhaka took up the requests of its members with regard to the issues which Japanese companies are facing, along with the procedures in the Bangladesh Government, to BOI for their improvement. Recently, the Association has discussed with BOI the solution of the following issues:

- a. The issues on work-permits and visas for Japanese business persons (such as delay in issuing recommendation letter to visa, delay in issuing work permit, delay in issuing work permit due to investigation of the person by the ministry of home affairs, the employment of local workers and the proportion in the number of local workers and Japanese workers, expiration and renewal of work permit, time taken to acquire the notice of completion on tax payment, etc.)
- b. The registrations of Japanese companies in 8 industries are suspended by the Ministry of Commerce.
- c. The issues in Remittance and Letter of Credit

2.4.2 Financing and Foreign Exchange Systems in Bangladesh

(1) Overview of financing systems in Bangladesh

1) The financing systems

The financing systems of Bangladesh are comprised of three broad fragmented sectors: Formal Sector, Semi-Formal Sector and Informal Sector.

The sectors have been categorized in accordance with their degree of regulation adopted.

- a. The formal sector includes all regulated institutions like Banks, Non-Bank Financial Institutions (FIs), Insurance Companies, Capital Market Intermediaries like Brokerage Houses, Merchant Banks etc., Micro Finance Institutions (MFIs).
- b. The semi-formal sector includes those institutions which are regulated otherwise but do not fall under the jurisdiction of the Central Bank, Insurance Authority, Securities and Exchange Commission or any other enacted financial regulator. This sector is mainly represented by Specialized Financial Institutions like the House Building Finance Corporation (HBFC), Palli Karma Sahayak Foundation (PKSF), Samabay

Bank, Grameen Bank etc., Non-Governmental Organizations (NGOs and discrete government programs.

- c. The informal sector includes private intermediaries which are completely unregulated.

2) Banks

Now, banks in Bangladesh are primarily of two types: Scheduled Banks and Non-Scheduled Banks

- a. Scheduled Banks : The banks which obtained license to operate under the Bank Company Act, 1991 (Amended in 2003) are termed as Scheduled Banks.
- b. Non-Scheduled Banks : The banks, which are established for a special and definite objective and operate under the acts that are enacted for meeting those objectives, are termed as Non-Scheduled Banks. These banks cannot perform all functions of scheduled banks.

There are 52 scheduled banks in Bangladesh that operate under the full control and supervision of the Bangladesh Bank which is empowered to do so through the Bangladesh Bank Order, 1972 and Bank Company Act, 1991 . Scheduled Banks are classified into the following types:

- a. State Owned Commercial Banks (SOCBs): There are 4 SOCBs which are fully or majorly owned by the Government of Bangladesh.
- b. Specialized Banks (SDBs): 4 specialized banks are now operating which were established for specific objectives like agricultural or industrial development. These banks are also fully or majorly owned by the GoB.
- c. Private Commercial Banks (PCBs): There are 30 private commercial banks which are majorly owned by the private entities. PCBs can be categorized into two groups:
- d. Conventional PCBs : 28 conventional PCBs are now operating in the industry. They perform the banking functions in conventional fashion, i.e., interest based operations.
- e. Islami Shariah based PCBs: There are 7 Islami Shariah based PCBs in Bangladesh and they execute banking activities according to Islami Shariah based principles, i.e., Profit-Loss Sharing (PLS) mode.
- f. Foreign Commercial Banks (FCBs): 9 FCBs are operating in Bangladesh as the branches of the banks which are incorporated abroad.

There are now 4 non-scheduled banks in Bangladesh which are:

- a. Ansar VDP Unnayan Bank,
- b. Karmashangosthan Bank,
- c. Probashi Kollyan Bank,
- d. Jubilee Bank

3) Non- Bank Financial Institutions (FIs)

Non-Bank Financial Institutions (FIs) are those types of financial institutions which are regulated under the Financial Institution Act, 1993 and controlled by the Bangladesh Bank. Now, 31 FIs are operating in Bangladesh while the maiden one was established in 1981. Out of the total, 2 are fully government owned, 1 is the subsidiary of a SOCB, 13 were initiated by private domestic initiative and 15 were initiated by joint venture initiative. Major sources of funds of FIs are Term Deposit (at least six months tenure), Credit Facility from Banks and other FIs, Call Money as well as Bond and Securitization.

The major difference between banks and FIs are as follows:

- FIs cannot issue cheques, pay-orders or demand drafts.
- FIs cannot receive demand deposits,
- FIs cannot be involved in foreign exchange financing,
- FIs can conduct their business operations with diversified financing modes like syndicated financing, bridge financing, lease financing, securitization instruments, private placement of equity etc.

4) The financial market

The financial market in Bangladesh is mainly formed by the following types:

- a. Money Market : The primary money market is comprised of banks, FIs and primary dealers as intermediaries and savings & lending instruments, treasury bills as instruments. There are currently 15 primary dealers (12 banks and 3 FIs) in Bangladesh. The only active secondary market is the overnight call money market which is participated in by the scheduled banks and FIs. The money market in Bangladesh is regulated by the Bangladesh Bank (BB), and the Central Bank of Bangladesh.
- b. Capital market: The primary segment of the capital market is operated through private and public offering of equity and bond instruments. The secondary segment of the capital market is institutionalized by two (2) stock exchanges-Dhaka Stock Exchange and Chittagong Stock Exchange. The instruments in these exchanges are equity securities (shares), debentures, corporate bonds and treasury bonds. The capital market in Bangladesh is governed by the Securities Exchange Commission (SEC).
- c. Foreign Exchange market: Details are described in 2.4.2.

5) Microfinance

- a. The member-based Microfinance Institutions (MFIs) constitute a rapidly growing segment of the Rural Financial Market (RFM) in Bangladesh. Microcredit programs (MCP) in Bangladesh are implemented by various formal financial institutions (nationalized commercial banks and specialized banks), specialized government organizations and Non-Government Organizations (NGOs). The growth in the MFI sector, in terms of the number of MFI as well as total membership, was phenomenal during the 1990s and continues until today.

- b. Despite the fact that more than a thousand institutions are operating microcredit programs, only 10 large MFIs and the Grameen Bank represent 87% of total savings of the sector and 81% of total outstanding loans of the sector. Through the financial services of microcredit, the poor people are engaging themselves in various income generating activities and around 30 million poor people are directly benefiting from microcredit programs.
- c. Credit services of this sector can be categorized into six broad groups: i) general microcredit for small-scale self-employment based activities, ii) microenterprise loans, iii) loans for ultra-poor, iv) agricultural loans, v) seasonal loans, and vi) loans for disaster management.
- d. Currently, 599 institutions (as of October 10, 2011) have been licensed by MRA to operate Micro Credit Programs. But, the Grameen Bank is out of the jurisdiction of MRA as it is operated under distinct legislation- the Grameen Bank Ordinance, 1983.

(2) The outlines of foreign currency control

1) Foreign Exchange Market

Bangladeshi currency, the taka, was declared convertible on current account transactions (as on 24 March 1994), on terms of the Article VIII of IMF Article of Agreement (1994).

- a. As Taka is not convertible in capital account, resident owned capital is not freely transferable abroad.
- b. Repatriation of profits or disinvestment proceeds on non-resident FDI and portfolio investment inflows are permitted freely.
- c. Direct investments of non-residents in the industrial sector and portfolio investments of non-residents through stock exchanges are repatriate abroad, as also are capital gains and profits/dividends thereon.
- d. Investment abroad of resident-owned capital is subject to prior Bangladesh Bank approval, which is allowed only sparingly.
- e. Bangladesh has adopted the Floating Exchange Rate regime since 31 May 2003. Under the regime, BB does not interfere in the determination of exchange rates, but operates the monetary policy prudently for minimizing extreme swings in exchange rates to avoid adverse repercussion on the domestic economy. The exchange rate is being determined in the market on the basis of market demand and supply forces of respective currencies. In the forex market, banks are free to buy and sell foreign currency at spot and also in the forward markets. However, to avoid any unusual volatility in the exchange rate, the Bangladesh Bank, the regulator of foreign exchange market remains vigilant over the developments in the foreign exchange market and intervenes by buying and selling foreign currencies whenever it deems necessary to maintain stability in the foreign exchange market.

2) Foreign currency exchange control

- a. Opening bank account
 - Both foreign residents and foreign non-residents in Bangladesh can open bank accounts in Bangladesh but a certain restriction is imposed on non-residents. Foreign currency bank account can be open with restrictions to a certain extent.
 - The enterprises in EPZs are approved to possess foreign currency with advantageous conditions.
 - There are 6 kinds of bank accounts: Personal foreign currency account, Resident foreign currency account, Non-resident foreign currency account, Exporter allotment account, Resident Taka account and Non-resident Taka account.
- b. Domestic sales
 - Payment of domestic sales is made in Taka. Check is mostly used for payment in general.
 - Except for money changers, it is prohibited to make payment to non-residents in foreign currency. It is prohibited for foreigners to pass foreign currency to residents and inhabitants in Bangladesh.
 - The enterprises in EPZs mainly make payments in US Dollar.
- c. Overseas remittance
 - Remittance of technical fees and royalties against technical assistance/royalty agreement can be made up to 6% of annual sales in previous year (or project cost) without prior approval of the Bangladesh Bank / Board of investment. In excess of 6%, the approval of the Bangladesh Bank / Board of investment is required.
 - Remittance of salary of the expatriate personnel can be approved up to 50% of the salary. Remittance of savings of expatriate personnel at the time of leaving Bangladesh can be made.
 - In the case of remittance exceeding US\$2,000, the application shall be submitted to the Bangladesh Bank.
 - There is no limit on the receivable amount of remittance from overseas.
 - The enterprises in EPZs are free to remit dividends, interest, technical fees and royalties overseas.
- d. Financing
 - [Financing in local currency]
 - Foreign-based enterprises can take out a short-term loan from local banks or foreign banks without the permission of the Bangladesh Bank with at a maximum of 50% of gross capital.
 - The enterprises, exceeding 50% of which is owned by foreigner or foreign companies, shall obtain prior approval from the BOI to take out a long-term loan. In general, the maximum loan amount is the amount of capital.
 - [Financing in foreign currency]
 - Local banks are not allowed to make loans to foreign based companies in foreign

currency.

- The foreign based enterprises outside EPZs, who will take a loan from overseas in offshore transactions, shall submit the application to BOI together with financing plans in advance. The purpose of such financing is limited to the import of capital goods etc., and the name of imported goods, unit price and quantity shall be described in the application. The term of repayment shall be a maximum of 6 years.
- The enterprises in EPZs can freely take loans in offshore transactions and two generation loans.

(3) Infrastructure Financing available in Bangladesh

Infrastructure Financing is available in Bangladesh by Government owned specialized FIs, Donor agencies and 3), Private Financing (Banks and NBFIs) and Japan ODA.

1) Government owned specialized FIs (IDCOL and BIFFL)

a. The Infrastructure Development Company Limited (IDCOL)

IDCOL was established on 14 May 1997 and obtained license from the Bangladesh Bank as a NBFi on 5 January 1998. Since its inception, IDCOL has been playing a major role in bridging the financing gap for developing medium and large-scale infrastructure and renewable energy projects in Bangladesh. The company now stands as the market leader in the private sector energy and infrastructure financing in Bangladesh. IDCOL is managed by a 7 (seven) member independent Board of Directors comprising 4 (four) senior government officials, three prominent entrepreneurs from the private sector and a full-time Executive Director and Chief Executive Officer. IDCOL offers long term local and foreign currency loans, senior and subordinated loans with flexible rates, tenor and grace period, financing arranging services, financial advisory services and project finance training courses. IDCOL has already financed more than 20 large and medium infrastructure projects. As of June 30, 2012, IDCOL extended loans and advances worth more than US\$ 220 million. IDCOL is in a position to mobilize more investment funds from the local and external institutional sources as a result of its long experience and successful operation.

b. The Bangladesh Infrastructure Finance Fund Limited (BIFFL)

BIFFL was incorporated by the Ministry of Finance in 2011 to provide long-term financing in local currency to infrastructure projects that meet BIFFL's investment criteria. BIFFL seeks to attract investment from both institutional and retail investors (including non-resident residents in Bangladesh and overseas foreign workers) to provide an alternative savings/investment vehicle in the Bangladesh market. BIFFL has its own funds of US\$ 20 million for infrastructure projects. So far, BIFFL could not extend funds to any infrastructure projects, however, a number of projects are under consideration for funding. Currently, BIFFL lacks adequate capacity to manage and implement a large number of clientele.

2) Donor agencies

Currently, the only finance facility available in Bangladesh is the Investment Promotion and Financing Facility (IPFF) of IDA, World Bank. The IPFF Project aims to accelerate private sector-led growth through providing term finance for infrastructure development and promoting the domestic infrastructure finance capacity in Bangladesh. It is expected that JICA would also come up with such a facility for infrastructure projects including economic zone development. The Private Sector Development and Support Program (PSDSP) of the World Bank are having funds for SEZ development worth US\$ 127 million, a portion of which will be utilized for economic zone development in Bangladesh as reported by concerned officials.

3) Private Financing (Banks and NBFIs)

A long list of commercial banks (Public and Private) are engaged in infrastructure financing in Bangladesh including Agrani Bank Limited, Bank Asia, Citibank NA, IFIC Bank, Jamuna Bank, National Bank, Pubali Bank, SABINCO, Standard Bank, Trust Bank, The City Bank, United Commercial Bank, Uttara Bank, Mercantile Bank Limited, United Commercial Bank Limited, Bangladesh Commerce Bank Limited, Janata Bank Limited, Sonali Bank Limited, Bank Asia Limited, IFIC Bank Limited and Social Islami Bank Ltd. Among NBFIs, there are specialized institutions engaged in financing infrastructure projects namely Infrastructure Investment Finance and Development Company (IIFDC), IDLC Finance Limited, Uttara Finance and Investment Limited.

a. Common Terms and Conditions of the Infrastructure Project Financing in Bangladesh by Private Banks and FIs are;

- Debt-equity Ratio: 80 %: 20%, or 70%: 30%
- Rate of Interest: LIBOR + less than 1% + 2.5% margin of Local Financial Institutions
- Repayment Period: 10-15 years
- Legal entity: A Special Purpose Company needs to be formed
- Grace period: 5-7 years

b. Challenges and Constraints in Project Financing in Bangladesh;

- Lengthy approval process involving several ministries and authorities
- Lengthy process in obtaining an approval for foreign loans
- Lack of capacity of local banks and related regulatory authorities
- Lack of experience of Local Developers in infrastructure development, financing and management
- No local administrative capacity to implement zone development projects
- Poor project management causes delay in initiating commercial operation

c. Proposed Measures for Solving Issues

In view of the above mentioned challenges, it is proposed to take the following steps to resolve issues:

- Strengthening institutional capacity of government institutions (IDCOL, BIFFL, PPP, BEZA, BB)
- Capacity building of relevant government officials, banks and FIs
- Capacity building and enhanced exposure of local government bodies
- Coaching the local Zone developers and contractors who can work for international contracts
- Simplify various approval processes of relevant government agencies
- Capacity building in management of infrastructure projects

2.5 The Labor Market and Industrial Human Resource Development Systems in Bangladesh

2.5.1 Labor Market

(1) Labor force

Bangladesh has a population of around 154 million people¹ living within a tiny national territory of 147,570 square kilometers. Since the country is poor in natural resources, its development largely depends on a skilled and trained labor force.

1) Composition of the labor force

- a. According to the Report on the Survey of the Labor Force 2010 by the Bangladesh Bureau of Statistics, Statistics Division, Ministry of Planning, there were 56.7 million people in the labor force (male: 39.5 million, female: 17.2 million) in Bangladesh in 2010, while the number of people in the workforce who were employed was 54.1 million (male: 37.9 million, female: 16.2 million).
- b. The number of people in the labor force in rural areas is overwhelmingly larger than that in urban areas. The labor force in these areas is young. The population of young workers (aged between 15 to 29 years) stood at 13.2 million, comprising 23.3% of the total labor force.
- c. According to a survey conducted in the period of 2002 to 2003, the number of those in the labor force was 46.3 million (male: 36.0 million, female: 10.3 million). Over seven years, the number of people in the labor force increased by 10.4 million (male: 3.5 million, female: 6.9 million). In particular, the number of females in the labor force grew remarkably. The population of young workers stood at 12.4 million, or 26.7% of the total labor force, according to this survey. By 2010, the number of young workers had increased by 0.8 million, since the 2002-2003 survey, but its percentage of the total labor force declined by 3.4% during the same period.

¹ March, 2013 Source: World Bank

Table 2-5-1: Distribution of the Workforce in Bangladesh

	Both	Male	Female	Urban			Rural		
				Both	Male	Female	Both	Male	Female
Labour Force	56.7	39.5	17.2	13.3	9.3	4.0	43.4	30.2	13.2
Employed	54.1	37.9	16.2	12.4	8.8	3.6	41.7	29.1	12.6
Unemployed	2.6	1.6	1.0	0.9	0.5	0.4	1.7	1.1	0.6
Unemployed ratio	4.6%	4.1%	5.8%	6.8%	5.4%	10.0%	3.9%	3.6%	4.5%
Labour Force	20.9	13.1	7.8	5.1	3.1	2.0	15.8	10.0	5.8
Age 15-29	36.9%	33.2%	45.3%	38.3%	33.3%	50.0%	36.4%	33.1%	43.9%
Labour Force	13.2	8.2	5.0	3.2	1.9	1.3	9.9	6.3	3.6
Age 15 – 24	23.3%	20.8%	29.1%	24.1%	20.4%	32.5%	22.8%	20.9%	27.3%

(Unit: million perons)

Source: Prepared by the research team in accordance with the Report on the Survey of the Labor Force 2010

2) Age composition on the labor population

Regarding the composition of the ages in the labor population, people aged 0 to 14 years account for 35.7% of the total population. A high proportion of the population is young.

3) Literacy rate

a. The literacy rate of the population aged 5 years and older was low. The rate stood 55.1% (male: 57.6%, female: 52.5%; urban areas: 65.8%, rural areas: 51.8%) in 2010.

b. The literacy rate of the labor force was 60.0% (male: 60.7%, female: 58.3%; urban areas: 71.6%, rural areas: 56.4%) in 2010.

4) Workforce by industry

The composition of the employed workforce by industry (percentage) in 2010 was as follows: agriculture: 25.72 million (47.56%), manufacturing: 6.73 million (12.44%), other industries: 2.85 million (5.28%) and services: 19.11 million (35.35%).

5) Workforce by occupation

a. The composition of the employed workforce by occupation (percentage) in 2010 was as follows: professionals and engineers: 2.41 million (4.4%), managers: 0.69 million (1.3%), office workers: 1.00 million (1.9%), services: 3.00 million (5.5%), sales clerks: 8.11 million (15.0%), agriculture, forestry and fishery: 25.69 million (47.4%), manufacturing and transportation: 12.38 million (22.8%) and other: 1.08 million (2.0%).

b. Compared to that in the 2005 to 2006 period, the percentage of professionals and engineers increased by 1.88%, managers by 28.20%, services by 2.12%, sales clerks by 4.89%, agriculture, forestry and fishery by 2.85% and manufacturing and transportation by 3.97%, while that of office workers decreased by 0.34%. The section of the

workforce composed of managers grew remarkably and that of sales clerks and those in manufacturing and transportation also rose sharply.

(2) Character of workers

- a. Generally speaking, (factory) workers in Bangladesh are considered to be earnest and friendly. Women are in demand as workers, because they have manual dexterity and good eyes. However, some consider that “workers are neither aggressive nor proactive,” “they need to check and consult with someone before doing anything” and “they have poor time management.”²
- b. Basic education is not always available to everyone in Bangladesh. Some workers from villages and rural areas have not completed primary education. Some of youth are lack of disciplines, sanitation training, literacy and math.³ This is why some Japanese companies are even giving their new and young workers basic education. Fewer workers are able to speak English in Bangladesh than in India⁴.

(3) Labor acts

The Bangladesh Labor Act 2006 is applied as the basic labor law in Bangladesh. The Export Processing Zones (EPZ) Workers’ Welfare Association and Industrial Relations Act (2010) is defined and applied to companies that enter the Export Processing Zones.

1) Employment

The minimum working age is 18 years. Child labor is prohibited. The youngest age a child can work as a trainee is 14, in particular industries in accordance with the provisions of the Labor Act, and new employment is prohibited during strikes.

2) Wage

The minimum wage provided by the Act ranges from 2,000 taka to 6,000 taka. The wages are divided into 75 categories and set according to 200 kinds of jobs.

A wage for a skilled worker working for a Japanese firm in the sewing industry is 3,000 taka in the general zone, while a wage for a trainee in the sewing industry is \$30, and that for a trainee in electronic and electric industry is \$41 in EPZ.

The average wage of full-time employees working for Japanese firms in Bangladesh is shown as Table 2-5-2.

² Sources: “Comparison of Business Environment in Asian Emerging Countries”, JETRO, April, 2013

³ Information was gathered by hearing from foreign companies residing in Bangladesh and JETRO research.

⁴ This is based on hearing from Bangladeshi intellectuals.

Table 2-5-2: Average wage of full-time employees working for Japanese companies in Bangladesh

Type of business	Manufacturing industries			Non-manufacturing industries	
	Factory workers	Engineers	Middle management	Staff	Managers
Basic wage (monthly)	74	190	484	304	747
Annual wage paid	1,478	3,693	8,935	5,092	12,606
Remarks	Approx. three years experience	Graduated from a specialty school or a university and approx. five years experience	Graduated from a university and approx. 10 years experience	Approx. three years experience	Graduated from a university and approx. 10 years experience

Source: JETRO's Comparison of Business Environment in Asian Emerging Countries

3) Working conditions (Working hours, Holidays)

a. Working hours:

- Eight-hour workday + One-hour break, a maximum 10 hours of work per day (with overtime payment).
- 48-hour workweek, a maximum of 60 hours of work per week.
- Women are prohibited from working nighttime hours (10:00 p.m. to 6:00 a.m.)

b. Holidays:

- Factories: One holiday per week
- Stores, commercial facilities and industrial organizations: 1.5 holidays per week

c. Vacations:

- The number of paid vacations for employees who work for 12 consecutive months is 18 days per year. The number of paid special vacations that cannot be carried over is 10 days per year.
- The number of sick days is 14 days per year. The number of days permitted for maternity leave is sixteen weeks, eight weeks each before and after childbirth.
- In cases where an employee must work on a weekend by request of their employer, a worker is entitled to take a different day off to make up for having worked on the weekend.
- In cases where an employee must work on a national holiday, the worker is entitled to take one substitute day off and is compensated for two days of holiday pay.

4) Social welfare

An employer is obligated to set up a "Worker Provident Fund" and contribute 7% to 8% of

the employee's wages to the fund.

5) Dismissal and personnel reduction

a. Resignation of a full-time employee:

- An employee who has worked for their employer for five years or more to less than 10 years is entitled to receive compensation equivalent to the number of service years \times 14 days' worth of wages.
- An employee who has worked for the employer for 10 years or more is entitled to receive compensation equivalent to the number of service years \times 30 days' worth of wages.

b. Temporary layoff: A full-time employee who has worked for the employer for one year or more is subject to layoff.

- An employer is obligated to pay an employee 50% of their basic wage and the full amount of their benefits during the layoff.
- In cases where a temporary layoff exceeds 45 workdays of the calendar year, an employer is obligated to pay 25% of the basic wage and benefits for the period that exceed 15 days.

c. Personnel reduction: An employer is obligated to send an employee one-month's advance notice in writing. An employee is entitled to receive compensation equivalent to the number of service years \times 30 days' worth of wages.

d. Dismissal because of misconduct: An employer is not obligated to pay any compensation. An employer must send an employee a warning statement that indicates that such an employee is at fault.

e. Mandatory retirement: An employee is entitled to receive compensation equivalent to the number of service years \times 30 days' worth of wages and benefits.

f. Other employment cancellation:

An employer is permitted to dismiss a full-time employee without cause by giving the employee four-month's (120-day) advance notice or by paying the employee a four-month basic wage in place of a four-month advance notice. Furthermore, the employer is obligated to pay the employee compensation and a gratuity equivalent to the number of service years \times one-month basic wage.

6) Trade unions and labor disputes

a. Trade unions: If 30 percent or more of the workers in a factory become members of the proposed union, such trade unions can be established and be registered with the regional registration office for trade unions and the director of the Labor Department, with the signatures of the chairperson and secretary. Workers are not allowed to establish three or more trade unions within one factory.

b. Labor disputes: Relationships between upper management and workers are not very favorable in locally established companies. Labor disputes have scarcely occurred in

Japanese-operated companies, but there is the possibility that a dispute in a neighboring company will spill over into Japanese companies.

7) Balance of labor supply and demand

- a. It is expected that 2.0 million workers will be supplied in 2010 and approximately 1.3 million workers will be supplied every year thereafter.
- b. Many potential factory workers are likely to apply for jobs, even in the heavily industrialized Dhaka metropolitan area, but it is difficult to find experienced and capable management-level workers.
- c. Workers in the sewing industry tend to change jobs for higher wages, because there is high demand for such workers. In the field of electronics and machinery, there are few companies and job openings, making it difficult for those types of workers to find jobs. In contrast to the sewing industry, these workers tend not to change jobs very often, but tend to work for the same company for longer periods of time because few job opportunities exist.

2.5.2 Industrial Human-Resource Development System

(1) Education system in Bangladesh

Bangladesh's education system consists of formal education and informal education.

(Refer to: Table 2-5-6: Education system in Bangladesh)

In formal education, there is primary education, secondary education, technical and vocational education, as well as advanced education.

1) Primary education and secondary education

Table 2-5-3: Outlines of Primary and Secondary Educations

<u>Primary education</u> 1st grade to 5th grade (5 years) (Subjects: approx. 15.75 million people)	Primary school (equivalent to elementary school in Japan) Enter school at the age of 6. Free of charge. Take the Primary School Certificate (PSC) Examination at the end of 5th grade.
<u>Junior secondary education</u> 6th grade to 8th grade (3 years) (Subjects: approx. 16.85 million people)	Secondary school (equivalent to junior high school in Japan) Take the Junior School Certificate (JSC) Examination at the end of 8th grade. (National Examination) Successful students go on to a secondary education.
<u>Secondary education</u> 9th grade and 10th grade (2 years)	College (equivalent to high school in Japan) Divided into 3 courses: Humanities, Science and Business. Take the Secondary School Certificate (SSC) at the end of 10th grade. (National Examination) Successful students go on to a higher secondary education.
<u>Higher secondary education</u> 11th grade and 12th grade (2 years)	Intermediate college College

Source: Prepared by JICA survey team in accordance with various materials

2) Technical and vocational education

After completing their junior secondary education and passing the JSC examination, students can go on to receive a technical and vocational education. Students receive a technical and vocational education at Technical Education Institutes and Polytechnic Institutes.

Table 2-5-4: Outlines of technical and vocational educations

SSC ⁵ (Vocational) Course	9th grade and 10th grade (2 years). There is general education and the acquisition of vocational skills in the curriculum. General education gives more emphasis on application, while vocational education is designed to have students learn the National Skill Standard (NSS). Areas: Agriculture, pottery, engineering, fishery, leather, livestock, textiles
HSC ⁶ (Vocational) Course	11th grade and 12th grade (2 years). Students can receive higher-level educations in the technology, engineering and general teacher programs and also obtain a job as an NSS Grade I or become a highly-skilled worker.

Source: Prepared by JICA survey team in accordance with various materials

⁵ SSC: Secondary School Certification

⁶ HSC: Higher Secondary Certification

3) Advanced education

National and public universities and private universities offer advanced educations.

Table 2-5-5: Outlines of Higher education

Pass (bachelor) Honors (bachelor)	Students who successfully passed the HSC examination are eligible to enter higher education programs, such as the Pass program (3 years), the Honors program (4 years) and other engineering and technology courses. (Pass) male: 307,000, female: 242,000 (Honors) male: 266,000, female: 150,000
Master's	Students can go on to a master's course after completing the Pass or Honors program. Students who completed the Pass program will study for two years, while those who completed the Honors program will study for one year. (Master's) male: 32,000, female: 16,000
Doctorate	Students need to study for the Master's of Philosophy (M. Phil) for two years and the Master's course for one year.

Source: Prepared by JICA survey team in accordance with various materials

In informal education, there is education available for people at the bottom of the pyramid (BOP) provided by Madrasahs (Islamic schools) and NGOs.

1) Madrasahs (Islamic schools)

The Bangladesh government recognizes Madrasahs as an education system that coexists with formal education. The Department of Education places three levels within the Madrasah education system (Ebtedayee, Dakhil and Alim), which would be equivalent to primary, secondary and higher secondary education at general schools respectively. In the Madrasah education system, there are two levels above Alim: Fazil (duration: two years; equivalent to two years at general universities) and Kamil (duration: two years; equivalent to Master's courses at general universities).

2) NGOs

In Bangladesh, many NGOs offer primary education to children from poor families who are not able to receive formal education and they provide education programs to the general public as part of CSR. Main programs include: the BRAC Informal Primary Education Program, the GSS Primary Education Program and education with skill training for livelihood at the Center for Mass Education in Science (CMES).

(2) Industrial human-resource development system

In Bangladesh, governmental organizations have been promoting industrial human-resource development, in addition to those carried out by universities, vocational schools and polytechnic institutes, in addition to the multiple donors who have also been

supporting industrial human-resource development.

- 1) Industrial human resource development by the Government of Bangladesh
 - a. The Bangladesh Industrial Technical Assistance Center (BITAC)
 - BITAC is an organization under the control of the Ministry of Industry.
 - Objectives: Upgrade the skills of industrial human-resources through training; provide technical support to private business operators through technology transfer and manufacturing of import substitute components, in addition to the provision of advisory and consulting services; improve productivity and quality levels; reduce production costs; support its industrialization policy using domestic resources and technologies; and offer technical support through the development of plastic processing technology, in addition to jigs, tools and metal processing
 - Functions: To develop industrial human resources, offer training, technical support, technology transfer and R&D, etc.
 - Number of employees: 645 people; Annual budget: around 300 million taka; Offices: headquarters in Dhaka and bases in Chittagong, Chandpur, Khulna, and Bogra. BITAC accepts 2,000 trainees annually and offers 11 training courses (as of 2012).
 - Machinery should be replaced with new machinery and Training of Trainers (TOT) courses should be given to trainers, because the machinery and tools used in training are obsolete and the trainers' knowledge is also out-of-date. Though JICA has been supporting the improvement of BITAC, it plans to provide full support to BITAC.
 - b. Bangladesh Institute of Management (BIM)
 - BIM is an organization under the control of the Ministry of Industry.
 - Objectives: 1. Engage in the development of managers at all levels of all public organizations, private companies and commerce, industrial and service industries operated by NGOs; 2. Contribute to the improvement of productivity in all economic activities through training, research and consulting activities; 3. Provide the latest information and issue publications on the modernization of management, economic and management activities and their related areas; and 4. Promote the exchange of knowledge and experience regarding management approaches in cooperation with similar service organizations at home and abroad.
 - Headquarters: Dhaka, Branches: Chittagong and Khulna; Number of employees: 25 (fixed number 52); Annual budget: 25 million taka; Number of training courses (annually): 80 short-term training courses and 5 long-term (one-year) training courses (in 2012)
 - Since BIM is competing with private business operators in the field of similar training services, it seems to be facing a decline in revenue and a budget shortfall.

- c. Small & Cottage Industries Training Institute (SCITI)
- SCITI is a training organization that belongs to the Small & Cottage Industries Corporation (BSCIC), which is under the control of the Ministry of Industry.
 - Objectives:
 1. Provide training in the development of newly established small business operators and the restoration of small-and medium-sized enterprises in Bangladesh;
 2. Provide training to middle management in existing companies;
 3. Provide training to improve the competency of employees in public and private supporting organizations; implement investigation and research to solve problems faced by small business operators and small-and medium-sized enterprises
 - Headquarters: Dhaka; Number of employees: 85 people (including 29 trainers); Annual budget: approximately 600 million taka; Number of training courses (annually): 50 courses in the fields of Entrepreneurship Development, General Management, Industry Management, Financial Management and Marketing Management; Number of people who take the courses: approximately 1,000 people (as of 2012)

2) Industrial human resource development support by multiple donors

In Bangladesh, multiple donors run the following private sector development projects:

- Bangladesh Investment Climate Fund (BICA) – DFID, EU, IFC
 - Katalyst – DFID, SDC, CIDA
 - Better Work and Standards Programme (Best) – EU, UNIDO, NORAD, GTZ
 - Post Literacy and Continuing Education (PLCE) II – SDC, ADB, DFID, GoB
 - South Asia Enterprise Development Facility (SEDF) – IFC, DFID, NORAD
 - Technical and Vocational Education and Training (TVET) – ILO, EU
- Among the above, TVET focuses on the development of private industrial resource development

[Outline of Technical and Vocational Education and Training (TVET)]

- a. Implementing organizations: ILO and the Directorate of Technical Education, the Ministry of Education in Bangladesh
- b. Duration of the program: December 2007 to December 2012 (5 years)
- c. Objectives: Establish a market-oriented and flexible technical and vocational education and training system that develops skills that meet modern industries and the needs of underprivileged young workers.
- d. Contents of the program:
 - Review TVET policy, system and laws
 - Improve flexibility, quality and relevance of TVET

- Upgrade TVET organizations through the improvement of knowledge and skills of managers and trainers
 - Improve skills to improve productivity and export competitiveness in export-oriented industries among the regular sector
 - Improve the access of underprivileged people to TVET
- e. Budget: 15 million euros

Table 2-5-6: The education systems in Bangladesh

Bangladesh Educational Structure [Source: Bangladesh Bureau of Educational Information and Statistics]

THE PRESENT EDUCATION STRUCTURE OF BANGLADESH															
Age	Grade														
26+															
25+	XX					Ph.D (enrg)	Ph D Medical								
24+	XIX			Ph.D	postMBBS Dipl				Ph D in Edu						
23+	XVIII			M.phil	M.Phil(Medi)										
22+	XVII	MA/MSc/MBA/MSS	LLM	MBBS BDS	Msc (Eng)	Msc(Agr)		MBA	M.ED & MA(Edn)		MA (Lsc)				
21+	XVI	Bachelor (Hons)	Masters (Prel)	LLB (Hons)	Bsc. Engg Bsc. Agr Bsc. Text Bsc. Leath	Bsc. Eng	Bsc. (Tec Edc)	BBA	B.ED Dip.Ed	BP Ed	Dip (Lsc)	Kamil			
20+	XV		Bachelor (Pass)												
19+	XIV														
18+	XIII														
17+	XII	Secondary	Examination		HSC		Diploma (Engg)	C In edu	C In Agr	Dip In Comm	Dip In Nursine	Alim			
16+	XI		Higher Secondary Education												
15+	X		Examination	SSC		Trade Certificate /SSC Vocational							Artisan Course e.g. Ceramic		
14+	IX		Secondary Education												
13+	VIII	Junior Secondary Education													
12+	VII														
11+	VI														
10+	V														
9+	IV	Primary Education													
8+	III														
7+	II														
6+	I														
5+		Pre-Primary Education													
4+															
3+															

Source: JETRO's Field Survey of the Education Situation at the BOP in Bangladesh (Original source: Bangladesh Bureau of Educational Information and Statistics)

2.6 Types and outlines of SEZ (including EPZ and Industrial Parks) in Bangladesh

2.6.1 Types of industrial parks approved by the government in Bangladesh

There are 4 kinds of industrial park approved by the government in Bangladesh: Export Processing Zones (EPZ), Private Export Processing Zones (Private EPZ) and Special Economic Zones (SEZ), three of which are developed for export oriented industries and the Industrial Estate which is developed for domestic small and medium and household enterprises. EPZ and Private EPZ are bonded areas, while SEZ has bonded areas and domestic areas. Tenant enterprises in EPZ, Private EPZ and SEZ are foreign investors as well as domestic investors. Currently, only EPZs among the three types are in operation substantially.

Table 2-6-1: Types of Industrial Parks and their characteristics

Types of Industrial Park	Characteristics
Export Processing Zones (EPZ)	Bonded Area - Export oriented industries Administrative Agency - Bangladesh Export Processing Zone Authority (BEPZA)
Private Export Processing Zones (Private EPZ)	Bonded Area - Export oriented industries Administrative Agency - Private EPZ Governor' s board
Special Economic Zones (SEZ) (SEZ is officially named as "Economic Zones" under "Bangladesh Economic Zones Act, 2010" being abbreviated as "EZ") The 4 th category of SEZ is represented by High-tech Park, Garment Industrial Park, API Industrial Park.	Bonded Area - Export oriented industries Domestic area – Domestic market oriented industries Administrative Agency - Bangladesh Economic Zones Authority
Industrial Estate	Domestic SMEs and cottage enterprises Administrative Agency - Bangladesh Small and Cottage Industry Corporation (BSCIC)
Others: Small sized private industrial park developed by private developer	Expected tenant companies are Japanese investors (mostly SMEs). There is no legal guarantee to provide incentives, facilities and benefits such as one-stop-services in this industrial park.

Source: Prepared by JICA survey team

2.6.2 Outlines of EPZ and its issues

(1) Outlines of Export Processing Zones

The Export Processing Zone (EPZ) is the industrial park owned, managed and operated by Bangladesh government for export oriented industries.

- 1) Governing law: BEPZA Act 1980 & Foreign Investment Act 1980
- 2) Administrative agency: Bangladesh Processing Zone Authority (abbreviated as BEPZA)
- 3) Function of EPZ: to provide special area where potential investors can find a congenial investment environment, free from cumbersome procedures.
- 4) Objectives: Promotion of foreign (FDI) & local investment, Diversification of export, Development of backward & forward linkages, Generation of employment, Transfer of technology, Upgradation of skill and Development of management
- 5) Type of investment: 3 types
 - Type- A: 100% foreign owned including Bangladeshi nationals and ordinarily residents abroad
 - Type- B: Joint venture between foreign and Bangladeshi entrepreneurs resident in Bangladesh
 - Type-C: 100% Bangladeshi entrepreneurs resident in Bangladesh
- 6) Each EPZ: The first EPZ was established in Chittagong in 1983. There are 8 EPZs as hereunder:
 - Chittagong, Dhaka, Karnaphuli, Comilla, Mongla , Adamjee, Ishiwardi, Uttara
 - a. Total land dimension: 2,572 acres (1,047 hectare)
 - b. Employment: 358,772 (February, 2013)
 - c. Tenant companies: 406 (under operation), 137 (registered)
 - d. Export amount from EPZs: US\$ 4,210 million (2011-2012) which occupy 17% of total export amount of US\$24,288 million from Bangladesh.
Major export commodities are garment, knit, textile, electric & electronic devices, shoes and hats etc.

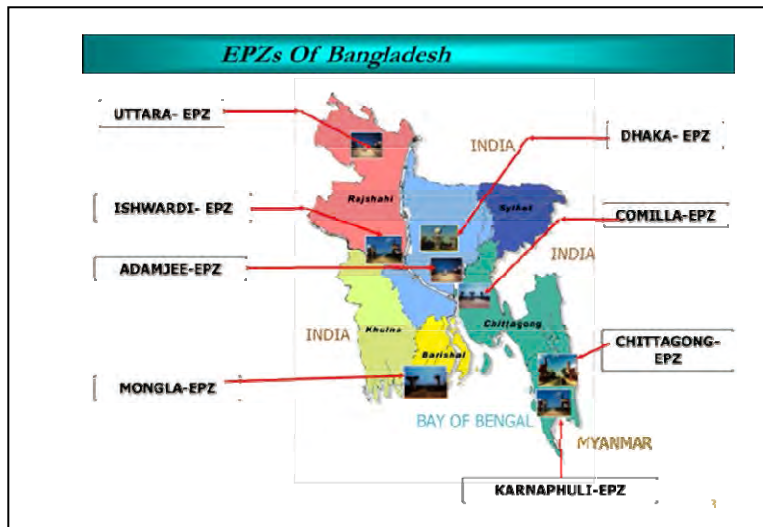


Figure 2-6-1: Location map of EPZs Source: BEPZA

7) The Fiscal Incentives

- a. Corporate tax is exempted: for the 1st - 2nd year 100%, for the 3rd -4th year 50%, for the 5th year 25%
- b. Duty free import of machinery, equipment, construction materials
- c. Duty free import of raw materials and duty free export of finished goods
- d. Relief from double taxation
- e. Exemption from dividend tax
- f. GSP facility available
- g. Accelerated depreciation on machinery and plan
- h. Remittance of royalty, technical and consultancy fees allowed

8) Non-fiscal Incentives

- a. Investment protected under Foreign Private Investment (Promotion and Protection) Act, 1980
- b. 100% foreign ownership permissible
- c. Enjoys MFN status
- d. No ceiling on foreign investment and local investment
- e. Repatriation of capital and dividend is permissible

9) Facilities

- a. No UD, IRC, ERC⁷ and renewal of Bond license
- b. Work permit issued by BEPZA
- c. Secured and Protected Bonded Area
- d. Off-shore Banking available

⁷ UD: Utilization Declaration, IRC: Import Registration Certificate, ERC: Export Registration Certificate

- e. Custom clearance at Factory Site
- f. Simplified sanction procedures
- g. Import from DTA (Domestic Tariff Area)
- h. 10% sale of finished goods to DTA allowed except garments

(2) The issues of EPZs

The plots in 5 EPZs other than Uttara EPZ, Mongla EPZ and Ishwardi EPZ are almost fulfilled and there is no plot available in the 5 EPZs. Government of Bangladesh has no plan to develop new EPZs and to expand the land of existing EPZs, deciding to develop SEZs instead of EPZs. However there is no SEZ ready for immediate investment. It is expected to take approximately 3-4 years to develop SEZ from now onwards. The potential individual investors who plan to invest in Bangladesh have difficulty finding appropriate factory sites suitable EPZs or SEZs. At the moment, there is no alternative but to invest in other land than EPZs/SEZs if they should invest immediately. Otherwise, investors have to wait and see the progress in SEZ development.

Table 2-6-2: Enterprises in EPZs

BANGLADESH EXPORT PROCESSING ZONES AUTHORITY														
BEPZA Complex, House No. 19/D, Road No. 6, Dhammondi, Dhaka-1205.														
<u>ZONE WISE NO. OF INDUSTRIES AND THEIR INVESTMENT & EMPLOYMENT</u>														
As On Apr-2013														
SL.	Zone	Operation [3]	U/ Impl.		No. of Enterprises		Total [9]=7+8	Investment ('000' US\$)		Employment (Nos.)				
			[4]	[5]	Sanc.	Total		Prop. (L.)	Actual	Prop. (F.)	Actual (L.)	Actual (F.)		
[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]=7+8	[10]	[11]	[12]	[13]	[14]	[15]
1.	Chittagong-EPZ	171	8	0	3	182	3	185	930,907.07	1,073,789.57	213,629	1,303	179,730	429
2.	Dhaka-EPZ	100	6	1	5	112	23	135	1,347,969.73	918,768.55	104,818	1,205	86,902	594
3.	Mongla-EPZ	17	12	0	4	33	10	43	228,608.05	7,444.64	26,266	273	1,561	14
4.	Ishwardi-EPZ	9	13	3	5	30	4	34	391,102.00	71,389.04	57,552	318	5,693	31
5.	Comilla-EPZ	34	8	8	14	64	7	71	652,952.70	173,511.69	95,271	705	14,200	216
6.	Uttara-EPZ	9	9	1	2	21	4	25	301,963.80	41,133.53	51,197	195	8,505	124
7.	Adamijee-EPZ	39	11	10	4	64	18	82	891,102.50	189,088.94	154,578	1,111	29,671	152
8.	Kamaphuli-EPZ	39	13	2	4	58	0	58	922,335.26	255,243.75	127,816	1,150	35,835	341
Total :		418	80	25	41	564	69	633	5,666,961.11	2,730,369.71	831,127	6,260	364,097	1,901

Source: BEPZA

Table 2-6-3 : Overview of 8 EPZs

EPZ	Chittagong	Dhaka	Comilla	Karnaphuli
Location	South Halishahar 3.1km from Chittagong Sea Port 5.5km from the main Business Center 7.21km from Chittagong Airport	Ganakbari, Savar 35km from Dhaka city center 25km from Hasrat Shahjalal Internaional Airport 304km from Chittagong Sea Port	Comilla Old Airort Area 97km from Dhaka 167km from Chittagong Sea Port	Chittagong Steel Mill Area North Patenga 5.6km from Chittagong Sea Port 8Km from the Business Center, 4.7Km from Chittagong Airport
Profile of Zone (acres)	453	347	258	222
(hectares)	183	144	104	90
Number of industrial plots	428	388	208	211
Size of each plots	2,000	2,000	2,000	2,000
Tariff (land) (US\$/M2/month)	US\$2.20	US\$2.20	US\$2.20	US\$2.20
Standard Factory (M2) Tariff (Building) (US\$/M2/month)	58,245 US\$2.75	79,843 US\$2.75	27,000 US\$2.75	2,974 US\$2.75
Warehouse (M2) Tariff (Warehouse) (US\$/M2/month)	2,668 US\$2.75	2,356 US\$2.75		
Utility Service				
Water	Chittagong WASA	BEPZA	BEPZA	Chittagong WASA + BEPSA
Storage Capacity(millon l) Tariff (US\$/M3) Status	7.26 US\$0.25 Short	US\$0.25 Good	US\$0.25 Good	US\$0.25 Good
Gas	Bakhrabad Gas System Ltd.	Titas Gas field		Bakhrabad Gas System Ltd.
Tariff (US\$/M3) Status	US\$0.08 Good	US\$0.08 Good	US\$0.08 Good (only factory built before Dec, 200	US\$0.08 Good
Power Supply				
Tariff (US\$/Kwh) Status	US\$0.06 Good(Supplied by private sector)	US\$0.06 Good(Supplied by private sector)	US\$0.06 Good(Supplied by private sector)	US\$0.06 Good(Supplied by private sector)
Waste Water Treatment	Under construction (Scheduled June, 2012)	Under construction (Scheduled Nov. 2012)	Under construction (15% completed)	None
Tenants (Operating Dec 2011)	167	127	63	56
Vacant Plots	Unavailable	Unavailable	Unavailable	Unavailable
EPZ	Adamjee	Mongla	Ishwardi	Uttara
Location	Admjee Nagar, Shiddirgonj, Narayanganj 15km from Dhaka city center 40km from H.S.I. Airport 255km from Chittagong Sea Port	Mongla Port area, Bagerhat 105km from Jessore Airport 397km from Dhaka 664km from Chittagong Sea Port	Pakshi, Pabna 200km from Dhaka 255km from Mongla Port 484km from Chittagong Sea Port	Shogalshi, Nilphamari 401km from Dhaka 586km from Mongla Port 650km from Chittagong Sea Port
Profile of Zone (acres)	293	460	309	230
(hectares)	119	186	125	93
Number of industrial plots	200	162	166	155
Size of each plots	2,000	2,000	2,000	2,000
Tariff (land) (US\$/M2/month)	US\$2.20	US\$1.00	US\$1.00	US\$1.00
Standard Factory (M2) Tariff (Building) (US\$/M2/month)	42,737 US\$2.75	18,000 US\$1.25	18,000 US\$1.25	18,000 US\$1.25
Warehouse (M2) Tariff (Warehouse) (US\$/M2/month)				
Utility Service				
Water	BEPZA	Public Health Engineering Dept & BEPZA	BEPZA	BEPZA
Storage Capacity(millon l) Tariff (US\$/M3) Status	US\$0.25 Good	US\$0.25 Good (containing salt a lot)	US\$0.25 Good	US\$0.25 Good
Gas	Titas gas field	Shahabajpur gas field(sheduled)		Gas Transmission Company Ltd.
Tariff (US\$/M3) Status	US\$0.08 Good	US\$0.08 No supply (Pipes disconnected)	US\$0.08 No supply (Pipes disconnected)	US\$0.08 No supply (Pipes disconnected)
Power Supply				
Tariff (US\$/Kwh) Status	US\$0.06 Good (supply from private sector)	US\$0.06 Good	US\$0.06 Good	US\$0.06 Good
Waste Water Treatment	Under construction (10% completed)	None	None	None
Tenants	65	4	27	8
Vacant Plots	Unavailable	Available	Available	Available

Source: JICA Report on Preparatory Study of Private Sector Development Program in Bangladesh (Industrial Development, Trade and Investment Promotion) 2012

2.6.3 Outlines of Private Export Processing Zones

The Private Export Processing Zone (Private EPZ) is a type of EPZ which is owned, established, developed, managed and operated by private developers with the approval of licenses granted by the government pursuant to “The Bangladesh Private Export Processing Zones Act,1996”.

- a. Governing law: The Bangladesh Private Export Processing Zones Act, 1996.
- b. Administrative Office: Private EPZ Governor’s board attached to the PMO shall approve the development of EPZ which will be managed and monitored by the private sector.

The board had so far approved the development of two Private EPZs: Korean Export Processing Zones (Korean EPZ, KEPZ) and Rangunia Export Processing Zones (Rangunia EPZ, REPZ). Within a part of the Korean EPZ, a certain block was leveled and a factory was built in 2012 and it is currently under operation, while Rangunia EPZ is now under planning.

(1) Korean EPZ

Korean EPZ (KEPZ) Corporation (BD) Ltd. owns and operates Korean EPZ as a private developer. KEPZ is subsidiary of Youngone group, a Seoul based company, and is registered in Bangladesh. Youngone invested in a garment factory and shoe factory in Dhaka EPZ and Chittagong EPZ. The company also invested in a garment factory and shoe factory in China and Vietnam. Youngone is a contract manufacturer as one of the prominent original equipment manufacturers (OEMs) mainly for a giant specialty store retailer of private label apparel (SPA) in USA. The total area of the Korean EPZ site is 2,492 acres, a very large area, which is almost equivalent to aggregated areas of 8 EPZ sites in Bangladesh, being 2,572 acres. As of January, 2012, KEPZ has completed the first phase of work in 25 acres of land where 3 factory buildings were constructed. However, no other factory has been invested in by other investors besides Youngone.

[History]

Year	
1996	Private EPZ Act was enacted. Youngone / Korean EPZ Corporation concluded land purchase contract with Bangladesh government.
2007	Operation license was granted by the government
2009	Environment assessment was passed
2010	Bonded license was approved
2011	The first phase work was completed, Youngone shoe factory was located
2012	Pilot manufacturing operation commenced in the factory.

17 years have passed since concluding the contract of land purchase for KEPZ site. According to KEPZ, the reason why the development of the site has been delayed is as follows:

“The purchase money of the land had been paid already to the government, but the government has not issued Deed of Transfer for the land. KEPZ cannot register the ownership of the land. Accordingly KEPZ cannot conclude any contract with investors who wish to invest in the KEPZ site. That is why sales promotion and development has been suspended.”

Furthermore, we can see the message in the KEPZ website as follows:

“The Head of the Government of Bangladesh and the Republic of Korea agreed on setting up of EPZs in the Private sector as one of the means to attract foreign investments. In pursuance of this decision, Youngone Corporation, a Seoul based company, applied formally to the Government of Bangladesh to set up an EPZ in the Private sector in the name of Korean EPZ (KEPZ) Corporation (BD) Ltd. Following this, the Bangladesh Private Export Processing Zones Act, 1996 was passed to provide a legal framework. Under the said Act the company was allowed to set up the Korean EPZ.”

On the other hand, a person of Private EPZ Governor’s board/PMO has the opinion that the KEPZ does not follow the instruction of the government. This explanation is not sufficient to clarify the reason of the dispute between the two but anyhow, the KEPZ and the government have not mitigated and the situation remains unchanged. It is possible to hear speculation that the KEPZ project started when BNP was the cabinet of the government, and the dispute has been caused by some political reason such as change of cabinet. At this moment, nobody can prove the truth except the parties in charge.

The site of KEPZ was the place where JICA made survey to find the EPZ site candidates and recommended it is as the most suitable land for EPZ site. As it is difficult to find out and acquire the most suitable size of land in Bangladesh where there is no big size EPZ/SEZ, the dispute between the two has generated only the waste of time. It will be indicated that there is no consistency in FDI policy of the government. The foreign private investors will have impression that this may cause the country risk in terms of reliability of the government when they tackle the development of SEZ in Bangladesh alone

(2) Rangunia EPZ

The developer of Rangunia EPZ is Chittagong Industrial Park Ltd., the Managing Director is Mr.A. Qaiyum Chowdhury. Both the company and managing director are local in Chittagong. According to the advertising material of Chittagong Industrial Park Ltd., Rangunia EPZ is the first Licensee in Bangladesh to set up an Export Processing Zone in Private Sector. The License No. 1 of 2000 dated December 3, 2000, was issued by the Private EPZ Governing Board, under the Private EPZ Act. of 1996. In June, 2012, the Government of Bangladesh approved the development of Rangunia EPZ. However, so far, the project is at the stage of planning and no land development work has been implemented, possibly because of financing difficulty.

2.6.4 Outlines of SEZ systems

(1) SEZ legal system

The competent authority of SEZ is Bangladesh Economic Zones Authority (BEZA). The duty and function of BEZA are to establish, approve, manage/operate, monitor and regulate SEZ projects pursuant to the Bangladesh Economic Zones Act, 2010 and related laws, regulations and rules.

As to the details on these legal systems, it was provided in Chapter 3 Legal system /institution and issues in relation to the development of SEZ

(2) Category of SEZ

There are 4 categories of SEZ, which is summarized as per Table 2-6-4 “4 categories of SEZ”.

Table 2-6-4 : 4 categories of SEZ

1. Public and Private Partnership (PPP)
Economic Zones established through public and private partnership by local or foreign individuals, body or organizations.
2. Private Economic Zones
Private Economic Zones established individually or jointly by local, non-resident Bangladeshis or foreign investors, body, business organizations or group.
3. Government Economic Zones
Government Economic Zones established and owned by the Government
4. Special Economic Zones (“Special” Economic Zone)
Special Economic Zones established privately or by public-private partnership or by the Government initiative, for the establishment of any kind of specialized industry or commercial organization.

Source: Prepared by JICA survey team based on the Act.

Notes

Category 4 (“Special” Economic Zone) are represented by (a) Kaliakoir Hi-Tech Park, (b) Garment Industrial Park and (c) API Industrial Park.

In Kaliakoir Hi-Tech Park, block 1 of the first phase is now under construction, while the Garment Industrial Park and API Industrial Park are under planning.

(3) Area of SEZ

SEZ may be divided into 4 areas:

- a. Export Processing Area: Specified for export oriented industries
- b. Domestic Processing Area: Specified for industries to be established to meet the

- demand of the domestic market
- c. Commercial Area: Specified for business organizations, banks, warehouses, offices or any other organization
 - d. Non-Processing Area: Specified for residence, health, education amusements, etc.

(4) The status of development of SEZs

The Government of Bangladesh plans to establish 7 SEZs at 7 Districts, namely 1 SEZ per 1 District. In May, 2012, BEZA selected 5 SEZ sites at Mirashorai, Anowara, Sirajgonji, Mongla, and Sherpur. According to BEZA, BEZA will conduct feasibility studies at 3 sites: Mirashorai, Anwara and Shelpur. In the meantime, Private developers will conduct feasibility studies at Sirajgonji and Mongla, to make the master plan. In addition to the above, A.K.Khan, a private enterprise, applied for SEZ development at Narsinghadi, which has been approved as a SEZ candidate site to be developed by private developers.

Table 2-6-5: Schedule for SEZ development

Location	Dimension (Acres)	Land Ownership	Topography	Feasibility Study
Mirershorai - Chittagong	6,615	Government	Seaside	BEZA
Anowara - Chittagong	611	Government	Suitable for shipbuilding	BEZA
Sirajganj - Rajshahi	1,041	Government Private	Riverside	Private Developer
Sherpur Maulvibazzar - Sylhet	354	Government	Highland	BEZA
Mongla, Bagerhat	205	Government	Plain	Private Developer

Source: Prepared by JICA Survey team based on BEZA Website information

Kaliakoir Hi-Tech Park is also classified as SEZ but is under the custody of Bangladesh Hi-Tech Park Authority (BHTPA). Outlines of Kaliakoir Hi-Tech Park are as follows:

- a. Administrative agency: Bangladesh Hi-Tech Park Authority
- b. Governing law: Bangladesh Hi-Tech Park Authority Act. 2010
- c. Dimension of land : 232 Acres Total area will be divided into 5 blocks and leveled.
- d. Block 1 is for residential area as well as administrative building, while other blocks are for industrial park.
- e. The connectivity of electricity, water & pumps, gas pipeline (for the use of civil life) are ready. Roads on site are under construction. A telephone exchanger has been

installed.

- f. Bids for the Hi-Tech Park operator has been tendered and a Malaysian company has almost been selected but it has not been fixed yet.
- g. 100 % Corporate tax exemption for 10 years

2.6.5 Outlines of Industrial Estate

The Bangladesh Small and Cottage Industry Corporation (BSCIC) is the government organization under the Ministry of Industry, being the implementing agency for small and medium enterprise policy in the manufacturing industry. BSCIC manages industrial estates all over the country as a part of SME development. There are industrial estates at 74 locations together with new projects at 9 locations throughout the Country. The number of industrial estate sites at each Division are as follows: 4 sites in Barisal Division, 16 sites in Chittagong Division, 26 sites in Dhaka Division, 11 sites in Khulna Division, 7 sites in Rajshahi Division, and 5 sites in Sylhet Division

The land of industrial estate is leased under a lease contract with a term of 99 years. The average land dimension is 150 – 200 acres. The average number of tenants per industrial estate ranges from 30 to 4,000. Pharmaceutical manufacturing companies are jointly planning to establish an API⁸ Industrial Park at Munshigonj, which is under the custody of BSCIC but classified as a Special Economic Zone.

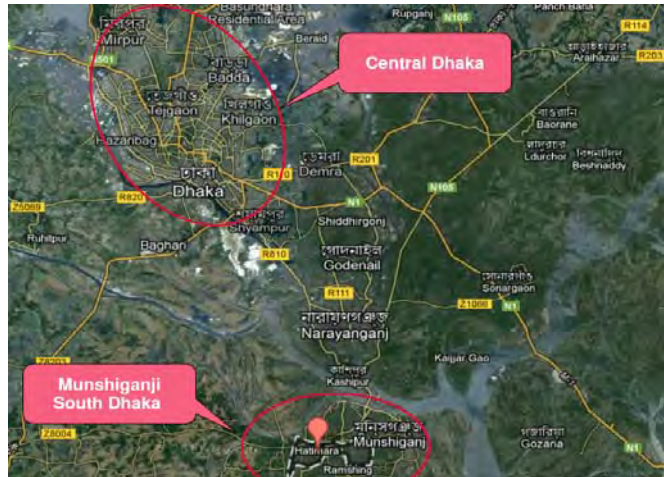
2.6.6 Small sized Industrial Estate developed by private developer

In this survey, 10 SEZ site candidates are selected. It may take approximately 3-4 years until the SEZ will be developed and ready for individual investment through various processes such as partnering by local and foreign developers, application and approval by BEZA, financing arrangement and marketing promotion of investor/tenant.

It is said that in average more than 200 Japanese firms per month have visited to JETRO Dhaka office for consultation and research for investment in and trade with Bangladesh. Mostly the investors knew that they are unable to find suitable industry lands for export oriented industries, and then they come back to Japan reluctantly.

Despite such circumstances, there are some examples of small sized industrial parks for Japanese SMEs, which are developed by local private developers as hereunder:

⁸ API: Active Pharmaceutical Ingredient is the materials to produce medicines.



- a. Name of Industrial Park: South Dhaka Industrial Park
- Developer: RAJA Group/Bangla Business Partners provide and develop the site land.
 - Site location: Munshiganji
 - Kami Denshi (Hyogo Prefecture, LED light glove) is now constructing factories at the site.



- b. Name of Industrial Park: Kunimoto Industrial Park
- Developer: Kunimoto Industrial Park
 - Site location: Gazipur
 - A new factory building is now under construction at an ideal place for the garment and dyeing industry.

2.7 The International Competitiveness in Attracting FDI to Bangladesh

2.7.1 Evaluation of International Competitiveness by “World Economic Forum (WEF) – The Global Competitiveness”

According to “The Global Competitiveness 2012-2013”, WEF, the international competitiveness of Bangladesh ranked 118th out of total 144 countries, retaining a low place. In the previous year

of 2011-2012, Bangladesh ranked 108th. Within a year, Bangladesh moved down 10 places. In contrast, Cambodia moved up 12 places from ranking 97th in 2011-2012 year to 85th in 2012-2013 year, although Cambodia is classified to be in a similar group as Bangladesh in terms of a late developing country. Table 2-6-6: The Global Competitiveness – Comparison with China, ASEAN, and South Asia countries shown below indicates details on the scores, ranking and movement between these two years.

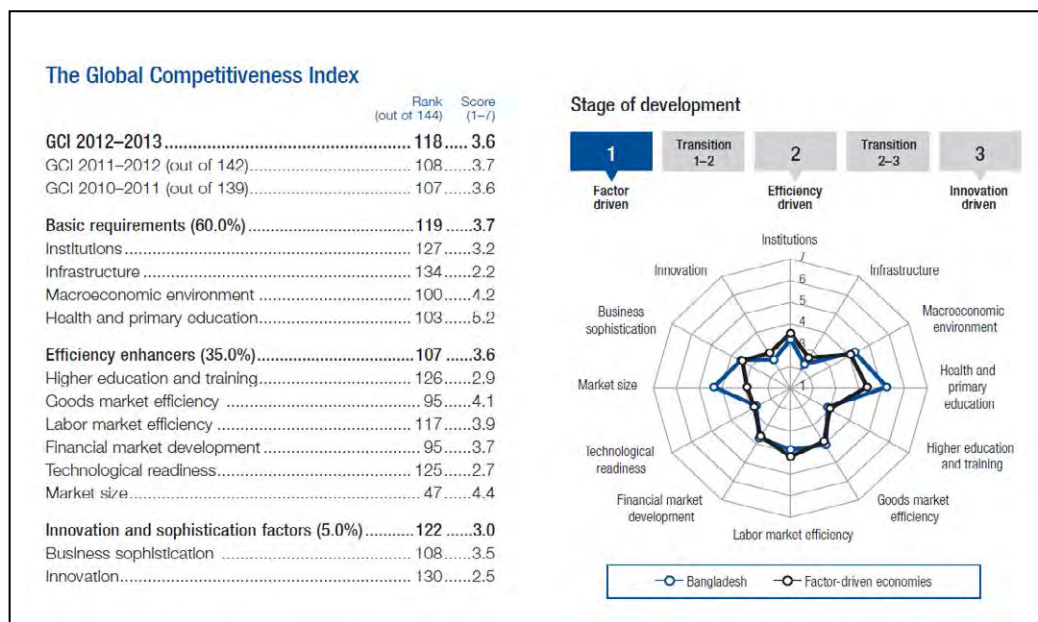
- (1) The factors to drop the competitiveness of Bangladesh may be summarized as follows:
- Institutions (Ranking 127th, 3.2): Public trust in politician, Irregular payments and bribes, Protection of minority shareholder’s interest, Ethical behavior of firms
 - Infrastructure (Ranking 134th, 2.2): Quality of overall infrastructure, Quality of electrical supply
 - Higher Education and Training (Ranking 126th, 2.9): Availability of research and training services, Extent of staff training
 - Innovation (Ranking 130th, 2.5): University-Industry collaboration in R&D, Procurement of advanced technology products by Government.
- (See also: Table 2-6-7: The Evaluation of International Competitiveness of Bangladesh by the Global Competitiveness Index)

Table 2-6-6: The Global Competitiveness - Comparison with China, ASEAN, and South Asia countries

The Global Competitiveness Index 2012-2013 rankings				
© 2012 World Economic Forum www.weforum.org/gcr				
Country/Economy	GCI 2012-2013		GCI 2011-2012	
	Rank	Score	Rank	Change
Malaysia	25	5.06	21	-4
China	29	4.83	26	-3
Thailand	38	4.52	39	1
Indonesia	50	4.40	46	-4
India	59	4.32	56	-3
Sri Lanka	68	4.19	52	-16
Vietnam	75	4.11	65	-10
Cambodia	85	4.01	97	12
Bangladesh	118	3.65	108	-10
Nepal	125	3.49	125	0

Sources: World Economic Forum – The Global Competitiveness 2012–2013

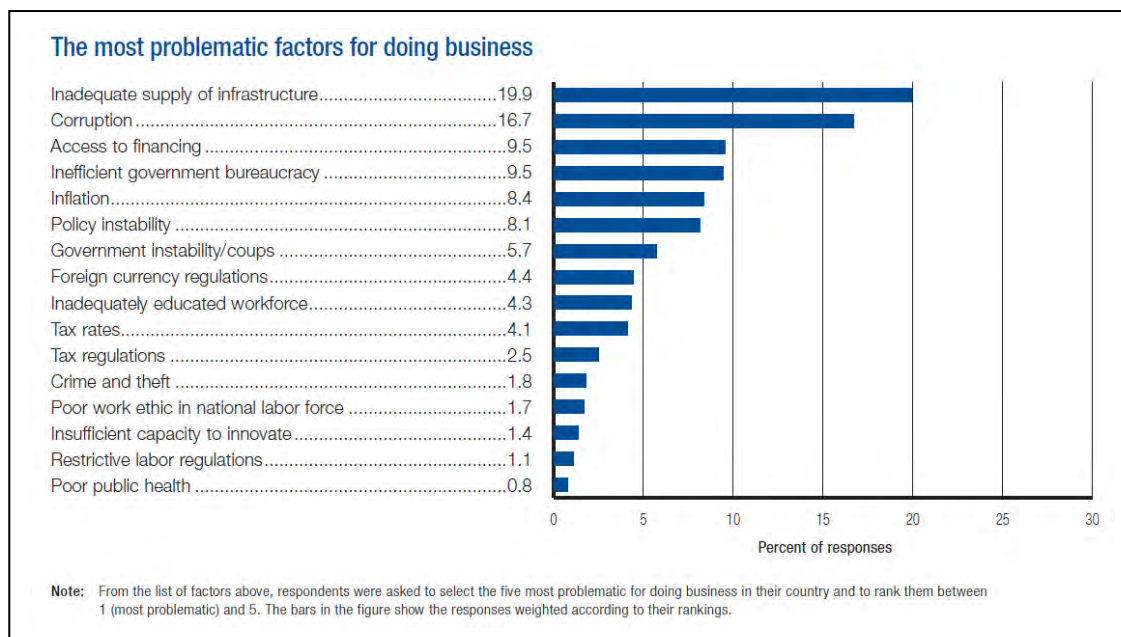
Table 2-6-7: The Evaluation of International Competitiveness of Bangladesh by the global Competitiveness Index



Sources : WEF-The Global Competitiveness 2012-2013

- (2) The response to the questionnaire regarding the most problematic issues for doing business in their country is as follows: (from high rank to low rank)
- a. Inadequate development of infrastructure
 - b. Corruption
 - c. Access to financing
 - d. Inefficient government bureaucracy
 - e. Inflation
 - f. Policy instability
 - g. Government instability / coups
 - h. Foreign currency regulation
 - i. Inadequately educated workforce
 - j. Tax rates
 - k. Tax regulations
 - l. Others

Table 2-6-8: The most problematic factors for doing business



Sources: World Economic Forum – The Global Competitiveness 2012–2013

Table 2-6-9: The detailed evaluation by the global Competitiveness Index

The Global Competitiveness Index in detail			The Global Competitiveness Index in detail		
INDICATOR	VALUE	RANK/144	INDICATOR	VALUE	RANK/144
1st pillar: Institutions			6th pillar: Goods market efficiency		
1.01 Property rights	3.6	104	6.01 Intensity of local competition	4.7	80
1.02 Intellectual property protection	2.4	131	6.02 Extent of market dominance	3.2	120
1.03 Diversion of public funds	2.6	107	6.03 Effectiveness of anti-monopoly policy	3.5	111
1.04 Public trust in politicians	1.9	124	6.04 Extent and effect of taxation	4.0	32
1.05 Irregular payments and bribes	2.2	144	6.05 Total tax rate, % profits*	35.0	56
1.06 Judicial independence	2.8	104	6.06 No. procedures to start a business*	7	74
1.07 Favoritism in decisions of government officials	2.2	135	6.07 No. days to start a business*	19	80
1.08 Wastefulness of government spending	3.2	71	6.08 Agricultural policy costs	4.6	16
1.09 Burden of government regulation	3.2	85	6.09 Prevalence of trade barriers	4.2	81
1.10 Efficiency of legal framework in settling disputes	3.3	101	6.10 Trade tariffs, % duty*	13.1	129
1.11 Efficiency of legal framework in challenging regs.	3.6	71	6.11 Prevalence of foreign ownership	4.0	117
1.12 Transparency of government policymaking	3.9	101	6.12 Business impact of rules on FDI	5.2	26
1.13 Gov't services for improved business performance	2.9	120	6.13 Burden of customs procedures	3.2	124
1.14 Business costs of terrorism	5.1	103	6.14 Imports as a percentage of GDP*	30.3	119
1.15 Efficacy of corporate boards	4.3	97	6.15 Degree of customer orientation	4.3	99
1.16 Organized crime	4.5	106	6.16 Buyer sophistication	3.1	94
1.17 Reliability of police services	3.0	126			
1.18 Ethical behavior of firms	2.9	139	7th pillar: Labor market efficiency		
1.19 Strength of auditing and reporting standards	3.7	127	7.01 Cooperation in labor-employer relations	4.2	84
1.20 Efficacy of corporate boards	4.0	116	7.02 Flexibility of wage determination	4.8	85
1.21 Protection of minority shareholders' interests	3.2	131	7.03 Hiring and firing practices	4.7	20
1.22 Strength of investor protection, 0-10 (best)*	6.7	24	7.04 Redundancy costs, weeks of salary*	31	120
			7.05 Pay and productivity	3.5	105
2nd pillar: Infrastructure			7.06 Reliance on professional management	3.5	118
2.01 Quality of overall infrastructure	2.8	131	7.07 Brain drain	2.8	113
2.02 Quality of roads	2.8	113	7.08 Women in labor force, ratio to men*	0.69	98
2.03 Quality of railroad infrastructure	2.5	73			
2.04 Quality of port infrastructure	3.3	121	8th pillar: Financial market development		
2.05 Quality of air transport infrastructure	3.5	120	8.01 Availability of financial services	4.0	98
2.06 Available airline seat kms/week, millions*	205.6	63	8.02 Affordability of financial services	3.7	102
2.07 Quality of electricity supply	1.8	136	8.03 Financing through local equity market	4.0	42
2.08 Mobile telephone subscriptions/100 pop.*	56.5	125	8.04 Ease of access to loans	2.4	98
2.09 Fixed telephone lines/100 pop.*	1.1	127	8.05 Venture capital availability	2.0	122
			8.06 Soundness of banks	4.6	93
3rd pillar: Macroeconomic environment			8.07 Regulation of securities exchanges	3.0	130
3.01 Government budget balance, % GDP*	-4.1	92	8.08 Legal rights index, 0-10 (best)*	7	43
3.02 Gross national savings, % GDP*	26.7	36			
3.03 Inflation, annual % change*	10.7	120	9th pillar: Technological readiness		
3.04 General government debt, % GDP*	42.9	80	9.01 Availability of latest technologies	4.4	105
3.05 Country credit rating, 0-100 (best)*	29.8	105	9.02 Firm-level technology absorption	4.2	111
			9.03 FDI and technology transfer	4.0	111
4th pillar: Health and primary education			9.04 Individuals using Internet, %*	5.0	126
4.01 Business impact of malaria	5.5	93	9.05 Broadband Internet subscriptions/100 pop.*	0.0	128
4.02 Malaria cases/100,000 pop.*	619.9	109	9.06 Int'l Internet bandwidth, kb/s per user*	2.9	117
4.03 Business impact of tuberculosis	5.3	74	9.07 Mobile broadband subscriptions/100 pop.*	0.0	128
4.04 Tuberculosis cases/100,000 pop.*	225.0	120			
4.05 Business impact of HIV/AIDS	5.6	50	10th pillar: Market size		
4.06 HIV prevalence, % adult pop.*	0.1	12	10.01 Domestic market size index, 1-7 (best)*	4.3	39
4.07 Infant mortality, deaths/1,000 live births*	38.0	105	10.02 Foreign market size index, 1-7 (best)*	4.5	63
4.08 Life expectancy, years*	68.6	101			
4.09 Quality of primary education	2.8	122	11th pillar: Business sophistication		
4.10 Primary education enrollment, net %*	92.2	82	11.01 Local supplier quantity	4.6	77
			11.02 Local supplier quality	4.3	81
5th pillar: Higher education and training			11.03 State of cluster development	3.9	57
5.01 Secondary education enrollment, gross %*	51.4	116	11.04 Nature of competitive advantage	2.5	138
5.02 Tertiary education enrollment, gross %*	10.6	109	11.05 Value chain breadth	3.3	93
5.03 Quality of the educational system	3.2	97	11.06 Control of international distribution	3.8	99
5.04 Quality of math and science education	3.2	113	11.07 Production process sophistication	2.9	119
5.05 Quality of management schools	3.9	91	11.08 Extent of marketing	3.8	119
5.06 Internet access in schools	2.6	122	11.09 Willingness to delegate authority	2.8	138
5.07 Availability of research and training services	2.8	137			
5.08 Extent of staff training	3.0	136	12th pillar: Innovation		
			12.01 Capacity for innovation	2.4	131
			12.02 Quality of scientific research institutions	2.5	127
			12.03 Company spending on R&D	2.4	130
			12.04 University-industry collaboration in R&D	2.6	131
			12.05 Gov't procurement of advanced tech products	2.6	134
			12.06 Availability of scientists and engineers	3.8	81
			12.07 PCT patents, applications/million pop.*	0.0	115

Notes: Values are on a 1-to-7 scale unless otherwise annotated with an asterisk (*). For further details and explanation, please refer to the section "How to Read the Country/Economy Profiles" on page 83.

Sources: World Economic Forum – The Global Competitiveness 2012–2013

(3) Factors which improve the international competitiveness of Bangladesh

The factors which improve competitiveness and become potential growth factors are as follows:

- a. Institutions : Strength of investor protection (Ranked at 20th, Score 6.7/best 10)
- b. Macroeconomic environment : Gross national savings (Ranked at 36th, 26.7%)
- c. Health and primary education : Business impact on HIV/AIDS (Ranked at 50th, 5.6), HIV prevalence, % adult pop. (Ranked at 12th, 0.1%)
- d. Goods market efficiency : Extent and effect of taxation (Ranked at 32nd, 4.0) , Agricultural policy costs (Ranked at 16th, 4.6), Business impact of rules on FDI (Ranked at 26th, 5.2)
- e. Labor market efficiency: Hiring and firing practices (Ranked at 10th, 4.7)
- f. Financial market development : Financing through local equity market (Ranked at 22nd, 4.0), Legal rights (Ranked at 43rd, 7.0/Max 10)
- g. Market size : Domestic market (Ranked at 39th, 4.3/Max7)

The following issues shall be discussed and considered:

- How to utilize gross national savings for investment?
- How to utilize advantage of considerably bigger domestic and foreign markets in order to strengthen industrial competitiveness and develop the industry?

2.7.2 International Competitiveness in basic cost of the industry and industrial infrastructure

Bangladesh is compared with Thailand, Malaysia, Cambodia and Myanmar of ASEAN with regard to International Competitiveness in respect of basic cost of the industry and industrial infrastructure.

(1) Competitiveness in basic cost of the industry

As to the competitiveness in the basic cost of the industry, personal expenses/wages, land and office expenses (purchase /rent), and utilities (electricity, water supply, gas) were evaluated in comparison with ASEAN countries. Details are shown in Table 2-6-10: Competitiveness in basic cost of the industry in comparison with ASEAN.

1) Personal Expenses / Wages & Salaries

Personal expenses / wages & salaries of local employees at the firms owned by Japanese entities located in Bangladesh and ASEAN were compared.

- a. In Bangladesh, the monthly wages (average) payable to workers are US\$78 which is approximately 27% of monthly wages US\$286 payable to workers in Japanese owned factories in Thailand. This is almost the similar level as the monthly wage of US\$82 payable to factory workers in Cambodia and higher than the monthly

wage of US\$68 payable to factory workers in Myanmar.

- b. The annual personnel expense per head born by the company is US\$1,438 in Bangladesh, which is approximately 25% of US\$5,662 in Thailand, being the same level of US\$1,438 in Cambodia and higher than US\$1,137 in Myanmar.
- c. In Bangladesh, monthly wages and annual personnel expenses of engineers are US\$251 and US\$4,721 respectively, which are higher than the wage of US\$204 and personnel expenses of US\$3,000 in Cambodia, and wage of US\$176 and personnel expenses of US\$2,623 in Myanmar.
- d. In Bangladesh the monthly wage and annual personnel expense of management are US\$578 and US\$9,843 respectively, which is lower than the wage of US\$663 and annual personnel expenses of US\$10,450 in Cambodia. The monthly wage of a manager in Bangladesh is the same level as the wage of US\$578 in Myanmar but the annual personnel expense of managers is higher than the personnel expenses of US\$8,449 in Myanmar.
- e. Generally speaking, bonuses and social welfare fees borne by the company are higher in Bangladesh in comparison with the basic wages and total costs borne by other companies in ASEAN.

2) Land Price • Rental fee and utility costs

- a. The purchasing price of land in real estate in Bangladesh is much higher than that of other ASEAN countries. A subsidiary company of 100 % foreign capital incorporated in Bangladesh is able to purchase land in Bangladesh. Foreign investors cannot purchase land in any form in Cambodia and Myanmar.
- b. The rental fee of the land at EPZ in Bangladesh is almost the same level as the rental fee of the land in Cambodia and Myanmar.
- c. All the utility costs (including electricity, water supply and gas) in Bangladesh are cheaper than those in all other ASEAN countries.

Table 2-6-10: Competitiveness in basic cost of the industry in comparison with ASEAN

Basic and common costs in the industry (Exchange rate US\$1=)	Bangladesh	Thailand	Malaysia	Cambodia	Myanmar
	(Dhaka)	(Bangkok)	(Kuala Lumpur)	(Phnom Penh)	(Yangon)
	82.325 Taka	31.637 Baht	31.505 Ringgit	4.039 Riel	805 Kyat
Wage (Manufacturing)	(US\$)	(US\$)	(US\$)	(US\$)	(US\$)
1. Worker					
① Basic Wage/Month	78	286	344	82	68
② Annual personnel expense *	1,438	5,662	6,340	1,438	1,137
2. Engineer					
① Basic Wage/Month	251	641	973	204	176
② Annual personnel expense	4,721	11,464	16,092	3,000	2,623
3. Manager					
① Basic Wage/Month	578	1,565	1,926	663	577
② Annual personnel expense	9,843	26,580	30,990	10,450	8,449
4. Legal minimum wage	Apprentice 39~41 Skilled worker 109	300 Baht	n.a.	55 (+ allowance 10)	n.a.
5. Bonus (Basic Wage x Month)	2	3	2	1	2
6. Social welfare					
① Employer	7%~8%	0	0	0	1.63%~3.3%
② Employee	7%~8%	0	0		1.0%~2.0%
7. Nominal wage rise					
Year 2010	10.70%	6.50%	a. 5.68%, b. 5.28%	n.a.	
Year 2011			a. 6.45%, b. 5.37%		
			a. Manager b. Non manager		
Land cost/office rent					
1. Land price of industrial estate (per M ²)	1,089~1,270 (Dhaka city) 636~872 (Outskirt of Dhaka)	119 (Amata Nakorn Industrial Estate)	20~25 (Selangor)	Land purchase by 100% foreign investment is not accepted.	Land purchase by foreigner or foreign enterprise is not accepted
2. Rent of industrial estate (per M ²)	0.10~0.18 (EPZ)	6.95	n.a.	0.091	0.15~0.255
3. Office rent (per M ²)	5.24~28.76 (Central district in Dhaka)	20	19~27	12~22	45 (Down town) 1.86~3.11
Utilities					
Electricity Industrial					
① Monthly basic fare	7.29	9.86	190	None	None
② per 1KW	0.05~0.09	0.14	0.09	0.216	0.12
Water supply Industrial					
① Monthly basic fare	None	2.84		0.37	None
② Per M ³	0.31	0.30~0.51		0.235~0.359	0.88
Gas supply Industrial					
① Monthly basic fare	None	None	11.43	None	None
② Per M ³	0.03~0.12	4.36	0.66~0.72	1.33	7.74/ImmBtu

* Annual personnel expenses borne by the company

Source: JICA Report on Preparatory Study of Private Sector Development Program in Bangladesh (Industrial Development, Trade and Investment Promotion) 2012

(2) Competitiveness of Industrial Infrastructure (Business environment)

Status of Bangladesh competitiveness is shown in Table 2-6-11: Competitiveness of Industrial Infrastructure (Business environment) in comparison with ASEAN

1) Labor force / Labor environment

There are abundant labor populations in Bangladesh and supply of the labor force is stable.

2) Electricity

In Bangladesh, Cambodia and Myanmar, electric supply cannot meet with the increasing

electric demands, due to rapid economic growth and capacity of electricity supply is limited.

Table 2-6-11: Competitiveness of Industrial Infrastructure (Business environment) in comparison with ASEAN

Infrastructure (Industry)	Bangladesh (Dhaka)	Thailand (Bangkok)	Malaysia (Kuala Lumpur)	Cambodia (Phnom Penh)	Myanmar (Yangon)
Labor force/ Environment	Labor force is supplied stably. But it is difficult to employ good managers. Skilled worker is in shortage. Major labor force is concentrated in Ready Made Garment Industry(3 million) Overseas Bangladesh and workers (7 million)	Unemployment rate is less than 1 % as of Oct., 2011. Close to full employment and shortage in labor force. Employment control to foreign labor was strengthened.	Unemployment rate in 2011 was 3.1%, being the lowest level since 2,000. Employment control to foreign labor was strengthened. Unskilled labor force is in heavy short. Wage raise is gradual.	Population under 20 years old occupies 46 % of total population. Young population. There is a potential labor force in rural areas but skilled laborers are in short.	Wages in Myanmar are the lowest in ASEAN. There is an abundant labor force in rural areas. But the population is near the factories or in urban areas sometimes makes it hard to employ workers sufficiently
Electricity					
① Electricity supply	Shortage of electricity Depend on natural gas	Depend on natural gas (72% in year 2010)	Depend on natural gas	Shortage of electricity Depend on the import (61.5% of consumption). 91% of electric power is generated by small diesel generators by independent electric producers.	Shortage of electricity Depend on hydro electric power (shortage of electricity in dry season)
② Fuel for electricity					
Tax system (%)					
① Corporate tax (effective tax rate)	(Listed company) 27.5 (Unlisted company) 37.5	30	25	20 (Company incorporated under FDI law)	30
② Personal Income tax (In case of progressive tax, the maximum rate is indicated)	25	37	26	20	30
③ Withholding tax					
Dividend	20	10	0	14	
Interest	10	15	10	6	15
Royalty (Copy right, Patent)	10	15	10	14	15
④ VAT	15.0	7.0	10.0	10.0	
⑤ Tariff (Average) WTO MFN average, 2010	14.7	9.9	6.9	14.2	17.6
⑥ Other Import Duty	VAT, Advance income duty	VAT	VAT	VAT, special tax	VAT
Financing					
① Loan from domestic banks	(a)Except EPZ: Able to borrow loans in Taka. Maximum is 50% of total of paid-up capital and reserve. (b)EPZ: Unable to borrow loans in Taka	Domestic loan (Baht) interest rate is 6%~7%. Restriction on large lot loans. Loans to excessive debt company is not permitted. (Central Bank rules)	Domestic loan (Ringit) interest rate is 6%~7%. There are restrictions on large lot loans.	It is comparatively difficult to receive loans without mortgage collateral. In general, the loan period is short and interest rates are high.	Mortgage collateral is requested when a foreign company borrows loans. In case of a JV partner being a state owned company, special corporate law is applicable and it is able to borrow local currency from the state bank.
② Loan from overseas banks	When Bangladesh companies borrow from overseas banks, it shall apply to the BOI. Max. loan period is 5 years.	It is able to be financed from overseas freely. (including loans from foreign parent companies)	It is able to be financed by overseas parent companies. (Mainly via Japanese based banks in Malaysia)	There is no restriction on loan from overseas. Loans from overseas parent companies are generally prevailing.	
Clearance and collection of bills		Check payment is most popular	Remittance, check, draft. Electric remittance is available.		

Source: JICA Report on Preparatory Study of Private Sector Development Program in Bangladesh (Industrial Development, Trade and Investment Promotion) 2012

3) Tax system

- a. The corporate tax in Bangladesh is 27.5% for public listed companies and 37.5% for unlisted company. The tariff of taxation in Bangladesh falls in the almost same zone as 30% in Thailand, 25% in Malaysia and 30% of Myanmar but higher than

20% of Cambodia.

- b. Personal income tax rate in Bangladesh is 25% which is lower than 37% in Thailand and 30% in Myanmar, being almost the same as 26% in Malaysia but higher than the 20% in Cambodia
- c. Withholding tax on dividends in Bangladesh is 20%, which is higher than the withholding tax in ASEAN countries.
- d. The rate of VAT in Bangladesh is 15%, being higher than 10% in Thailand and 14% in Cambodia.
- e. The average tariff rate on imports to Bangladesh is 14.7% which is higher than 9.9% in Thailand, 6.9% in Malaysia but is almost equivalent to 14.2% in Cambodia, being lower than 17.6% in Myanmar.

4) Financing

- a. In Bangladesh there are some restrictions on loans from domestic banks, but there is no restriction in Thailand and Malaysia for applying loans except for large-sized loans.
- b. In Bangladesh, it is necessary to apply to the BOI and obtain approval for cases in which a company incorporated in Bangladesh will obtain a loan from overseas financial institutions. In Thailand and Malaysia, any company can freely obtain a loan from overseas financial institutions.

2.7.3 Competitiveness in FDI Policy and Institutions

FDI Policy is an indispensable factor for developing industries in developing countries. The relative merit of FDI policy causes a big impact on the competitiveness of the industry. The Business Impact of rules on the FDI Index of “The Global Competitiveness of WEF” shows that Bangladesh ranked at 26th with score of 5.2, which means the competitiveness of Bangladesh is comparatively high.

Table 2-6-12: Business Impact of Rules on FDI

Rank 1 - 144	Country	Score(Value)		Area
		1 – 7 Max	Means 4.5	
2	Singapore	6.3		ASEAN
10	Malaysia	5.5		ASEAN
20	Thailand	5.3		ASEAN
26	Bangladesh	5.2		South Asia
35	Sri Lanka	5.1		South Asia
38	Cambodia	5.0		ASEAN
52	Brunei	4.8		ASEAN
62	India	4.7		South Asia
69	Philippines	4.6		ASEAN
78	Indonesia	4.6		ASEAN
94	Vietnam	4.4		ASEAN
95	Pakistan	4.4		South Asia

Source: Prepared by JICA Survey team based on 6.12 Business impact of rules on FDI of World Economic Forum – The Global Competitiveness 2012–2013

(1) Competitiveness on FDI Policy – Comparison with Thailand and Malaysia

1) Investment Promotion Organization:

- a. In Bangladesh, the BOI is the supervisory authority to give approvals to investments in all kinds of industries. The BOI promotes a One-Stop-Service but in reality, the investors shall visit relevant government offices to take various procedures on various applications.
- b. In Thailand, the Thailand Board of Investment is the supervisory authority to give approvals to investment in the manufacturing industry, and the Ministry of Commerce is the supervisory authority to give approvals of investment in the wholesale, retail and transport industry.
- c. In Malaysia, the Malaysia Industrial Development Authority (MIDA) is the supervisory authority to give approval to the investment in manufacturing as a window organization, providing a One-Stop-Service in the MIDA office. The Ministry of Domestic Trade, Cooperative and Consumerism (MDTCC) is also the supervisory authority in the wholesale, retail and transport industry.

2) Regulatory Industry

- a. In Bangladesh, the regulatory industry for FDI is the industry of resource, infrastructure and communication & transport. In principle, 100% of foreign ownership (except shipping and distribution) is acceptable.

- b. In Thailand, there are many regulatory industries for FDI but more than a 50% share by foreign investors is acceptable in principle. The manufacturing industry is not regulatory and 100% foreign ownership is acceptable.
 - c. In Malaysia, 100% foreign ownership in the manufacturing industry except the automobile industry is acceptable.
- 3) Land ownership by foreign investors
- a. In Bangladesh, a locally incorporated company of a foreign investor can purchase land outside EPZ. In EPZ foreign investor leases the land but cannot purchase the land.
 - b. In Thailand, a company incorporated by more than 50% of foreign ownership is not approved to purchase land. As an exception, BOI approved companies and IEAT approved companies can purchase and own land irrespective of the share of foreign ownership in the industrial park.
 - c. In Malaysia, foreigners and foreign companies can acquire land except for small size residences. However manufacturing companies usually reside in industrial parks. Most developers of industrial parks are either government organization or local developers, while participation by foreign developers is restricted.
 - d. In Bangladesh, foreign investors can purchase general land (not for industrial use) and locally incorporated companies of foreign ownership can use the land for industrial use. Easing regulation is more advanced in Bangladesh than in Thailand and Malaysia. This is favorable for foreign investors but in the future it may or may not cause some inconvenience if it is considered that there is limited economically available land in the narrow parts of the Country.
- 4) Incentives for FDI (Preferential Treatment for FDI)
- a. The industry for FDI incentives: In Bangladesh, the industry for FDI incentives are described as a rule of thumb. In Thailand and Malaysia they are strategically decided in detail and the target industries for FDI promotion are very clear.
 - b. Corporate tax exemption / Tax holidays: It is not easy to clarify which country has a more advantageous tax system from the viewpoint of investors. In Thailand, BOI decides the taxation tariff for each individual industry under its rules strategically and flexibly which may be the strength but may cause opacity in the process.

Table 2-6-13: FDI Policy – Comparison with Thailand and Malaysia

FDI Policy/ Institution	Bangladesh	Thailand	Malaysia
Investment Promotion Organization	Bangladesh Board of Investment(BOI), Bangladesh Export Processing Zone Authority(BEPZA)	Board of Investment(BOI), Industrial Estate Authority of Thailand (IEAT),	Ministry of Trade and Industry, Malaysia industrial Development Authority(MIDA), Multimedia Development Corporation, Invest KL.
① Industry FDI is prohibited	Arms and ammunitions and other military equipments and machinery, Nuclear power, Security printing and minting, Forestation and mechanized extraction within the boundary of reserved forest	Newspaper, Radio & TV Broadcasting, Agriculture/fruit farm, livestock, forestry/ wood processing, fishery, medical plant extract, antiques (sales, auction), production of buddist altar & monk pot, real estate trading	
② Industry FDI is regulated	Fishing in the deep sea, Bank/financial institution, Insurance Company, Generation, supply and distribution of power, Exploration, extraction and supply of natural gas/oil, Exploration, extraction and supply of coal, Exploration, extraction and supply of other mineral resources, Large-scale infrastructure project (e.g. fly over, elevated expressway, monorail, economic zone, inland container depot /container freight station), Crude oil refinery, Medium and large industry using natural gas/condensate and other minerals as raw material, Telecommunication Service, Satellite channel, Cargo/passenger aviator, Sea bound ship transport, Sea-port/deep sea-port, VOIP/IP telephone, Industries using heavy minerals accumulated from sea beach	Weapons, fighting ships, airplane and vehicles, domestic land, sea and air transport, sales of antique and fold handicraft, manufacturing wooden sculpture, raising silkworms, manufacturing Thailand music instruments, gold and silver products, lacquer ware, tableware belonging to Thailand culture and art, sugar manufacture, mining, wood processing such as furniture, rice milling, flour milling, fishery, planting trees, manufacturing veneer and chipboard, producing coals, Service such as accounting, law, building design, and engineering, construction, agency and intermediate, auction, domestic trading of domestic agricultural products, retails & wholesale under certain size, advertising, hotel, tourism, sightseeing, cultivating plant trees, breeding	In general, the Malaysian government regulates foreign ownership up to 30% regarding the business relating to national interest, viz., water, energy, electricity supply, broadcasting, defense and security.
③ Share ratio of foreign investors	100% foreign equity may be allowed in all areas of investment. However, Private investment (local as well as foreign) is restricted in four sectors on strategic grounds as mentioned in the Industrial Policy-2010.	Company of exceeding 50% foreign investment is prohibited in investing in the 43 industries mentioned above (prohibited industry and regulated industry) with some exceptions.	In principle, ratio of FDI to the private sector is subject to the conditions of investment imposed on the license and/or approval by government offices. In the manufacturing, distribution and service industry, with some exception, 100% foreign ownership is approved.
④ Land ownership by foreign investor	a)Export processing zones (EPZ): The land in the EPZ enclaves is allotted by the EPZ authority. (30 years long term lease) b) Private lands : The private lands can be scouted by the investors himself/herself. A locally incorporated company of foreign ownership can own land in its name.	In principle, foreigners (including foreign companies) are not allowed to acquire land. However a BOI promoted company and IEAT approved company can acquire land irrespective of the share ratio of foreign investors. Further, according to the land law revised in May, 1999, those who satisfy the conditions of more 40 million baht, can purchase residential land of less than 1,600 M2.	In principle, the ratio of FDI to the private sector is subject to the conditions of investment imposed on the license and/or approval by government offices. In the manufacturing, distribution and service industry, with some exception, 100% foreign ownership is approved. In Malaysia, state governments have jurisdiction on the land. The investor shall register the land upon approval of state government in order to be the land owner. In case that the land is for commerce, manufacturing or agriculture, the investor shall establish and register the locally incorporated company.
⑤ Capital regulated	In principle, there is no restriction minimum or paid up capital except in the financial sector.	Minimum capital of 2 million baht is required in foreign companies. But a minimum capital of 3 million baht is required for the industries that must obtain special approval under restrictions by law as per foreign business law. No minimum capital is not applied to Thai companies (majority of shares are owned by Thai company)	Minimum paid up capital is fixed in accordance with the business contents and required approval. The minimum paid up capital is RM 2.5 million for approved license manufacturing and RM 1 million for distribution and service trade.
⑥ Others	Company in financial sector is required for special approval by government. There is no restriction on domestic production ratio, local contents or obligation to export in manufacturing industry.	Before, local contents ratio had been applied to automobile, autobicycle, diesel engine for small truck and dairy products, they except dairy are now removed due to the abolishment of TRIM by WTO.	Industrial Coordination Act, 1975 (ICA), Competition Act 2010. ICA regulates that manufacturing company with paid up capital of exceeding RM 2.5 million or with the employees of more than 75 have duty to apply for manufacturing license. The application for manufacturing license will be submitted to MIDA.

Source: JICA Report on Preparatory Study of Private Sector Development Program in Bangladesh (Industrial Development, Trade and Investment Promotion) 2012

Table 2-6-14: FDI Incentives and Preferential Treatment

	Bangladesh	Thailand	Malaysia	Cambodia	Myanmar
Incentive and industry to Foreign Direct Investment	Export oriented industry, High-tech Industry, Industry making use of natural resources, The industry depending upon Domestic material and resources	Agriculture and agricultural products, mining, Ceramics, Materials, Light Engineering Industry, Metal products, Machinery, Transport machinery, Electronic device/ Electric parts, Chemical, Paper, Prastics, Service and Community facilities	Manufacturing, Agriculture, Sightseeing Industry, Hotel Industry, Specific industry, R&D Institute, Job Training, International Procurement Center, Regional Distribution Center, Reginal HQ, Multimedia Business and etc.	Qualified Investment Project (QIP)	Export expansion, Natural Resource Development accompanied by large scale FDI, Transfer of High-tec Technology, Production of goods and services requiring a lot of capital, Increase of employment opportunity, Saving energy consumption, Rural area development
Preferential treatment for investment (Tax holiday)	Depending upon the area the nominated industry is invested and depending upon the category of the industry, conditions of corporate tax exemption may be varied. In case of traditional industry: holiday tax period is applicable for 5 -7 years. Tax reduction 100%~25%. New industry : Period 5-7 years, Tax reduction 95%~85%	BOI judges to exempt corporate tax from the company with the incentives for 3-8 years. If lost has occurred during exemption period, the the lost amount will be deducted from net profit within 5 years period.	In case of the enterprise of which pioneer status is certified, 70 % of corporate tax is exempted for 5 years.	In case of tax Holiday (exemption of Corporate tax,) (Selection) : (Trigger period) 3 years + Priority Period) will be changed.	In case of the company under the FDI Law, corporate tax is exempted for 3 years from the day commencing production and/or service
Other preferential treatment	Rapid amortization is applicable. 1 year 50% 2 year 30%, 3 year 20% As to 80 - 100% export oriented industry, 1% Taxes on machinery is applicable. There is refund imported duty.	Depending on project, import duty on equipment, parts & materials shall be exempted.	In case of the enterprise to which Investment Tax Allowance (ITA) is approved instead of Pioneer Status, 60 % of expenses for capital outlay for 5 years since the accrual of such outlay.	Special depreciation (Selective) : In case of new or used tangible fixed assets, 40 % of the value can be depreciated specially.	Rapid amortization for equipment, machinery and other tangible fixed assets. The losses can be carried forward for 3 years. Tax reduction is applicable to machine-equipment, parts, spare parts and raw materials during the start-up period and for 3 years after start-up.

Source: JICA Report on Preparatory Study of Private Sector Development Program in Bangladesh (Industrial Development, Trade and Investment Promotion) 2012

(2) Competitiveness in SEZ/Industrial Park

The status-quo of EPZ, Economic Zones and Industrial Parks in Bangladesh, Thailand and Malaysia are shown in Table 2-6-15: Competitiveness of SEZ / Industrial Park – Comparison with Thailand and Malaysia. There are 3 types of FDI fit for the purpose: (A) export oriented, (B) domestic market oriented, and (C) the combination of (A) and (B). In case of (A) and (C), the investors prefer to place the factory site in EPZ, Economic Zone and/or Industrial Park which provides convenient services and incentive / facilities.

1) Availability of Industrial Park

- a. In Bangladesh, only EPZ is the Industrial Park in which FDI is available at present. There are 8 EPZ nationwide. Space of each EPZ is 90 – 186 hectares, totaling to 1,039

hectares (2,572 acres). This is a comparatively small size in comparison with other countries. There are no plots available in EPZ except for 3 EPZ that are located in remote places far from the Chittagong International Sea Port, being inconvenient for business.

- b. In Thailand, there are more than 60 industrial parks. Each industrial park has a large space of 155 hectares – 3,062 hectares. There is a lot of land available except in the suburban areas of Bangkok. Rental factories with the size of 400 m² – 1,000 m² are under construction, as there are strong needs for rental factories. Laem Chabang industrial park (569 hectares) is located 1 km distance from the Laem Chabang International Port, the deep sea port. There are located many industrial parks at 30 km – 100 km distance from the port. The industrial parks in Ayutthaya Province were heavily damaged by the river floods in the year 2011, showing the weakness of the place geographically.
- c. In Malaysia, there are more than 200 industrial parks and 18 FIZ (Free industrial Zone). They are various sizes from 34 hectares to 1,419 hectares. There are many cases in which a rental factory is furnished in the industrial park. Pasir Gudang industrial park in Johor Darul Takzim is located 56km from Tanjung Pelapas International Port, deep sea port, while Prai industrial park (934 hectares) in Penang is located adjacent to Penang International Sea Port. Other industrial parks are located adjacent to or between 20 km – 60 km from the sea port.

2) Bonded factory

- a. In Bangladesh, bonded factories are accepted and applied to only a part of industries and companies.
- b. In Malaysia, bonded factories are easily accepted and applied in the area where FIZ is not practical. Bonded factories are given the same benefit as factories located in FIZ.

3) Incentives for FDI

- a. Corporate Tax in Bangladesh is 32.5% (listed company 37.5%, unlisted company 27.5%) being high. Corporate Tax was exempted 100% for 10 years in the case that the company was established on and before 31st December, 2011. However, corporate Tax is exempted 100% for a maximum of 5 years in the case that the company was established after 1st January, 2012: 100% for the first 2 years, 50% for the second 2 years and 25% for the last 1 year. Duty free import of goods to be used for manufacturing export products is applied and Accelerated depreciation on machinery and plant is also applied.
- b. The corporate tax in Thailand is 23% in 2012 and 20% in 2013 being lower than that of Bangladesh. In the projects of designated industries, the corporate tax can be exempted for a maximum of 8 years by approval of the BOI. Depending on the location, industry and individual project, duty free capital investment goods and

materials is accepted.

Table 2-6-15: Competitiveness of SEZ / Industrial Park – Comparison with Thailand and Malaysia

Economic Zone, Industrial Park	Bangladesh	Thailand	Malaysia
1. Status quo	Export Processing Zone (EPZ) is stipulated by the Export Processing Zone Act, December, 1980. There are 8 EPZ in Bangladesh. There are no lots available in 5 EPZ near Dhaka, the capital and Chittagong, the 2nd large city. There are available lots in the Uttar EPZ, Ishwardi EPZ and Mongla EPZ. In accordance with the Private EPZ Law, established in September, 1996, a Korean company is now developing the Korean EPZ in Chittagong, promoting FDI. The government decided to set up the Economic Zone instead of EPZ, and the new development of which was stopped.	Thailand BOI makes much of the investment contributing to the following objectives: [1] promoting economic recovery through investment, [2] strengthening the international competitiveness of Thailand, [3] speeding up local development, [4] endeavors by industry to form the infrastructure of industrial linkage and to increase the international competitiveness of Thailand. The government also has the following policy: ① decentralization policy for local areas in order to develop local economy, ② promotion of the development of skills, technology and innovation, ③ the expected industry for sustainable development (energy conservation, alternative energy, environment friendliness type industries, high-tech industries and flood relief measures. There are more than 60 industrial estates/parks. In accordance with the Industrial Estate Authority Act, IEAT (Industrial Estate Authority Thailand) manages the Industrial Estate, while the Industrial Park and Industrial Land are developed and managed by the private sector. There are no available lots in Bangkok, Ayutthaya and Samut prakan but one is able to find available lots in areas remote from Bangkok. BOI promoted companies located in IETA approved industrial estate are able to acquire land.	As of January, 2011, there are more than 200 industrial estate/parks developed by the Malaysian government (Economic Development State Corporation, Regional Development Authority, Port Authority, Local Public Authority). There are also industrial parks managed by private developers. There are sufficient industrial parks. There are also Free Industrial Zones (FIZ) at 18 places. The import duties on imported raw materials, materials, component parts and machinery equipment required for production activities directly are exempted. The procedure for export is simplified. Furthermore, each factory can obtain a license for a bonded factory where there is no FIZ. Such a bonded factory can enjoy the same benefit as the factory located in FIZ. Thereby the company can select the location flexibly where there is FIZ or not. This is the characteristic of investment in Malaysia.
2. Investment, Procedure	① Decision on investment, obtaining trade license, opening bank account, registering the company (in BOI) ⇒ Apply to BEPZA	① Decision on investment, registration of locally incorporated company, reservation of lots, Application to BOI ⇒ ② Registration of VAT tax payer, concluding Land purchase agreement, permission of construction commencement, approval of using and/or owning land, registration of land certificate, granting numbers of working permit for foreigners, application for individual work permit ⇒ ③ starting construction and works, transfer of registration of company and VAT tax payer to factory ⇒ ④ construction confirmation, permission on starting operation ⇒ ⑤ stating commercial operation	① Establishing company, Registration of business, Environment Influence Assessment (EIA), evaluation of appropriate land location, granting manufacturing license, construction approval ⇒ ② construction plan, notify the date of commencing construction, temporary permission construction works, registration for electric engineer, approval of resident officer & work permit ⇒ ③ approval on the import of production facility and machinery, approval on factory designing ⇒ ④ approval of expansion of factory production capacity, burner reactor & burner facility approval ⇒ ⑤ getting license of commercial vehicle and port transport, and certificate of transporting dangerous cargoes.
3. Preferential Treatment	The corporate tax is exempted 100% for a maximum of 5 years in the case that the company was established after 1st January, 2012: 100% for the first 2 years, 50% for the second 2 years and 25% for the last 1 year.	Preferential treatment is ruled by industry and by area: First zone : 6 provinces in Bangkok capital	Free Industrial Zone (FIZ) is the area which is especially prepared for manufacturing companies, oriented for products whose main purpose is to be exported. In FIZ, exporting companies have benefits for simplified procedures to import raw material, and material component parts, and import duties are exempted. Furthermore, procedures to export products are also simplified. In the area where FIZ are not practical or it is not desirable, each company (factory) can obtain the license of a bonded factory (LMW). LMW can be given the same benefit as factories operated in FIZ. No export duty is imposed on the exported products from FIZ and LMW.

Source: JICA Report on Preparatory Study of Private Sector Development Program in Bangladesh (Industrial Development, Trade and Investment Promotion) 2012.

- c. Corporate tax in Malaysia is 25% and low. There is an alternative: Pioneer Status (70% of corporate tax is exempted for 5 years) or deduction of investment tax (60% of capital investment is deducted from tax on earnings for 5 years). In the factory in FIZ

and bonded factories, duty free on the imported materials and parts is applied.

- d. Preferential treatment in Bangladesh is across the board but in Thailand and Malaysia various treatments are applied to various industries, various areas and various projects, which are strategic treatments. As far as the export from Bangladesh is concerned, GSP is applied at the import country, which is a benefit for trading and exporting industries in Bangladesh.

Data Collection Survey on the Special Economic Zones in Bangladesh

Final Report

Chapter 3: Legal Systems and Structure for The development of SEZs and its Issues

Chapter 3: Legal systems and structure for the development of SEZ and its issue

In this chapter, first of all, the survey team verifies the background and the purpose in which the FDI policy of the Bangladesh government has changed from establishing EPZ to establishing SEZ linked with domestic industries. Secondly, the contents of the SEZ Act enforced in 2010 is checked and confirmed. BEZA (Bangladesh Economic Zone Authority) was established and responsible for the development of SEZ under the SEZ Act. The current status and issues of BEZA are analyzed accordingly. Further, the survey team makes study on the SEZ development model to which BEZA is oriented, and the team overviews the financing scheme in such a model, sorting out the issues in the SEZ development. As development of mass scale land is accompanied with SEZ development, it is necessary to consider the way of development in view of the “Environment and Social Consideration”. Therefore, the team made survey on the system/institute regarding environment and social consideration in Bangladesh. Subsequently, the team summarizes the issues on management and operation of SEZ as well as the issues on FDI promotion policy of Bangladesh government. Lastly, the team makes comparative analysis of SEZ development model of Bangladesh with ones of ASEAN countries, indicating the future direction for which SEZ in Bangladesh will go.

3.1 Background and objectives of legislating SEZ

3.1.1 Background of legislating SEZ

So far, Export Processing Zones (EPZ) have taken an important role in promoting FDI to Bangladesh, developing the export industry and increasing exports in Bangladesh. However, there are the limitation and issues in the role of EPZ. Behind the enactment of Bangladesh Economic Zones Act 2010, there are following circumstances:

- a. The Bangladesh Export Processing Zones Authority (BEPZA) is an organization of the Prime Minister Office (PMO) in the Bangladesh government. BEPZA has developed, established, managed and operated EPZ. The Bangladesh government has provided the land, finance and human resources of the government for the development of EPZs accordingly. However, in 5 EPZs out of 8 EPZs, plots have almost been sold out and there is no vacancy. Other 3 EPZs, namely Mongla EPZ¹, Ishwardi EPZ and Uttara EPZ are less developed and there is a lot of vacancy. The reason is because those 3 EPZs are located far from international sea ports (Port of Chittagong) and Dhaka. As the road traffic conditions are so poor, it takes a long time for transportation to/from EPZ. It causes long lead time, inconvenience and inefficiency in respect of factory

¹ Recently it was reported that a Japanese automobile parts manufacturer (wire harness) had determined investment in the Mongla EPZ. In a neighboring area, there is a SEZ site candidate approved by BEZA.

location and global supply chain for export oriented industries. Besides, in the neighborhood of 3 EPZs there is no amenity and circumstances where foreign business persons can live as comfortably as in Dhaka. It is impossible to go to the EPZ for working every day. Khulna Division (Mongla) and Rangpur Division (Uttara) are less developed areas socially. The government aims at the development of the economy to close the gap with other areas. However establishment of EPZs in those area has not contributed to the development of industry and the increase of employment as government expected.

- b. EPZ and the export oriented industries (industrial unit) invested and established in EPZ have contributed to the growth of GDP and increase of exports in Bangladesh. But most of the industries are labor incentive industries which import raw materials and parts and process them to products by using cheap labor force. The Bangladesh government considers that the export oriented industries in EPZ do not have backward/forward linkage with domestic industries outside EPZ and that there is less impact on the development of domestic industries and technical transfer from foreign based industries to domestic industries.
- c. The Bangladesh government has financial constraints, being short of investment funds on the development of new industrial parks. How to utilize funds and know-how of the private sector is an issue to the government.

3.1.2 Objectives of legislating SEZ

Based on the above backgrounds, the Bangladesh government reports that the purposes of developing SEZ, a new concept of industrial park, in Bangladesh are as follows:

The government has financial constraints, placing emphasis on the development of SEZ to be invested, developed, managed and operated by the private sector rather than the development of SEZ by government funds. Thus the government can make use of dynamism, fund and manageability owned and provided by the private sector.

SEZ is divided to Export Processing Area (bonded area), Domestic Processing Area, Commercial Area and Non-processing Area. Export oriented industries in Export Processing Area is in linkage with Domestic market oriented industries, the development of which will be aimed at. Further, the government intends to increase employment, upgrade and diversify industry through FDI and technical transfer.

The government aspires for the development of industries in the underdeveloped region such as Khulna Division, Rangpur Division and Rajshahi Division, narrowing the regional gap for the balanced growth of the economy across the country.

The government desires to make SEZs the core industrial center for the development of industrial cluster and regional development

3.2 Act, Regulations and Rules for the development of SEZ and its issues

3.2.1 Bangladesh Economic Zones Act. 2010

Name of the law: Bangladesh Economic Zones Act, 2010. Act No. 42 of 2010 1st August 2010 (hereinafter abbreviated as “SEZ Act”)

(1) Key points of the SEZ Act

Key points of the SEZ Act include the objectives of SEZ, category and areas of SEZ, incentives and benefits, the works, duties and functions of BEZA, and members and functions of both the Governing board and the Executive board etc.

Beginning parts:

WHEREAS it is expedient and necessary to make provisions for the establishment of economic zones in all potential areas including backward and undeveloped regions and development, operation, management and control thereof including the matters ancillary thereof with a view to encouraging rapid economic development through increase and diversification of industry, employment, production and export.

- 1: Short title and commencement : (1) Bangladesh Economic Zones Act, 2010. (2) It shall come into force at once.
- 3: Act to override other laws. - Notwithstanding anything contained in any other law for the time being in force, the provisions of this act shall prevail.
- 4: Establishment of economic zones. - The government may establish any of the following categories of economic zones, such as: -
- (a) Economic Zones established through public and private partnership by local or foreign individuals, body or organizations;
 - (b) Private Economic Zones established individually or jointly by local, non-resident Bangladeshi or foreign investors, body, business organizations or groups;
 - (c) Government Economic Zones established and owned by Government;
 - (d) “Special” Economic Zones established privately or by public-private partnership or by the Government initiative, for the establishment of any kind of specialized industry or commercial organization.
- 7: Division of an economic zone into several areas. -
- 1) The Authority may issue a necessary order to prepare a master plan for the land connected with any economic zone dividing it into the following areas: -
- (a) Export processing Area: Specified for export oriented industries;
 - (b) Domestic processing Area: Specified for industries to be established for meet the demand of the domestic market;
 - (c) Commercial Area: Specified for business organizations, banks, warehouses, offices or any other organization;
 - (d) Non-Processing Area: Specified for residence, health, education amusements, etc.

- 2) Any economic zone master plan prepared on the basis of the order issued under sub-session 1) shall be submitted to the Authority for approval, and if it is approved by the Authority, the divided areas under such plan shall be the specified part of that zone.
- 8: Appointment of economic zone developers . - The Authority may appoint economic zone developers in such manner as may be prescribed.
- 10: Special tariff benefits for economic zones . - The Government may, by notification in the official Gazette, provide with tariff benefits to the economic zone or any area of it, for a specific period, and in accordance with the provisions of the Customs Act, 1969 (Act. No.IV of 1969), introduce special arrangement to facilitate import and export operations of the organizations established in the economic zone.
- 11: Financial incentives: -
- 1) The Government shall provide with such kind of financial incentives and benefits to the Industrial units ² within the economic zones as is provided to the industrial units under the Bangladesh Export Processing Zone Authority Act, 1980 (Act No. XXXVI of 1980) and Bangladesh Export Processing Zones Act, 1996 (Act No. XX of 1996).
 - 2) The Government may, by notification in the official Gazette, arrange for special incentives to the exporters outside the economic zone.
- 12: Other benefits: - The Authority shall
- (a) make arrangements to facilitate the economic zone developers and industrial units in respect of legal documents which include permission for economic zone site selection, declaration of economic zones, clearance, certificates, certificate of origin, permit for repatriation of capital and dividends, resident and non-resident visas, work permits, construction permits etc. through a one-stop service, and
 - (b) make arrangements to allot or lease plots suitable for setting up industries on a complete commercial basis.
- 13: Power to exempt from application of certain laws. – The Government may, by notification in the official Gazette, exempt a zone or any organization thereof from the application of all or any of the provisions of all or any of the following Acts, or may pass order that the acts or any provisions thereof shall, in its application to a zone, be subject to such modification or amendments as may be specified therein, namely:-
- (a) Municipal Taxation Act, 1881 (Act No. XI of 1881)
 - (b) Foreign Exchange Regulation Act, 1947 (Act No. VII of 1947)
 - (c) Income Tax Ordinance, 1984 (Ordinance No.XXX VI of 1984)
 - (d) Building Construction Act, 1952 (E.B.Act No.II of 1953)
 - (e) Fire Prevention and Extinction Act, 2003 (Act No VII of 2003)
 - (f) Value Added Tax Act, 1991 (Act No. XXII of 1991)
 - (g) Bangladesh Labor Act, 2006 (Act No. XLII of 2006)
 - (h) And other laws

² Industrial units mean individual enterprises invested in SEZ, viz., tenants.

- 14: Permission to conduct banking activities in an economic zone. – The Authority may subject to the approval of the Bangladesh Bank³, allow banking activities by any bank in any economic zone.
- 19: Duties and functions of the Authority. - The general duties and functions of the Authority shall be as follows: -
- 1) To identify and select sites for industrial or similar sectors on availability of local resources including infrastructure, roads and communications, travel and banking facilities and skilled manpower for ensuring efficient utilization of land in the light of clustering principles;
 - 2) To acquire land for economic zones identified by own initiative or public-private partnership and take possession of the acquired land on behalf of the Government;
 - 3) To appoint economic zone developer on competitive basis to develop and manage the acquired land and different type of infrastructure thereof;
 - 4) To prepare infrastructure development plans of economic zones for implementation and management of own establishment and submit it to the Governing Board for approval;
 - 5) To allot or lease or rent of land, building or site, or competitive commercial basis in a prescribed manner, to investors applied for establishing industrial units, businesses and service providers in economic zones for implementation and management of their establishment.;
 - 6) To ensure infrastructure development of economic zones within a specified period through monitoring of activities of its own and of economic zone developers;
 - 7) To create opportunities for employment through establishing backward linkage industries within or outside economic zones by promoting local and foreign investment including development of skilled labor force;
 - 8) To ensure efficient use of land in the light of clustering principles by dividing the land based on infrastructure and on availability of local resources to provide a conducive environment and other matters;
 - 9) To encourage more efficient management and monitor programmers for implementing commitments on environment and other matters;
 - 10) To take steps to establish backward linkage industries in economic zones to meet the requirements of local companies;
 - 11) To encourage business organizations to relocate polluting and unplanned industries from metropolitan cities through establishing separate economic zones for different industries.
 - 12) To encourage Public-private partnership in the development and operation of economic zones;
 - 13) To take necessary steps to implement social and economic commitments;
 - 14) To establish the due rights of workers, to ensure their welfare and to establish conducive

³ The Bangladesh Bank is the central bank in Bangladesh.

relationships between owner and workers;

- 15) To take appropriate steps to implement poverty reduction programs;
- 16) To expedite implementation of industrial policy of the country by promoting planned industrialization of the thrust manufacturing and service sectors; and
- 17) To convert the areas declared as economic zones into economic centers by developing industrial cities, agro-based industrial zones, trade zones and tourism zones through investment of banking sectors and to facilitate availability of skilled labor and efficient service provisions.

21: Governing Board . –

- 1) For the purposes of this Act, and subject to the provisions of sub-section 2), there shall be a Board to be called the Governing Board consist of the following members, namely: -
 - (a) The Prime Minister or a member nominated by the Prime Minister, who is a Minister, and he shall also be the Chairman of the Governing Board.
 - (b) The Ministers/State Ministers of the Ministries or Divisions of Industries, Commerce, Finance, Planning, Science and Information and Communication Technology, Power, Energy and Mineral Resources, Communications, Labor and Employment, Environment and Forests, ex officio; the Governor, Bangladesh Bank, ex officio, the Executive Chairman, Board of Investment, ex officio and other relative and others.

22: Function of the Governing Board, policy implementation, etc. – the function of the Governing Board shall be as follows:-

- (a) To formulate policy regarding development, operation, management and control of economic zones;
- (b) To monitor the activities of initiating companies engaged for operation, administration, management and control of economic zones;
- (c) To approve proposals for establishing economic zones;
- (d) To review the overall activities of the Executive Board and the affairs of the economic zones form time to time; and
- (e) To give necessary orders or directions to the Authority to ensure efficient management of the Authority and economic zones.

24: Executive Board . -

- 1) The Authority shall have an Executive Board and such Board shall consist of a Chairman and three members.
- 2) The Chairman of the Executive Board shall be known as the Executive Chairman, and he shall be the Chief executive of the Authority.
- 3) The Executive Chairman and the members of the Executive Board shall be appointed by the Government and they shall discharge their duties in accordance with the conditions prescribed by the Government.

33: Compliance to laws connected with environment, etc. – For the purpose of this Act, the Authority, economic zone developers, industrial units established in economic zones, financial institutions shall be bound to comply with international commitments recognized

by the Government of Bangladesh including compliance to all the existing laws on environment and environmental protection.

34: Applicability of laws on Workers Welfare Association and Industrial Relations. - The provisions of the existing laws on EPZ Workers Welfare Association and Industrial Relations shall, with necessary modification, be applicable to the workers of the “Special Economic Zones⁴” stipulated in this Act.

41: Original and English Text. - The original text of this Act shall be in Bangla, and the Government shall, by notification in the official Gazette, publish an Authentic English Text of an authorized translation of it in English.

In the event of conflict between the Bangla and the English Text, the Bangla Text shall prevail.

(2) Bangladesh Economic Zones Act, 2010 (English Text)

SEZ Act (English Text) is described in Appendix I.

3.2.2 Bangladesh Economic Zones Regulations

Regulations and rules to the SEZ Act are established for the actual development, management and operation of SEZ. According to BEZA, as of 6th June, 2013, the draft of Bangladesh Economic Zones Regulations 2011 has not been approved by the government, while being under consideration in the Ministry of Law, Justice and Parliamentary Affairs. The survey team requested to submit the draft paper or disclose the contents to the survey team but it was declined. The reason for declining is as follows:

“The draft has not been approved by the government officially. In case some contents should be changed after submitting the draft, it may cause misunderstanding and trouble.”

3.2.3 Current status and issues on the structure for developing SEZ

Regrettably there was not sufficient opportunity and time to have interview with the Executive Chairman, acting chairman and other key persons in BEZA due to the disturbance caused by repeated general strike (“Hartal” in Bengali), the sudden change of the Chairman / acting chairman and other inconveniences of them during the survey period. The survey team attempted to collect the relevant information from relevant parties in order to make up for the deficiency. As the result, the survey team had the impression that the organizational structure and functions of BEZA have been at the preparatory stage. What is required for the smooth development of SEZ are: vision and plan of SEZ development, the establishment of SEZ Act regulations and rules, the setup of organizational structure and function of BEZA including capacity development of human resources in BEZA, and financing arrangement and

⁴ Laws on Worker Welfare Association and Industrial Relations are applicable to the “Special Economic Zones”, the 4th category of SEZ. It may be construed that such laws are not applicable to 1st, 2nd and 3rd category of SEZ.

management. From the above viewpoint, the current status and issues in BEZA is observed and analyzed as follows:

(1) The organizational structure and function in BEZA

a. Assignment of BEZA chairman:

During the short period of about 1.5 years from the establishment of BEZA in November, 2011 to May, 2013, the Chairman of BEZA has been changed two times. The first Chairman, Mr. Md. Mosharraf Hossain Bhuiyan was assigned as chairman in November, 2011 but retired in 2012. Thereafter the position of the BEZA chairman was vacant, and Mr. Mohammad Abdul Kashem became the acting chairman. Mr. Fakhrul Islam was assigned as a new chairman of BEZA in May, 2013.

b. Organogram of BEZA:

Presently the number of staff in the BEZA office is 82 persons. The organogram of BEZA is shown in Figure 3-2-1.

c. BEZA key persons:

Through the first and second survey in Dhaka, the survey team had interview surveys with 5 BEZA key persons including 3 executive members. Only 1 person out of 5 persons has remained since May, 2012. The change of BEZA key officers in the short term caused the organization to depend upon one officer's ability, bringing adverse influence to management and the performance capacity of the organization.

(2) Vision and Planning

The grand design, road map and mile stone on SEZ development has not been released in public by the government/BEZA. Those outside the government are unaware of the concrete plan, direction and policy of BEZA, having difficulty in making and implementing business plans for SEZ development. If the government is earnest to promote and attract FDI in SEZ development, the government shall positively disclose such grand design, road map and mile stone and plans for SEZ, as well as the requirements and transparent assessment criteria for the government approval of SEZ developed by the private sector. The examples of requirements are shown as below:

1) Concept of SEZ

- a. It shall be considered to upgrade the infrastructure of SEZ such as the location of SEZ and factory to shorten lead times, easy connectivity to international commercial ports, access road and transportation networks, linkage with domestic industries and industrial clusters.
- b. Easy connectivity to and supply capacity of utilities such as electricity, water and etc. shall be indispensable.
- c. In software and benefit, upgraded a one-stop-service shall be committed.
- d. In financial incentives, fulfilling competitive incentives to attract FDI in selected industries strategically shall be required.

- 2) SEZ development shall ensure consistency with industrial development policy. Such plans shall contain (a) size, dimension, number, location of SEZ, (b) selection of priority industry, (c) priority in the development plan, (d) method of development, (e) conditions of on-site and off-site, and (f) promotion of integrated infrastructure development (in case of SEZ by private developer in particular).

(3) Legislation of Bangladesh Economic Zones Regulations 2011 (SEZ Regulations)

As mentioned in 3.2.2, the draft of SEZ Regulations has not officially been approved by the government yet. Draft of the SEZ Act Regulation has been completed with support from the Bangladesh Investment Climate Fund (BICF) in December, 2011 and delivered to the donor community in Bangladesh for requesting opinions of donors around February, 2012. Thereafter the collected opinions of donor were submitted to the Bangladesh government/BEZA.

When two members of this Survey team had the interview survey with the Chairman of BEZA and World Bank/IFC team together in May, 2012, the Chairman said that the draft would be approved soon. Since then, one year has passed but SEZ Regulations have not been legislated yet. It looks like an unusual case in advanced countries. Nobody in BEZA could explain persuasively the reason for the delay. Anyhow, SEZ Regulation is indispensable to implement the SEZ Act specifically for developing, managing, operating and regulating SEZ. If the official approval of SEZ Regulations by the government should be delayed further, there would be concern regarding the causing serious influence on the normal development of SEZ. For instance, the following are the issues to attract attention:

a. SEZ Act Article 26 stipulates:

- 1) The Authority may for the efficient performance of its functions, appoint such number of officers and staff, consultants, specialist and auditors including the Secretary as are required according to the organogram approved by the government.
- 2) The appointment and *the terms and conditions of services* of the Secretary, officers and staff, consultants, specialist and auditors of the Authority *shall be determined by regulations*.
- 3) All officers and staff of the Authority including the Secretary *shall be subject to the provisions of this Act, and the rules and regulations made thereunder perform their duties* under the overall control and supervision of the Executive Chairman.

As SEZ Regulations have not been approved yet, it is questionable on what are the regulations and rules to manage organization and human resources in BEZA actually.

b. One-Stop-Service:

It will be the issue on how BEZA can secure and achieve One-Stop-Service (as BEPZA does it now), particularly in the case of SEZ developed by private developers. As to this question, BEZA explained that the Project Implementation Unit (PIU) would be placed to assist SEZ developers, operators and/or individual units in SEZ with One-Stop-Services. However the specific way to provide One-Stop-Services has not been established yet. This is the issue for future discussion and development.

c. Procedure flow from application for SEZ development to issue of license: In response to this questionnaire, BEZA showed the following schemes:

A. In the case of private Economic Zones (SEZ development by private developer)

- i. Developer submits application to BEZA with Business plan in prescribed Format (Format not yet approved) but draft format is available now at BEZA.

- ii. BEZA reviews the application through primary selection committee & makes primary selection.
 - iii. Prequalification approved in Board of Governor's meeting.
 - iv. Prequalified Developers prepares Feasibility report for approval of BEZA.
 - v. Developer submits application to BEZA for Licence.
 - vi. BEZA issues Licence to Developer.
- B. In case of PPP – Government land and Private developer for SEZ
- i. BEZA invites EOI for Feasibility study or without facilities depending upon the site for proposed EZs.
 - ii. Preparation of Short lists from applications through approved committee.
 - iii. Issues RFP to shortlisted Firms.
 - iv. The successful Firm prepares Feasibility study.
 - v. BEZA invites EOI to engage Developer & Operator for proposed EZs, (for those sites which do not need facilities studied).
 - vi. Makes shortlist of EOI.
 - vii. Issues RFP to shortlisted applicants.
 - viii. Developer & Operator is selected on basis of RFP.
 - ix. Signs agreement with Developer & Operator for a period of 30 (Thirty) years (Proposed), extendable for further period on mutual agreement.
 - x. The selected developer & operator develop the EZ, bring investors, lease the land to them, receive rent from them & pays part of the receivables to GOB as per Agreement.

(4) Capacity development of BEZA

The World Bank/IFC group has supported the Bangladesh government with the development of SEZ in respect of finance, technical assistance and capacity building totally. According to their opinion, it is necessary to repeat capacity development to the key staff of BEZA, because of the change of key staff including the Chairman in the short period since the establishment of BEZA.

BEZA is also carrying out a mission tour to visit to SEZ/Industrial Park overseas by dividing 3 groups of key officers and making rotation plans for each group at the budget and cost of BEZA. The BEZA chairman hoped to join Bangladesh SEZ seminar held at Tokyo on 27th June, 2013 as well as to visit to SEZ and industrial parks in Japan and in Vietnam. However he was forced to stay at Dhaka at the end of June, the end of fiscal year for the Bangladesh government. After all, he could not meet his wish. Although it could not be achieved, BEZA officers are interested in precedent cases or benchmarking good models of SEZs overseas, having high motivation to learn SEZ concepts that BEZA should be oriented to.

3.3 Development and financing schemes for SEZ projects and its issues

3.3.1 Method to develop SEZ

(1) Development plan and method of SEZ

Development of SEZ/Industrial Park is difficult business as it requires deliberate planning and a long term taken for payback on investment.

Even in the case of a SEZ having a fine infrastructure, there is a risk that the SEZ could not attract the required number of tenants, having assets become idle and bearing a burden of funds, unless precise projection of markets are feasible.

For the purpose of developing SEZ smoothly and steadily, it is important to make an integrated strategy, action plan and approach of supporting SEZ development in consideration of following these matters:

- a. Selecting SEZ site candidates from the viewpoint of the short term and long term
- b. Method of development including development model, procedure/process and schedule and financing required for development
- c. Support to and collaboration / discussion with the Bangladesh government, BEZA and relevant ministry / institutions
- d. Development plan including clear SEZ concept, FS and master plan
- e. Assisting with finding and introducing a candidate private developer and rear-area support after the issue of license to the developer
- f. Assisting with attracting tenants and key tenants for investment in SEZ
- g. Good cooperation and collaboration with other international cooperation organization / donors including World Bank/IFC.

(2) Method and model of SEZ development

SEZs in Bangladesh will be established in accordance with following 4 categories:

- a. SEZ established through public and private partnership (ppp)
- b. Private SEZ established by private developer
- c. Government SEZ established and owned by government
- d. "Special" Economic Zone established privately or by PPP or by government, for the establishment of any kind of specialized industry or commercial organization

Among the above three categories a. b. c., the government is oriented to category a. and c.

EPZs are established, owned, managed and operated by BEPZA, the government organization. So far, there is no SEZ established in Bangladesh, and as such, there is no precise example of financing modalities adopted that can demonstrate a suitable financing mix.

(3) SEZ development and financing needs and scope

In SEZ development, it will be most desirable to consider all possibilities of methods to finance government funds and private funds in Bangladesh and then overseas development funds and

private investment, as well as the Japan Official Development Assistance (ODA⁵) loan and yen-loan for making up for the shortage. Need for finance to develop SEZ infrastructure can be ascertained on the basis of two main purposes and these are off-site infrastructure and on-site infrastructure. The details are shown in Table3-3-1: SEZ development and financing needs.

Table 3-3-1: SEZ development and financing needs.

SEZ Off-site infrastructure	SEZ On-site infrastructure
Access and link roads connecting SEZ	Land
Linking SEZ with national railway track	Creating embankment or dike around the site for protection
Connecting SEZ with national utility networks (gas, electricity and water network)	Establishing internal utility network
Building Inland Container Terminal adjacent to the SEZ site	Water and sewerage network
Custom facilities (bonded warehouse, land port etc.)	Power generation unit
Industrial water supply systems	Factory building (domestic and export processing area)
Solid Waste Treatment and Disposal unit	Central Effluent Treatment Plant (ETP)
	Commercial area development
	Non-commercial area, Amenities (international schools, hospital, sports club, community center etc.)

Source: Prepared by JICA Survey team

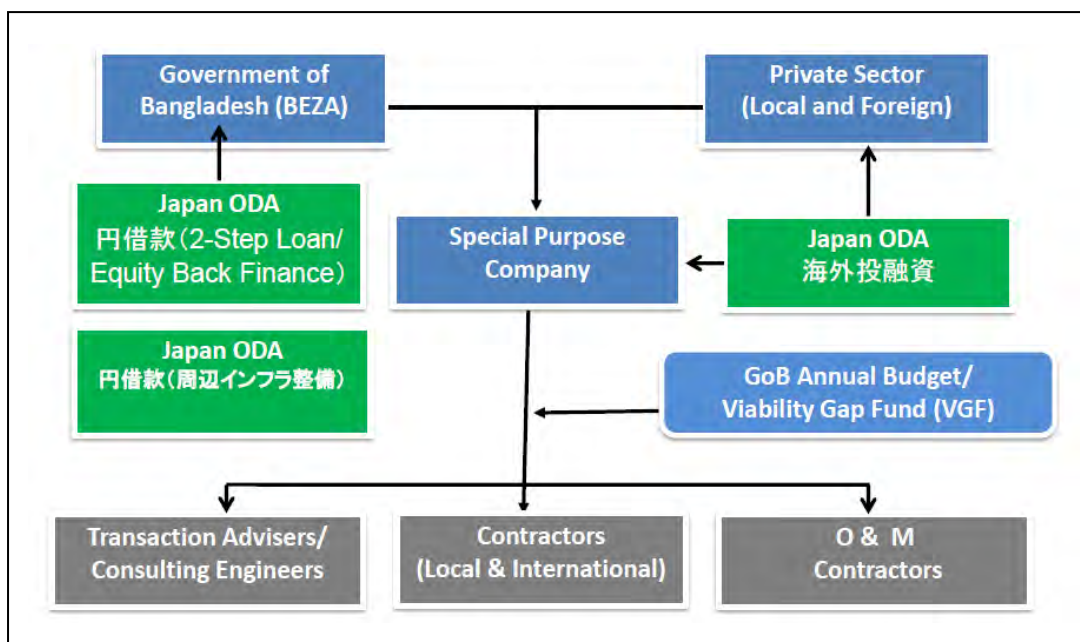
In the case of development by private developers and PPP (by private developers), the on-site infrastructure of any SEZ is mainly financed by the private sector SEZ developers or promoters. The sources of such funding could be both internal and external: private equity and equity from local or international financial institutions, borrowing loans from the local and foreign financial entities / institutions. There are cases of failure of some SEZ in some countries where the entire investment in SEZ infrastructure has become idle assets as it could not attract the required

⁵ **Japanese ODA loan** (also called **Yen Loan**) are long-term low interest rate loans advanced to developing countries and have the liability of being paid back. Assistance can be given to major projects of developing countries that generate a large impact on the economic growth, environmental improvement and social development of the countries, which are indispensable for achieving MDGs. The obligation to repay Japanese ODA loans gives an opportunity to the recipient countries to develop an incentive to recover the investment cost to the greatest extent possible. This encourages the countries to make efforts to ensure the sustainability of the development projects and leads to the attainment of the MDGs and their sustenance.

number of tenants. Therefore it is requested to consider financing portfolios that suit the needs of finance in mutual relationship with the need of infrastructure.

(4) SEZ development under Public-Private Partnership

The government of Bangladesh is constrained in funding SEZ development from its own sources and as such, private sector investment is strongly encouraged either locally or abroad. In this regard, the government has recently created the Public-Private Partnership Office and Public-Private Partnership Act. Under the PPP model, both the government and private sector finance the projects, but the amount of such investment is determined by the feasibility study conducted by the project. It may be mentioned here that for implementation of each SEZ project, a special purpose company needs to be formed through which all transactions will be managed and both the government and private sector are the promoters. To support commercially unviable projects, the government also introduced “Viability Gap Fund (VGF)”, which has been created to support capital shortages. Facility under VGF can be availed for capital expenditure one time or it can be given as annuity payment over a period of 15-20 years depending on the nature of the PPP projects. Private SEZ developers can also avail financial support from “Investment Promotion and Financing Facility (IPFF)” of the Bangladesh Bank through local banks and financial institutions for building zone infrastructure. In case of a Zone developed under public private partnership, a Special Purpose Company shall be formed to initiate, manage, implement and operate the project. The typical diagram is shown in Figure 3-3-1 to explain how this model may work:



Source: Prepared by JICA Survey Team

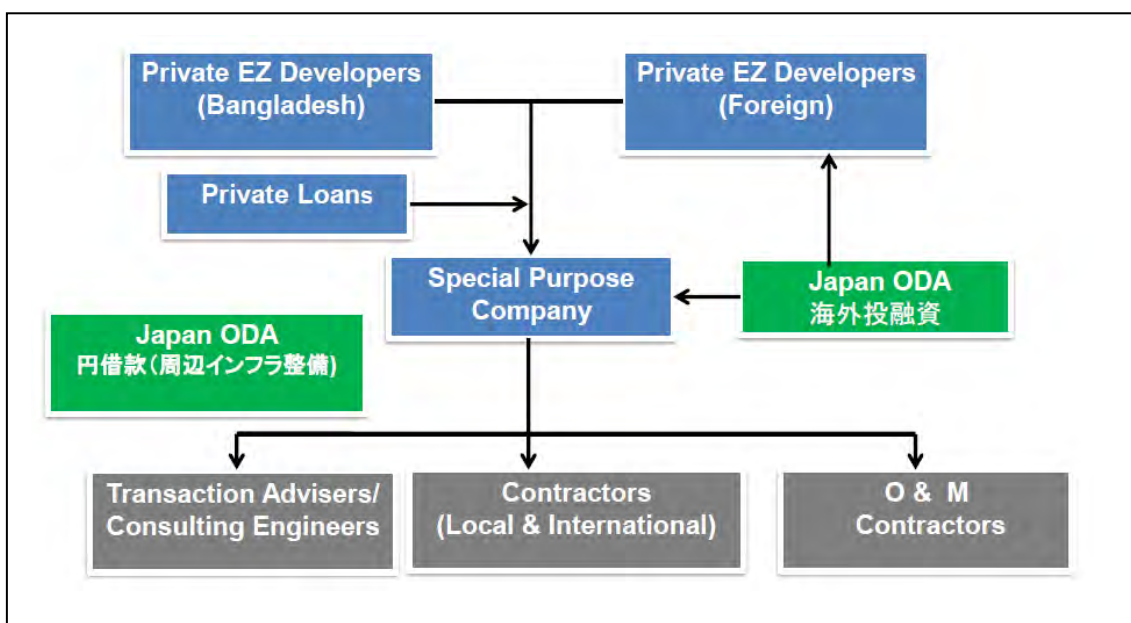
Figure 3-3-1: SEZ development under Public-Private Partnership and financing model

In case of shortage of funds in the Bangladesh government, the possibility to assist with financing will be considered in following ways.

- a. On-site development: to assist private developer / SPC with overseas investment and loan by using ODA of Japanese government
- b. On-site development: to assist Bangladesh government with Yen Financial Intermediary Loans (2 step loan) by using ODA of Japanese government
- c. Off-site development: to assist Bangladesh government with Yen loan by using ODA of Japanese government

(5) Private-Private Partnership (Local and Foreign)

For developing private SEZ, the local SEZ developers can collaborate with any international SEZ developers and can jointly finance the zone. SEZ developed under private initiative either locally or abroad, singly or jointly can be financed from their own sources as well as borrowing from the local and external sources. Like the earlier model, if the SEZ is developed under private-private partnership, it also needs to form a Special Purpose Company to initiate, manage, implement and operate the project. The typical diagram is shown in Figure 3-3-2 to explain how this model may work:



Source: Prepared by JICA Survey Team

Figure 3-3-2: SEZ development under Private-Private Partnership and financing model

In the case of SEZ developed under private initiative, the PPP office of the government will not provide support in creating off-site infrastructure and as such, implementation of such private SEZ may suffer difficulties in mobilizing financial resources for off-site infrastructure development. However, in an ideal situation, all sorts of off-site infrastructure required to make SEZ operational should be funded by the government authority. Otherwise, the development

process of the economic zone may be delayed due to the lack of government policy support and attention. Again, even in case of a government owned economic zone or a zone developed under public-private partnership, it may suffer due to delays in buildings requiring off-site infrastructure in absence of an integrated approach. Off-site infrastructure involves multiple sectors like Roads and Highways Department, Railway Department, Gas transmission and distribution departments, power generation and distribution departments, etc. and they need close coordination and synchronized attempts to build necessary off-site infrastructure.

In the Bangladesh government, bureaucracy and vertical administrative systems are prevailing. Such coordination of relevant government organization cannot easily be obtained without strong leadership and initiatives of the government/BEZA as well as financial support. In the case the government of Bangladesh should not have sufficient funds for developing off-site infrastructure, it would be considered to utilize Yen Loan for assisting it.

3.3.2 Financing in relation to the development of SEZ

In this section, it is considered to make use of the financing scheme of the Official Development Assistance (ODA) by the Japanese government as means of financing for the development of SEZ. Anticipated purpose, the borrower and scheme of financing are classified as below in Table 3-3-2. “Classification of financing scheme by ODA”

Table 3-3-2: Classification of financing scheme by ODA

Purpose	Borrower	Financing Scheme
1. Funding for off-site infrastructure (road, port, water and sewerage network, waste disposal and treatment facility etc.)	Bangladesh government	Yen loan (Project finance loan)
2. Funding for on-site infrastructure	Bangladesh government	Yen finance (Equity finance)
	Private SEZ developer	Overseas Investment and Finance
3. Funding for the operation of tenants in SEZ	Tenants (individual units) in SEZ	Yen loan (2 step loan)

Source: Prepared by JICA Survey team

(1) Funding for SEZ off-site infrastructure

It will be expected to utilize Yen loans of ODA fund of JICA as a means of financing off-site infrastructure development. JICA Yen loans are a soft loan to be lent to developing country like Bangladesh with a low interest rate in a long term contract. Current terms and conditions of Yen loan are as below:

- Terms of loan: 40 years (Grace period: 10 years)
- Rate of interest: 0.01% per annum
- Effect: The above conditions shall be applicable to the loan which shall be notified by the government of Japan on and after 1st April, 2013 onwards.

In case of financing a Yen loan to Bangladesh, the borrower is normally the Ministry of Finance, and the Bangladesh government, but it would be anticipated that either BEZA or the Finance department of the Ministry of Finance could be selected as the implementing agency of the loan.

1) In case of BEZA being the implementing agency of financing:

The Project Management Unit (PMU) is established in BEZA. Under the project management of PMU, each technical agency such as RHD and RWDB shall design infrastructure facilities, and prepare bid tender documents, construction management and operational management. The integrated development of both on-site and off-site is indispensable. BEZA shall have duty to take initiatives in such integrated development. Placing PMU in BEZA will clarify that BEZA shall drive on-site development in good coordination with off-site development in synchronized attempts, establishing the ownership of BEZA in the project.

2) In case of the Finance department of the Ministry of Finance:

PMU shall be placed in the Finance department of the Ministry of Finance instead of BEZA. There was the case that in the “Emergency Disaster Recovery Project” that the Finance department of the Ministry of Finance became the implementing agency for a Yen loan. Under the project management of the Finance department, the technical agency such as LFED, RHD and BWDB made recovery works of infrastructure. It will be expected that the Finance department could do a good job in development of off-site infrastructure, if they can make good use of the said experience.

(2) Funding for SEZ on-site infrastructure

In the case that the Special Purpose Company (SPC) should be established under PPP, it is considered that the SPC can be financed by yen loan. In this case, a Japanese SEZ developer should finance SPC either by investing equity or lending money, and it can utilize JICA overseas investment and loan. Alternatively, SPC can directly borrow funds from JICA overseas investment and loan. Under the JICA overseas investment and loan scheme, JICA can invest or lend loans to the private sector doing business activities in developing countries, in the field of “MDGs / Poverty reduction”, “Infrastructure / Acceleration of the growth”, and “Countermeasure against climate change”; provided, however, that the project may not be financially viable on a commercial basis of finance by existing financial institutions.

(3) Funding for the operation of tenants in SEZ

It is considered to utilize a “2 Step Loan” as a means of funding for the operation of tenants in

SEZ. A 2-Step Loan is one of the JICA Yen Loans. Financial intermediary loans are implemented through the financial institutions (such as development bank) of the recipient country based on the policy-oriented financial system of that country. These loans provide funds necessary for the implementation of designated policies, such as the promotion of small and medium-scale enterprises in manufacturing, agriculture, and other specified industries and the construction of facilities to improve the living standards of the poor. These loans are known as "two-step loans" because there are two or more steps before the end-beneficiaries receive the funds. Under this type of loan, funds can be provided to a large number of end-beneficiaries in the private sector. Since these loans are implemented through local financial institutions, they also serve to strengthen the operational capabilities of these institutions and to develop the financial sector of the recipient countries.

3.4 Issues on Environmental and Social Considerations for the development of SEZ

3.4.1 Legal systems on environmental and social considerations for SEZ development

With regard to environmental considerations, Article 33 of the Bangladesh Economic Zone Act No. 42 of 2010 provides that "BEZA, economic zone developers, and companies located in economic zones shall comply with Bangladesh's environmental laws and regulations and international commitments." Moreover, Article 19 (2) thereof provides that "BEZA shall promote efficient environmental management and monitoring."

With regard to social considerations, Article 6 thereof provides that "If the Bangladesh Government's land expropriation is necessary for the development of infrastructural facilities (such as roads and bridges) around an economic zone, the land expropriation procedure shall be carried out pursuant to the Acquisition and Requisition of Immovable Property Ordinance (Ordinance No. II of 1982).

3.4.2 Environmental laws and regulations

(1) Outline of existing laws

Bangladesh has more than 185 environmental laws and regulations, including direct and indirect laws and interim measures. Because, instead of traditional individual laws, the establishment of measures and laws that cover the environment as a whole has been in progress since the Rio Summit in 1992, the Bangladesh Environment Conservation Act (Act No. 1 of 1995) and the Environmental Conservation Rules came into force in 1995 and 1997 respectively.

Economic zone developers and companies located in economic zones must acquire environmental clearance certificates and comply with environmental standards in

accordance with the above-mentioned Act and Rules.

1) Environmental Conservation Act (1995)

The Act consists of 21 articles, providing for a definition of the environment (Article 2), the establishment of the Department of the Environment (Article 3), the operations thereof (Article 4), the designation of ecologically crisis areas (Article 5), exhaust control (Article 6), the right to conduct on-the-spot inspections (Article 10), the right to claim for damages (Article 15-A), and penal provisions (Article 15).

2) Environment Conservation Rules (1997)

The Rules specify environmental standards concerning the atmosphere, water, industrial drainage, exhaust gas, noise, and bad smell. Moreover, the Rules provide that all new industries, activities, and projects shall be classified into four categories (Green, Orange-A, Orange-B, and Red) according to the degree of influence on the environment and the place of implementation and that any business entity shall obtain environmental clearance certificates from the Department of Environment of the Ministry of Environment and Forest.

(2) EIA system (procedure for acquiring environmental clearance certificates)

Any economic zone developer or any company located in the economic zone in Bangladesh shall acquire environmental clearance certificates pursuant to the above-mentioned laws and regulations.

1) Classification into environmental categories

The Environmental Conservation Rules (1997) specify four categories (Green, Orange-A, Orange-B, and Red) according to the degree of influence on the environment and the place of implementation as shown in the Annex III. It is necessary to carry out the procedure for acquiring an environmental clearance certificate as specified in “2) Flow of the procedure.”

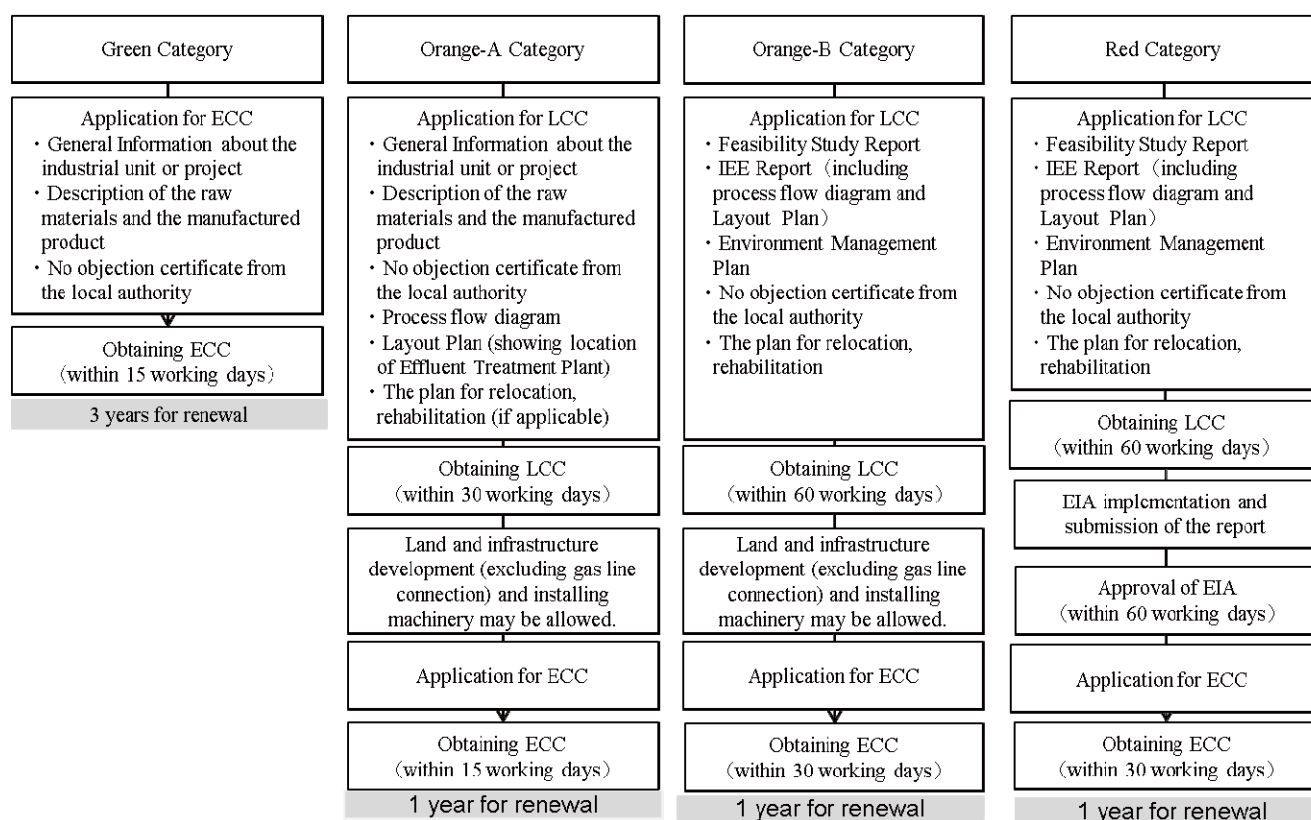
When the study team carried out the interview survey, the Department of Environment stated that because the types of businesses of many companies moving into an economic zone are not identified when the developer of the economic zone is developing land, any company is classified into the Red Category, which requires the strictest procedure, whatever the size of the development. On the other hand, the business of a company located in the economic zone is classified according to type of industry.

2) Procedural flow for acquiring an environmental clearance certificate

A business entity must acquire an Environmental Clearance Certificate (ECC) step by step after acquiring a location clearance certificate for the development of land and infrastructure facilities on the business site. The flow of the procedure for acquiring the

certificates is as follows:

The validity period of the environmental clearance certificate for each category has been fixed. That for the Green Category requires renewal every three years, while those for the other categories require renewal every year.



Source: Prepared by JICA survey team based on ECR (1997)

Figure 3.4.1: Flowchart of the ECC procedure

(3) Environmental standards

The Environmental Conservation Rules (1997) specify environmental standards for the atmosphere, industrial drainage, exhaust gasses, bad smells, etc. The companies located in an economic zone must comply with the standards. The tables shown in the Annex III are some of the environmental standard values.

(4) Natural environment

Bangladesh has ecologically critical areas designated by the Environment Conservation Act (1995), national parks and wildlife sanctuaries designated by the Wildlife Preservation Act (1973), and forest reserves designated by the Forest Act (1927). Economic zones cannot be developed in these areas (The designated areas are shown in the ANNEX III).

The candidate sites for economic zones for which our study team carried out the field surveys are outside of these development-limited areas.

3.4.3 Issues on the development of SEZ

(1) Role of BEZE in environmental management

Responding to our interview survey, BEZA answered that it is not concerned with environmental management in the economic zones, because the Department of Environment of the Ministry of Environment and Forest has jurisdiction over environmental management.

On the other hand, regarding the existing EPZs developed under the Export Processing Zone (EPZ) Act, the Bangladesh Export Processing Zone Authority (BEPZA) also plays a certain role in the environmental management in the EPZs. For example, BEPZA's environmental counselors have been stationed at eight EPZs in Bangladesh and have been engaged in providing advice about the procedure for applying for environmental clearance certificates and daily environmental monitoring (in addition to the monitoring by BEPZA's environmental counselors, the Department of Environment carries out quarterly environmental monitoring).

The environmental management system differs between the economic zones, which are not operated by BEZA itself, and EPZs, which are operated by BEPZA itself. Because the entire role of BEZA is not clear concerning the development of economic zones, the role of BEZA in terms of the environment should be examined immediately.

(2) Systems and procedures

The Department of Environment and BEZA is of the opinion that the economic zone developers and the companies located in the economic zones must comply with the environmental laws and regulations and obtain environmental clearance certificates.

However, in Vietnam, which is extending its invitations for foreign investment similarly to Bangladesh, responding to the China plus One strategy centered on Japanese manufacturers, some systems have been introduced to reduce the environmental procedure burden of the companies located in industrial complexes. For example, there is a system whereby industrial complex developers carry out the procedures related to reports on the comprehensive environmental impact assessment of the premises, while each company located in an industrial complex only registers a guarantee that its business has satisfied environmental standards.

Responding to our study team's interview survey, BEZA has only stated that it will

solemnly deal with environmental matters pursuant to the existing environmental laws and regulations and does not seem to have begun to consider establishing systems and procedures, including the acquisition of environmental clearance certificates. BEZA is expected to develop systems and procedures, studying systems and procedures that other countries have introduced to promote the invitation of foreign investment.

3.5 Issues on the management and operation of SEZ and promoting FDI

3.5.1 Issues on the management and operation of SEZ

(1) Grand design and roadmap of SEZ development

Through the survey period, it has been felt unlikely that BEZA and government related parties showed or had strong motivation and attitude to tackle SEZ development positively. It was deemed that positioning of SEZ development in Economic Growth Strategy and Industrial Development Policy have not been understood widely and prevailed, while goals and policies have not been shared among the leading parties concerned. The following shall be reminded in the process of SEZ development:

- a. SEZ shall be developed in integrated manners with a national land development plan, diversification of population and industry from the capital city of Dhaka to outskirts, local development, industrial linkage and consistency with industrial policy.
- b. The government shall take the initiative to create a grand design and roadmap of SEZ on-site and off-site infrastructure development, in partnership with private sectors, academic and research institutions. Such information shall be released and disclosed to the public, being shared among BEZA, other government institutions / agencies and the private sector.

(2) Competent human resources and capacity development of BEZA

The sufficient survey has not been conducted on management / operation and personnel assignment in BEZA. However, it has been clear that there is a shortage of experts and professionals in the field of SEZ / EPZ / Industrial Park as well as FDI. Accumulation of knowledge / know-how and proper assignment of competent personnel are the vital issues. It will be expected that BEZA shall consider taking necessary steps to make a proper solution as follows:

- a. To employ experts who are experienced in the business of BEPZA, and to have systems of person-to person exchange with BEPZA and BOI.
- b. To employ and assign outside consultants knowledgeable about SEZ/EPZ/Industrial Parks, FDI and business development in the private sector, etc.

(3) SEZ Regulations and Accreditation Criterion

SEZ Regulations shall be released to the public earlier so that private developers can make

preparation for developing SEZ. Simultaneously, BEZA shall clarify and indicate the criterion to approve the development of private SEZ. Further, the government and BEZA shall secure compliance and governance so as to maintain transparent development, establishment and management of SEZ.

(4) Support to private developers

Whether SEZ development is successful for attracting FDI or not shall much depend upon the business activity of the private sector. If the government supports private developers to develop SEZ smoothly in planning, setup and start, management and operation, it will generate a good outcome. For instance, use of public funds on SEZ development and support to coordinate off-site infrastructure development will be required. In addition, support to provide efficient a One-stop-service is indispensable.

(5) Improving managerial systems in BEZA

BEZA started business in November, 2011 and the number of staff was 10 in May, 2012, all of whom were government officers and staff. At that time, the chairman was told to employ 40 persons within 3 months totaling 50 persons. In response to the interview, he added that BEZA considered the idea to employ and utilize the experts of BEPZA, which was unachievable due to refusal by BEPZA with the excuse that BEPZA had not sufficient manpower to be provided to BEZA. ⁶

Now the number of employees in BEZA is 82. Management and operation of SEZ is quite a new business to most of BEZA organizational members. As it seems that the number of staff has rapidly increased and that organizational basic infrastructure was arranged late, it would be preferable to review and consider business frameworks and management system for future progress.

In particular, key officers in BEZA are government officials, having no experience on business transaction in the private sector. However, they will be requested to participate in sales promotions of SEZ development or to support the business of private developers. Thereby, they will be required for general business management skills, knowledge about marketing and sales promotion and its know-how case by case.

3.5.2 The issues on promoting FDI

(1) Overcoming the demerit in investment

General evaluation of foreign investor on investment to Bangladesh is as per Table 3-5-1 “The factors of investment to Bangladesh”. It is the fundamental issue to improve and overcome such demerit factors, which are mostly infrastructure and business environment.

⁶ JICA Report on Preparatory Study of Private Sector Development Program in Bangladesh (Industrial Development, Trade and Investment Promotion) 2012

Table 3-5-1: The factors of investment to Bangladesh

Merit factor for investment	Demerit factor for investment
Abundant and cheap labor force	Poor infrastructure (land, road, railway, and utilities such as electricity, water, energy etc.)
Population of 150 million, big population bonus with big population of young generation. Big domestic market with emerging middle income class.	In business environment, opaque and complicated procedure, governance of government, corruption by bureaucrats.
RMG is the large industry following China. MFN is available for export to EU, Japan	Difficult to procure raw materials and parts locally. They depend on import.
Regulations on FDI is comparatively lax	The incentives to export oriented industries are applicable for domestic investment as well as foreign investment. The same corporate tax is applicable to foreign companies and domestic companies.
Comparatively loose Islamic country, less political risk	Political instability due to confrontation between the ruling and opposition parties. Current escalation of Hartal influenced less production activity and security.

Source: Prepared by JICA survey team

(2) Securing competitive advantage with neighbor countries

It is the impression that the concerned parties of the Bangladesh government are less conscious of competition in attracting FDI with neighboring countries such as India, Myanmar and Cambodia. In Bangladesh there is no discrimination between local companies and foreign affiliate registered in Bangladesh in terms of incentives for investment. However, it would be desirable that the government provide special incentives to the promising foreign industry, the investment of which the Bangladesh government wishes to attract to Bangladesh, provided that there is no strong local company to be competitive in the same industry. Thus Bangladesh can maintain a competitive advantage with neighboring countries.

(3) FDI strategy and distinctive concept of SEZ

A FDI promotion strategy shall be formulated in order to promote and attract FDI. In formulating FDI strategies, the following shall be taken into consideration:

- a. Distinctive conception of SEZ: The factors constituted of distinctive SEZ concepts are the integrity of SEZ and industrial development policy, strategic selection of industries to be attracted based on linkage with characteristics of the region, linkage of FDI and domestic industry / supporting industry, provision of special incentives and benefits to priority industry and so on.

- b. Integrated collaboration among BEZA, BOI, BEPZA, Private EPZ Governor's Board in the same PMO. Comprehensive FDI policy would be formulated in good coordination with ministry of industry, commerce, finance and other relevant organizations of government,

(4) Raising name recognition of Bangladesh and positive overseas promotion

It is necessary to advance overseas marketing and advertising strategies for raising recognition of Bangladesh globally. It will explore potential foreign investors, assisting SEZ developers with FDI promotion. It will be the issue to make business plans within budgets, human resource development and creating sale tools.

(5) The issue on small sized industrial parks by private developer for FDI

EPZ, Private EPZ and SEZ are established as bonded area for export oriented industry, securing incentives, tax holidays, one-stop-service and other benefits under the legislation in Bangladesh. Recently some private developers challenge to develop small sized industrial parks for Japanese investors, mainly SMEs. However, it is unknown whether they can achieve the same merits and services as EPZ, Private EPZ and SEZ. If government of Bangladesh supports the development of such developers, it will be helpful and valuable to promote FDI of Japanese SMEs to Bangladesh.

3.6 Comparative analysis on the SEZ Development Models in Asian Countries

3.6.1 Definition and Classification of SEZ

For emerging countries, Special Economic Zones have effectively functioned as a strategy to invite foreign direct investment (FDI) and improve infrastructure. Inviting foreign investment by the Special Economic Zone System is an important measure to nurture industries, which means to realize nurturing of enterprises, acquiring foreign currencies through product export, job creation, nurturing related service industries, and other goals.

While the term "Special Economic Zone" has been given various interpretations, the World Bank classified and defined it as seen in Table 3-6-1.

Table 3-6-1: Classification and Definition of Special Economic Zones by the World Bank

Classification	Definition
Free trade zones	Also called Commercial free zones. They are duty-free areas surrounded by fences, and provide facilities for trade, transshipment, and storage for re-export.
Export processing zones	They are industrial complexes for companies targeting overseas markets. Many of the Hybrid EPZs are combinations of an area that invites all industries and an area specialized for export industries.
Enterprise zones	Zones that aim to revitalize financially troubled cities and local towns through preferential tax treatment or financial support.
Freeports	Zones that spread over areas wider than 100 km ² offering a wide spectrum of inducing and supporting programs for a wide range of activities such as tourism, commerce, and housing.
Single factory EPZ	Zones that offer incentives to individual businesses regardless of their location. Factories are not necessarily located in an area especially designated to receive preferential treatment or privilege.
Specialized zones	Special zones such as science and technology parks, petrochemical areas, logistic parks, areas adjacent to airports, and others.

Source: Special Economic Zones: Preferences, Lessons Learned, and Implications for Zone Development, 2008, FIAS (the World Bank group)

3.6.2 The Special Economic Zone Systems in Asian Countries

The outlines of the Special Economic Zone System of Asian countries are shown in Table 3-6-2. There are two distinctive types in this system: a type that establishes special economic zone laws, and a type that takes preferential measures under investment promotion and encouragement laws. While the Special Economic Zones aim to carry out strategic and precursory development in specially designated areas, investment promotion laws apply preferential treatment to the requested areas and often target inducing investment in local areas. The Enterprise zones in the World Bank's classification are typical for the latter type.

For preferential treatment, exemption/reduction of corporate tax or duty and other measures are applied to companies established in the requested areas, and special arrangement on formalities such as "one-stop service" is also often employed.

Table 3-6-2: Special Economic Zone Models in Asian Countries

	Applicable laws and status of progress	Main preferential treatments	Traits and point of views
Malaysia	<ul style="list-style-type: none"> Regulates various preferential treatments of taxation through Promotion of Investment Act (1986), Income Tax Act (1986), Customs Act (1967), Free Zones Act (1990), and other laws 	<ul style="list-style-type: none"> Free Zones (1990): targeting export companies. Exemption from duty, commodity tax, sales tax, service tax, and other taxes. 17 free commercial zones and 18 free industrial zones were already designated. Islamic financial hub, “Kuala Lumpur International Financial District (KLIFD)”: Reduction of income tax (100% for 10 years), depreciation on building, reduction of income tax for developers, and other treatments. Incentive zones: Five zones throughout the nation, including Iskandar Development District, are designated to aim at leading each area’s development. Receive benefits of reduction of corporate tax, import duty, sales tax, or other taxes. 	<p>In 1990, the country established the Free Zones System and has designated 35 zones (17 free commercial zones and 18 free industrial zones) and promoted development, and the system conveys a strong tendency for regional development. An incentive zone classified as a special zone also has an aspect of local development, and it shows a trait of multiracial nation. In the meantime, the Kuala Lumpur International Financial District, which is also classified as a special zone, pursues nationwide promotion of concentrated investment and development.</p>
Thailand	<ul style="list-style-type: none"> Investment Incentive Law (1997) In preparation for changing the current zone system to the preferential treatment system (Planned to operate in 2015) 	<ul style="list-style-type: none"> Divides the nation into three zones in accordance with the distance from Bangkok to applies a separate preferential treatment to each zone. Each zone determines the reduction of corporate tax (the exemption from three to eight years or other treatments) and the import tax rates (machinery, equipment, raw materials, or other items) 	<p>The BOI Incentives have given more preferential treatment to zones farther from Bangkok, and have operated as an incentive to perform industrial inducement to local areas. However, the system is considered to have played a certain role and the Thai government has prepared to abolish it and change to a new preferential treatment system by industry to be started in 2015.</p>

Vietnam	<ul style="list-style-type: none"> • Under the Corporate Income Tax Law, areas and districts are designated. • Promotes investment to local areas: incentive investment areas, etc. • Strategic investment promotion zones: Economic Zones, Hi-Tech Parks, etc. 	<ul style="list-style-type: none"> • Incentive investment areas: preferential treatment on corporate tax (20% for ten years), exemption from import duty, etc. • Economic Zones and Hi-Tech Parks: preferential treatment on corporate tax (10% for 15 years). In economic zones, additional reduction on import duty and other taxes. 	Employs many systems such as EPZ, Enterprise zones, and Hi-Tech Parks, and many industrial complexes have been developed by utilizing those systems, including those established by many Japanese companies.
India	<ul style="list-style-type: none"> • In 2006, Special Economic Zones Act constituted. • As of June 2013, 583 SEZs have been approved, among which 158 zones have been operating. 	<ul style="list-style-type: none"> • The developers are exempt from corporate tax for ten years; the member companies receive an exemption from corporate tax for five years and a 50% deduction on corporate tax for five years. Additional preferential treatments of exemption/deduction on duty, commodity tax, or other taxes are available. 	Many SEZ projects have been conducted throughout the vast country. The characteristics of SEZs are to target only export companies (cf. DTZ for companies of domestic markets), and to offer tax incentives and other treatments for private developers who develop the Special Economic Zones and industrial complexes.
Cambodia	<ul style="list-style-type: none"> • By the Government Ordinance of December 2005, the Special Economic Zones System was established. • Among the 22 approved SEZs, eight zones are currently operating. 	<ul style="list-style-type: none"> • Exemption from Profit Tax and Import Duty as well as VAT levied on raw materials for export products. • Able to use a simplified custom clearance system, “One-stop service” 	Among eight Special Economic Zones that have been operating, Sihanoukville is a large-scale development, taking advantage of the convenience of being a port city.
Myanmar	<ul style="list-style-type: none"> • The Special Economic Zones Act took effect in January 2011. • For Dawei, Thilawa, and two other places, formalities for designation have been processed. 	<ul style="list-style-type: none"> • Period of land use: minimum of 30 years and extra renewable years from 10 to 45 in accordance with the investment volume • Income tax: maximum of 15 years of exemption/deduction on export profit • Commercial tax and VAT: exemption for export products 	A large-scale development of over 1,000 hectares for an EPZ project has been proceeding at Dawei and Thilawa Special Economic Zones. An example of the investment concentrating the nation’s effort.

Source: Prepared by JICA survey team

The systems of Special Economic Zones of Asian countries are arranged according to the World Bank's classification and definitions as seen in Table 3-6-3.

Table 3-6-3: Different types of Special Economic Zones in Asian Countries

	Malaysia	Thailand	Vietnam	India	Cambodia	Myanmar	Bangladesh
Free trade zones	—	—	—	—	—	—	—
Export processing zones	Free zones	—	Export processing zones, Economic zones	SEZ	EPZ	EPZ	EPZ
Hybrid EPZ	—	IEAT free zones	—	SEZ /DTZ	—	—	SEZ
Enterprise zones	—	BOI zone incentives	Incentive investment zones and Special incentive investment zones	—	—	—	EPZ
Freeports	—	—	—	—	—	—	—
Single factory EPZ	—	BOI zone incentives	—	—	—	—	—
Specialized zones	International financial district, Incentive district	—	Hi-Tech Park	—	—	—	Hi-Tech Park

Source: Special Economic Zones: Preferences, Lessons Learned, and Implications for Zone Development, 2008, FIAS (the World Bank group) with some addition by the survey team

Data Collection Survey on the Special Economic Zones in Bangladesh

Final Report

Chapter 4: Attitude Survey on the Japanese Firms for the development of SEZ

Chapter 4 : Attitude Survey on the Japanese Firms regarding the Development of Special Economic Zones in Bangladesh

4.1 Objectives and method of the attitude survey

Because Bangladesh is planning to develop special economic zones to invite Japanese firms, the Survey Team carried out a questionnaire survey on the attitude of Japanese firms and an interview survey to relevant firms for assessing planning needs of Japanese firms on their investment to Bangladesh.

In the questionnaire survey, the Survey Team has questioned to Japanese firms who could become candidates for investing into SEZ regarding on what points they place preference when they plan an investment for overseas production base, in order to identify and select the elements that SEZ should have.

In the interview survey of the relevant firms, the Survey Team interviewed trading houses that were likely to be involved in the development of SEZ and industrial complexes concerning the investment environment and the problems they have or may face in Bangladesh.

4.2 Analytical Results of the questionnaire survey

4.2.1 Outline of the questionnaire survey

(1) Objectives of the survey

The objectives are, for the benefit of the development of SEZ and industrial park in Bangladesh, to question Japanese firms that are candidates for investing into SEZ concerning the points they place preference on when establishing an overseas production base in order to identify and select the elements that SEZ should include.

(2) Method of the survey

The Survey Team chose certain firms and conducted a questionnaire survey by mail, as described below.

The survey was conducted to 1,867 Japanese firms (manufacturers) who have a production basis in China with annual sales of more than 5 billion yen. Given that Japanese firms have shown a clear trend towards the transfer of their production bases to Southeast Asian countries due to the sharp rise in labor costs in China and the worsening relationship between Japan and China, the Survey Team has chosen these firms on the assumption that some of their production bases are likely to be transferred to Bangladesh.

- 1) Survey period: From April to May 2013
- 2) Survey target: 1,867 Japanese firms having a production basis in China with annual sales of more than 5 billion yen
- 3) Survey items: The main survey items are as follows:
 - Candidate countries for overseas production bases:
It was asked to the firms “When your firm considers establishing a new overseas production base, which countries does your firm select as candidates?” in order to understand the extent to which Bangladesh attracts their interest compared with China and ASEAN countries.
 - Important or essential items to consider when choosing a country for the establishment of a production base:
It was asked to the firms about the “important items when choosing a country for the establishment of a production base” and “essential items (if these conditions are not fulfilled, the country cannot be selected for such a production base) to understand the elements that should be prepared when Bangladesh establishes SEZ.

4.2.2 Results of the questionnaire survey

The following results were gained from the questionnaire survey. The main results are shown here; the answers to all the questionnaire items have been compiled in “Annex IV (Results of the Questionnaire Survey).”

(1) Attributes of the responded firms

The number of respondent firms was 179. Many of them belonged to the industries of transportation equipment, chemical/medicine, electronic parts, and others. About a half of them were SEMs or medium-sized firms with a capital of up to 300 million yen.

Table 4-2-1: Attributes of the responded firms

category of business	N	capital	N
Those categorized under “Other manufacture”	34	– 10 million yen	1
Transport-related machinery	25	10 million– 100 million yen	55
Chemical and medicine	19	100 million – 300 million yen	27
Electronic parts, devices, and circuits	18	300 million – 1 billion yen	29
Electric equipment and appliances	16	1 billion yen or more	63
Food and beverages	15		
Iron and non-ferrous metals	15		
Production machines and appliances	12		
other than above	20		

(2) Candidate country for the establishment of an overseas production base

The Survey Team asked the firms about the “candidate countries when considering the establishment of an overseas production base.” About 10% of the responded firms (18 companies) chose Bangladesh as a candidate country.

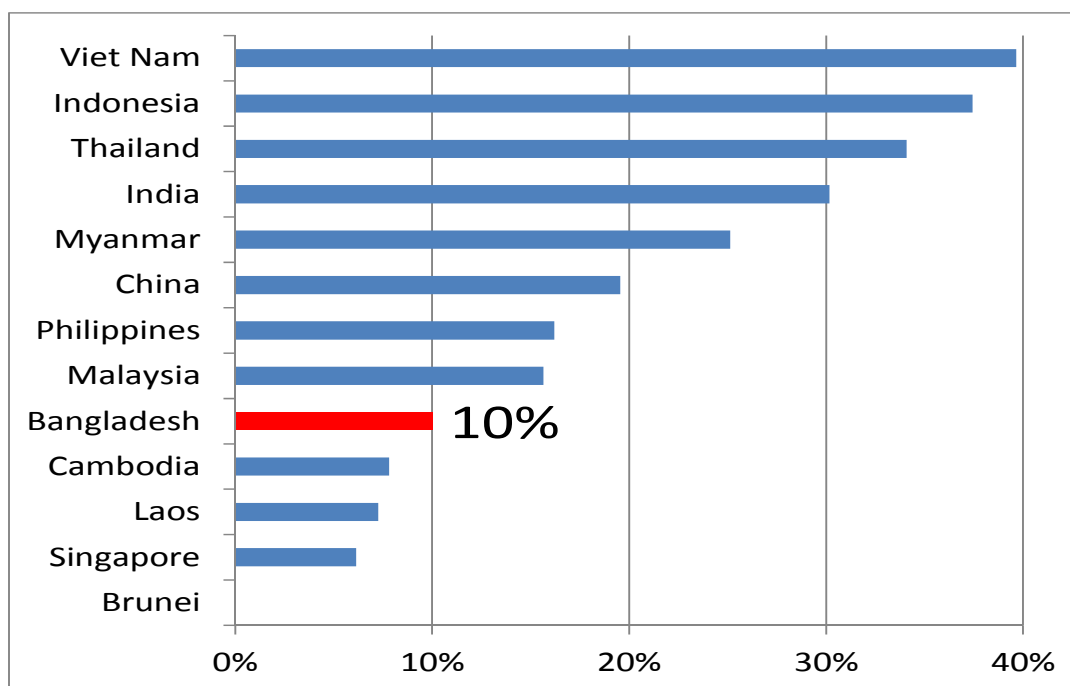


Figure 4-2-1: Candidate countries when considering the establishment of an overseas production base

The following are the attributes of the firms that chose Bangladesh as a candidate country for a production base. Bangladesh was chosen by ten SMEs with a capital of less than 300 million yen. Of these, four firms belong to the electronic parts, devices, and circuits industry. Although it was predicted before the survey that firms would come from the industries who are looking for a lower labor cost, such as the textile and RMG industries, in reality such process and assembling industries as the electronic parts, devices, circuits and the chemical and pharmaceutical industries showed interest in investing Bangladesh.

Table 4-2-2: Attributes of the firms that chose Bangladesh

category of business	N	capital	N
Electronic parts, devices, and circuits	4	- 10 million yen	0
textile	3	10 million- 100 million yen	8
Chemical and medicine	3	100 million - 300 million yen	2
rubber and leather	2	300 million - 1 billion yen	2
iron and non-ferrous metals	2	1 billion yen or more	6
food and beverages	1		
Glass and quarrying	1		
production machines and appliances	1		
Those categorized under "Other manufacture"	1		

(3) Important elements when choosing a production base

It was asked to the firms about the "factors on which they are concerned when choosing a production base." The following four factors gained higher scores.

- Condition of the basic infrastructure:

For the purpose of this survey, the development of the basic infrastructure has been defined as the degree of development of the utility infrastructures, such as "electricity, water supply, fuel (gas), telecommunications, drainage and waste disposal facilities, and access to ports." This subject was chosen as an important item by 88% of the firms.

- Labor conditions:

For the purpose of this survey, labor conditions have been defined as "whether or not inexpensive labor and high-quality human resources (managers and engineers) can be secured." This was chosen as an important item by 80% of the firms.

- Country risk:

For the purpose of this survey, the country risk has been defined as "security, political situation, natural disasters, necessity to provide bribes, and etc." This was chosen as an important item by 71% of the firms.

- Degree of development of the industrial infrastructure:

For the purpose of this survey, this has been defined as "the level of development of logistic service providers, raw materials procurement, subcontractors, and etc." This was chosen as an important item by 70% of the firms.

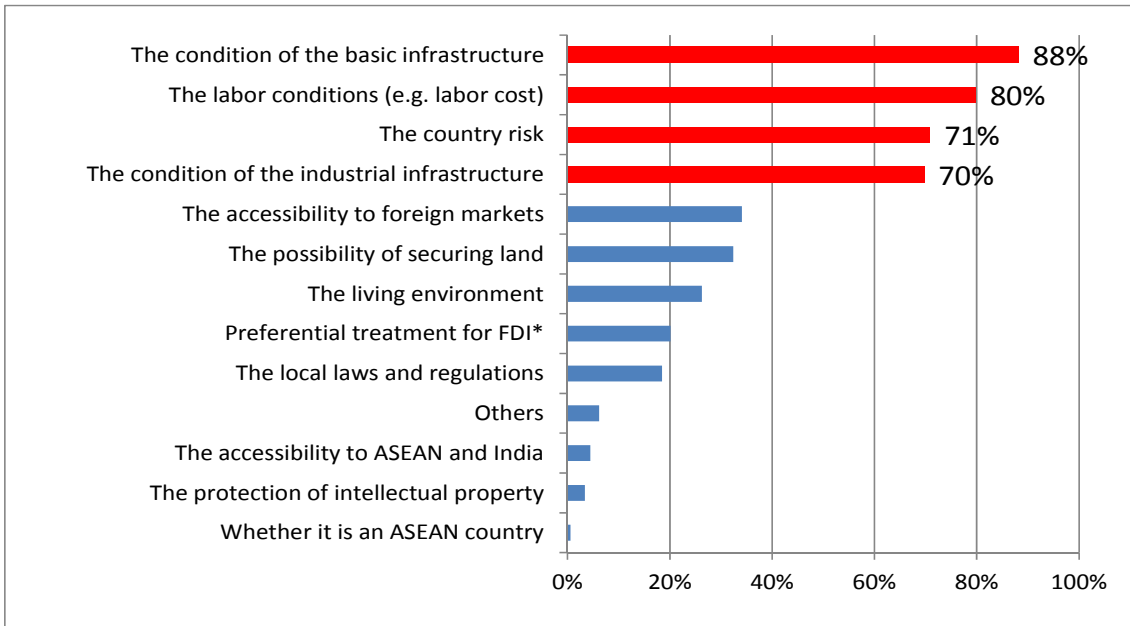


Figure 4-2-2: Subjects on which the firms are concerned when considering the establishment of an overseas production base

(4) Image of Bangladesh (points of which Bangladesh is inferior to other countries)

Using the same choices as those for “factors on which the firms are concerned when choosing a production base,” a question was made about “factors in which Bangladesh is inferior to other countries”. The following five factors showed higher scores. Among others, the “Condition of the basic infrastructure” and “Degree of development of the industrial infrastructures,” which also show higher scores as “factors on which the firms are concerned,” seem to require full consideration.

- Condition of the basic infrastructures
- Country risk
- Degree of development of the industrial infrastructure
- Living environment (residential environment for Japanese business personnel, etc.)

For the purpose of this survey, the living environment has been defined as “the living environment of Japanese business personnel, the possibility of access to Japanese food and food materials, the existence of hospitals and schools of international level, commercial facilities, etc.”

- No answer was made because the firms do not know the situation well

Of the respondent firms, 26% answered “We cannot choose any factors as we do not know it well.” This means that Bangladesh is not well known among Japanese firms. This may prevent Japanese firms from choosing Bangladesh as a “candidate country for overseas investment.” This may lead to a recommendation to conduct promotion activities in order to increase the presence of Bangladesh.

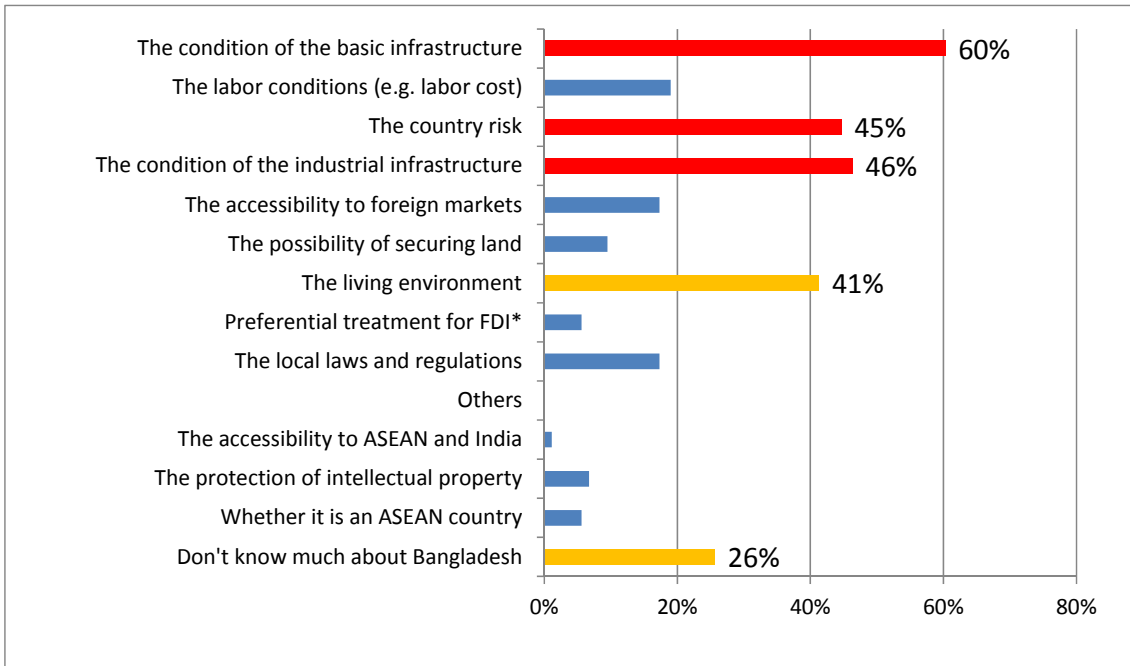


Figure 4-2-3: Image of Bangladesh (points which Bangladesh is inferior to other countries)

(5) Basic infrastructure (essential subjects)

With regard to the requirements on the basic infrastructures, question was made about the “Essential subjects.” An exceptionally high percentage of the firms answered with a “Stable power supply,” which indicates that it is essential to develop infrastructures for a stable power supply.

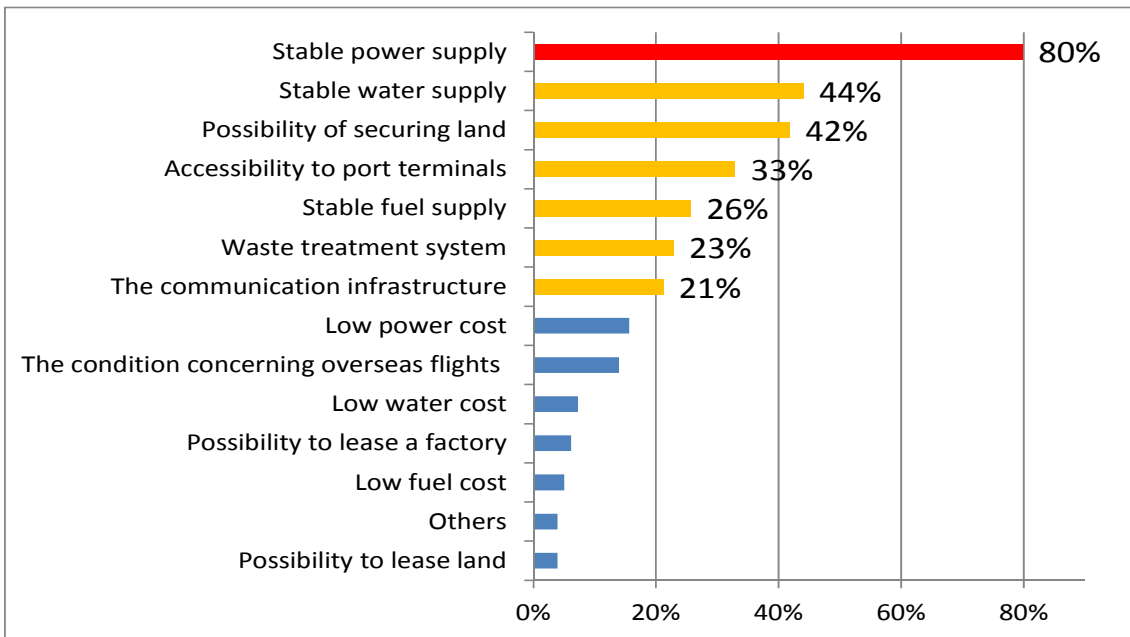


Figure 4-2-4: Basic infrastructure required (essential subjects)

(6) Industrial infrastructure (essential subjects)

With regard to details of the industrial infrastructure, it was asked to the firms about the “Essential subjects.” There are relatively many firms who answered the “Possibility of procuring raw materials” and “Concerns over the local logistics conditions and services providers,” which indicate that the degree of development of other firms involved in the materials supply and logistic services may be important for operating as a manufacturer.

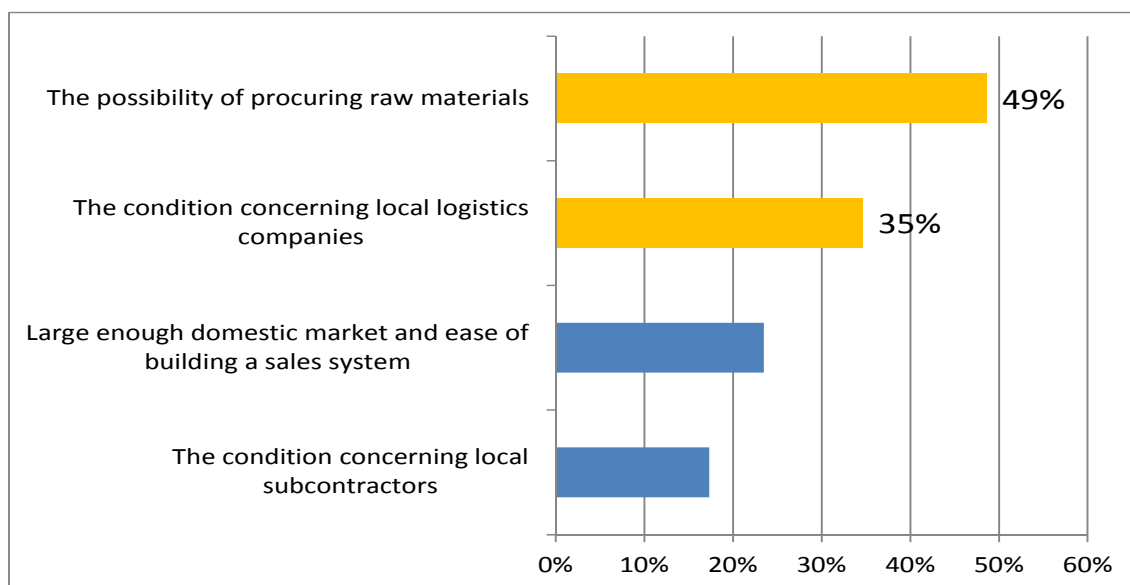


Figure 4-2-5: Industrial infrastructure required (essential subjects)

(7) Living environment (essential subjects)

With regard to the living environment, the “Essential items” were asked to the firms. An extremely high percentage of the firms answered “Existence of residential districts and accommodation facilities where Japanese business personnel can stay safely,” followed by the firms answering “Existence of reliable hospitals to which Japanese business personnel can visit.” Given that many firms answered “Country risk” to the question about the image of Bangladesh (points of which Bangladesh is inferior to other countries), it is especially important to improve the living and medical environment for Japanese business personnel and reduce the fear and apprehension on the living conditions there.

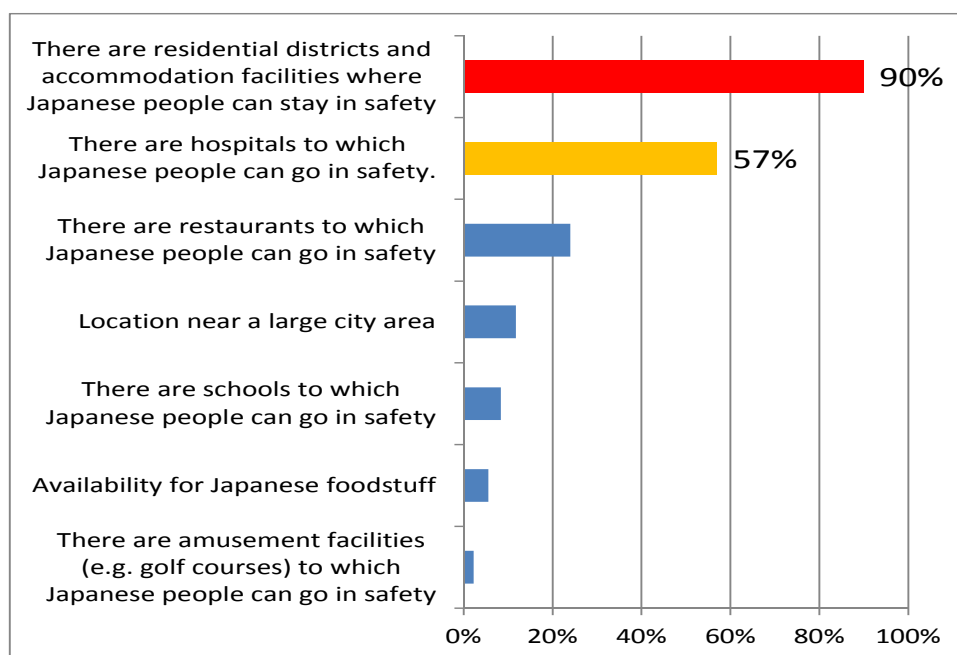


Figure 4-2-6: Living conditions of importance (essential subjects)

4.2.3 Suggestions gained from the results of the questionnaire survey

The suggestions gained from the results of the questionnaire survey can be summarized as below. Before examining the directions of the development of SEZ, it is important to take into consideration the concerns of these Japanese firms who are expected to invest into Bangladesh.

- The industries which may be interested in investing into Bangladesh are not only such labor-intensive industries as textile and RMG industries that the Survey Team has supposed earlier, but also such process- or assembling-type industries as the electronic parts industry and the chemical industry are also interested in Bangladesh. In the future, it is necessary to develop a SEZ that can cover not only labor-intensive industries, but also the industries as identified above.
- The elements on which the firms put preference when choosing a production base include the condition of the basic infrastructures, labor conditions, country risks, and the degree of development of the industrial infrastructures. It is necessary to examine the requirements on SEZ after taking into full consideration of these elements.
- Of the above-mentioned elements, the basic infrastructures and industrial infrastructures in particular are pointed out by many firms as elements where Bangladesh is inferior to other countries and may be the reason why firms do not choose Bangladesh as a country into which they want to invest. With regard to the living environment for Japanese business personnel, it is important to develop environments where they can live in peace, including

the development of safe residential and reliable medical facilities.

- In addition, as 24% of the responded firms answered “We do not know Bangladesh well,” presence of Bangladesh in Japan is not high. Given this situation, it seems necessary to establish sound policy and organizational structure at the authorities concerned for conducting consistent promotional activities.

4.3 Analytical Results of the interview survey

4.3.1 Outline of the interview survey

(1) Objectives of the survey

The objectives of the survey were, for the benefit of the development of SEZ and Industrial Parks in Bangladesh, to assess the possibility of developing SEZ by Japanese firms and to identify the needs in doing so, and try to contribute to providing a reference for examining the directions of SEZ development.

(2) Method of the survey

The Survey Team members directly visited firms to conduct interviews. The members conducted interviews according to the survey items prepared beforehand, arranging the questionnaires appropriately according to each company’s type of business and situation.

- 1) Survey period: From March to May 2013
- 2) Survey targets: trading houses and real estate developers anticipated to make efforts for the development of SEZ and Industrial Park and manufacturers and logistic services providers already located in Bangladesh.
- 3) Number of targets: 11 firms (5 trading houses, 3 real estate developers, 2 manufacturers, 1 logistic services provider)

4.3.2 Results of the interview survey

The major points shown in the following table were gained from the interview survey.

Table 4-3-1: Main points observed during the interview survey

Type of business	Contents of the interviews
Trading company	<ul style="list-style-type: none"> • Political uncertainty, such as Hartal, is a negative factor in this country. It greatly influences not only to Japanese firms, but also for all the economic activities. • The textile industry that exports to European countries and Japan is

	<p>making use of preferential duties.</p> <ul style="list-style-type: none"> • Regarding pharmaceuticals, they sell drugs patented by other firms that manufacture for developing countries using privileges under TRIP approved by WTO. However, these privileges will be valid only until January 1, 2016. Bangladesh wishes to extend the validity period for another 15 years. We have a sense of crisis that, if this is not approved, we might have to sell generic drugs only. • Japanese firms have so far invested mainly into the textile industry and light industry. In the future, the food, home electronics, and medical (generic) industries that target domestic markets in Bangladesh seem to be promising. • Although Bangladesh has participated in SAARC, because India has overwhelming power over other countries, the economic effects of SAARC cannot be expected as much those for ASEAN. The fact that Bangladesh has not participated in ASEAN is a great disadvantage for Japanese firms. • The Japanese firms that have already invested into Bangladesh have an issue: although there is a need to expand their business, there is no land available. If a SEZ is created, there will be great demand. • Although the labor costs are low, manufacturing costs as a whole are not necessarily low, because it takes time for logistic and a private electricity generation system is required due to the unstable supply of electricity and gas. • Although the price of domestic gas is kept low politically, the amount of gas deposits is not enough.
Real estate developer	<ul style="list-style-type: none"> • Because Bangladesh has problems in governance and infrastructure, it has a low priority as an investment destination. More priority is given to Myanmar and Cambodia. • On the other hand, some Japanese firms in China want to move to other countries due to the country risk and a sharp rise in personnel costs. Bangladesh may become a country into which such firms will move. Because there are large domestic markets, we are paying attention to the potential of Bangladesh. • Cooperation with local partners is essential for development. Foreign firms cannot deal in land affairs. • Although the obstacles to investment in real estate development are lower than those in trading companies, the IRR should be 20% or more. • Regarding development planning, it is necessary to change plotting

	<p>flexibly according to the changes in demand. Because the number of SMEs investing into Bangladesh has been increasing, the need for rental factories has also been increasing.</p> <ul style="list-style-type: none"> • JICA and the Japanese Government are expected to support the development of the off-site infrastructures, human resources education, and the partner country.
Manufacturer	<ul style="list-style-type: none"> • The selection of local companies as partners is important for a success of investment. Mergers have a great advantage with regard to factory location, labor management, sales promotion, and etc. • Especially the land systems in Bangladesh cannot be understood by foreigners. The foundation of a joint enterprise makes it possible to have choices other than an EPZ or SEZ. • If a company is located in an Industrial Park, the company may be influenced by neighboring factories in the event of Hartal, even if there is no riot within the company. This disadvantage does not exist in the case of the locations outside Industrial Park. • Although Bangladesh's exports are larger than its imports, because the domestic market has been expanding, we would like to place more importance on products for the domestic market.
Logistic services provider	<ul style="list-style-type: none"> • Although traffic congestion is heavy, because fuel expenses are low, transportation by truck is the mainstream. At present, cargoes are reloaded onto trucks after arriving at Chittagong port using marine containers. • There are many problems such as the disappearance (lost) of cargoes during domestic transportation. • Although the Bangladesh Government is enthusiastic about the advancement of manufacturers, it is not so much interested in improvement in the fields of logistics and other services. In addition, it is difficult to obtain approval for a business license for the logistic services in Bangladesh.

4.3.3 Suggestions gained from the results of the interview survey

The suggestions gained from the results of the interview survey can be summarized as below. When considering the directions of the development of SEZ, it is important to take into consideration to these points given by Japanese firms.

- Because the potential of expanding domestic market is expected, the demands for industrial sites for firms where making products for the domestic markets are expected to increase. It is

especially anticipated that SEZ shall be developed with consideration for the convenience of promising industries, such as food, home electronics, medicines (generic), and etc.

- Bangladesh is not an ASEAN member, which is a great disadvantage to the Country. Although the industries that export the products to advanced western countries have so far led the economy, Bangladesh is expected to invite industries that aimed at markets in South Asia, such as Bangladesh and SAARC.
- Demand for industrial sites is higher around major cities, such as Dhaka and Chittagong as well as sites near international ports and airports.
- Bangladesh is expected to develop SEZ that cause little anxiety about the infrastructures. In addition to negotiations with the Government about energy supply, adequate energy supply capacity to meet increasing demands is very important, including the construction of ports, logistic facilities, power plants, and other facilities that realizing the import of overseas coal.
- Besides the problems concerning SEZ/Industrial Park, there are problems related to logistic networks. Comprehensive measures shall be taken, including the construction of roads that connect EZ/Industrial Park with ports and airports, the stable operation of railways, and distribution through the use of inland waterways and inland container terminals.

4.4 Summary of the attitude survey on Japanese firms regarding the development of SEZ/Industrial Park

Based on the results of the questionnaire survey and the interview survey, the results of the attitude survey are summarized as follows:

- Target industries:

As described above, the survey team assumed before the survey that the labor-intensive industries such as the textile and RMG industries would draw higher interest among the industries in Bangladesh. However, according to the results of the questionnaire survey, not only these industries but also the electronic parts industry and the chemical industry also gained higher scores. In addition, according to the results of the interview survey, some firms expressed expectations for the development of SEZ/Industrial Park for the convenience for promising industries such as food, home electronics, and medicines (generic) in which domestic demand is expected to grow.

When considering target industries for the development of SEZ/Industrial Park, it seems necessary to include not only labor-intensive industries, but also process- and assembling-type industries such as the electronic parts industry and the chemical industry.

- Elements required for SEZ/Industrial Park:

According to the results of the questionnaire survey, the elements on which preference is placed when choosing a production base, shall include the conditions of the basic

infrastructures, competitive labor market, lower country risks and the degree of development of the industrial infrastructure. In addition, firms expressed in the interview survey certain expectations on the Bangladesh Government's support for energy supply and issues concerning logistic services.

Based on this, when developing SEZ/Industrial Park, it seems necessary to pay full attention to the basic infrastructures and industrial infrastructures so that investors' endeavors can be concentrated on their own businesses. Among others, a "stable power supply," which gained the highest score as an "essential subject" among the basic infrastructures, shall be considered as one of the essential elements. In addition, given that firms have anxiety about country risks, with regard to the living environment for Japanese business personnel, it is important to develop safe residential environments where Japanese business personnel can stay and enjoy reliable medical facilities which are affordable for Japanese people.

- Promotion:

As 24% of the responded firms answered "We do not know Bangladesh well" in the questionnaire survey, presence of Bangladesh in Japan is not so high. Moreover, regarding the "condition of the basic infrastructure," which showed the highest score as an important subject, about 60% of the firms answered "Bangladesh is inferior to other countries." Some responded firms may have answered this based on the traditional image and without sufficient information on the conditions of recent Bangladesh, which might led an avoidance of Bangladesh in their consideration for locating their production base. Based on this point, it seems important to establish sound policy and organization structure who will be involved in the promotional activities to publicize towards Japanese business community with more precise information on the advantages of Bangladesh and its SEZ/Industrial Park.

Data Collection Survey on the Special Economic Zones in Bangladesh

Final Report

Chapter 5: Exploring Candidate SEZ Sites and its Evaluation

Chapter 5: Exploring Candidate SEZ Sites and its Evaluation

In this Chapter, the background and objectives for the selection of the candidate SEZ sites shall be defined, then detailed description on the conditions and criteria to be applied for the selection of the candidate SEZ site shall be explained. The Survey Team has conducted evaluation of selected candidate sites along with the criteria and made ranking based on the scores gained through the evaluation exercise. Thereafter, development concepts have been formulated for two highly evaluated candidate sites from the short-term and long-term points of view. All the outcomes and analytical results of the questionnaire and interview surveys given to Japanese entities were properly forwarded to the tables of discussion for the formulation of the development concepts.

5.1 Background and objectives for selection of the candidate SEZ site

It is clearly declared in its supreme socio-economic developments plans such as Vision 2021 and the 6th five-year development plan (2011-2015) in Bangladesh that the Nation has to join the group of middle income countries by promoting the intensification of industry and transforming the working force from the primary industry to second and third industries. In Bangladesh, textile and RMG industries are outstanding among others and well known as the second largest manufacturing country in apparel and RMG products which accounts for approximately 70% of the entire export. Since the majority of export markets of these products are European countries and the U.S.A., Bangladesh industries are deeply affected by the down tones of these markets. In Bangladesh, eight (8) EPZs have been developed since the 1980s and these EPZ have contributed to accommodate RMG and other industries in its premises. On the other hand, production activities within these EPZs do not have much linkage with other industries located outside EPZ and the regional economy, and this has been an issue to be addressed.

Although these EPZs have been fully occupied now due to steady growth of the Bangladesh economy except those 3 EPZs located at the western part of the Nation, the GoB has decided not to develop new EPZ anymore but have introduced a policy to develop SEZs. Bangladesh however is faced with a shortage of industrial lands, due to large populations living in the relatively narrow territorial lands of Bangladesh. Although the GoB has an intention to convert such lands held by the GoB to SEZ and Industrial Parks, the Nation has not enough finance and technologies for the development of SEZ and is seeking support from external stakeholders.

5.1.1 Background of selecting potential SEZ sites in Bangladesh

The Bangladesh Economic Zones Authority (BEZA) which was established in October, 2010, has commenced the development of SEZ at the land held by the GoB with assistances from the

World Bank and International Finance Corporation (IFC). At present, BEZA is conducting development programs at five (5) candidate sites. However, rules and regulations related to the development of SEZ are not officially introduced.

On the other hand, the GoJ has decided to conduct a data collection survey on SEZs in Bangladesh in order to accelerate the development of SEZ which in turn help support the relocation of Japanese SMEs to Bangladesh. Thus, selection of the candidate SEZ sites has been conducted with the precondition that such an SEZ is used by Japanese investors. The selection has been focused to the candidate sites that Japanese business men can commute to from major cities such as Dhaka and Chittagong where various infrastructure, utilities and amenities are well equipped. Candidate sites which are adversely affected by harsh natural conditions will not be given higher priority, because operations of supply-chain production bases at such candidate sites will become a heavier burden to the investor.

5.1.2 Objectives of selecting candidate SEZ sites

The primary reason to identify and choose candidate SEZ sites is to accelerate the realization of SEZ by presenting a specific development concept to the selected SEZ sites. Two candidate SEZ sites have been chosen from short-term and long-term points of view and different development concepts were formulated for each site. After the formulation of development concepts, several assistance schemes in hard and soft natures which are deemed to be necessary to realize the proposed development concepts, have been recommended.

5.2 Requirements for the selection of SEZ site and its evaluation axes

5.2.1 Requirements for selection of SEZ Sites

(1) Approach

The Survey Team has tried to select suitable sites verifying the certain requirements among various sites which are considered by BEZA and the World Bank. Interviews and discussions were held with BEZA seeking for the details on the long-list candidate sites (30 sites) , but no information and materials were provided. According to BEZA, they have made a short-list of priority sites; Mirershorai (Chittagong), Anwara (Chittagong), Sherpur (Syllhet), Sirajgonj (Rajshahi) and Mongla, and approved two sites which were proposed by the private sector, A.K.Khan and Garment Village (a clothing industrial park).

Considering these situations, meetings were held for discussions with the JICA Dhaka Office, and it was decided that an intensive exploring works should be conducted in the areas around Dhaka and Chittagong through other sources in the private sector, in addition to the short-listed sites by BEZA.

Intensive exploration surveys have been commenced by the Survey Team by asking to the prominent business groups and real-estate corporations in Bangladesh, for suitable lands in the vicinity of Dhaka and Chittagong.

(2) Selection requirements

The following conditions were set as outlines of the selection for shortlisting of the candidate sites. These conditions play as the basis of evaluation of the candidate sites.

- 1) The site shall be located within a commuting area of approximately 1.5 hours from the residential areas of foreigners in Dhaka and Chittagong, taking into account the reasonable commuting time by Japanese business personnel.
- 2) No site shall be selected at the lands where a development restriction is applied, due to existence of rare species, and other reasons and no land in dispute.
- 3) No site shall be selected where any opposition and/or protection activity is found.

a. First stage for qualitative evaluation

Any candidate site which does not comply with the following requirements was not considered as the site for further evaluation.

- The candidate sites that will be not accessible by car within 1.5 hours from the residential areas for foreigners in Dhaka and Chittagong at the target year (within three (3) years from now).
- The candidate sites fall in the areas where development activity is restricted for any reasons such as the existence of rare species within the sites.
- The candidate sites where a disputed land constitutes all or a part of development site.
- The candidate sites where any opposition and/or protesting activity by local government and habitants was confirmed.
- The candidate site in Dhamrai, Ashulia district was excluded from the short-list as the field surveys were not conducted with reasons related to security order issued by the Embassy of Japan in Bangladesh and JICA. Meantime, the candidate site in Anawara, south of Chittagong was excluded, since the site was deemed to be unsuitable because of its harsh natural and meteorological conditions.

b. Second stage for quantitative evaluation

- After the qualitative evaluation at the first stage, a quantitative evaluation was conducted using the evaluation axes and all the evaluation figures were tabulated in the Evaluation Scorecard and these candidate sites were posted along with rankings.
- Among these highly evaluated candidate sites, the Survey Team made a decision on which sites are chosen for developing concept plans. Two site were selected from a short-term perspective and long-term development.

The overall evaluation work flow is shown in the figure below.

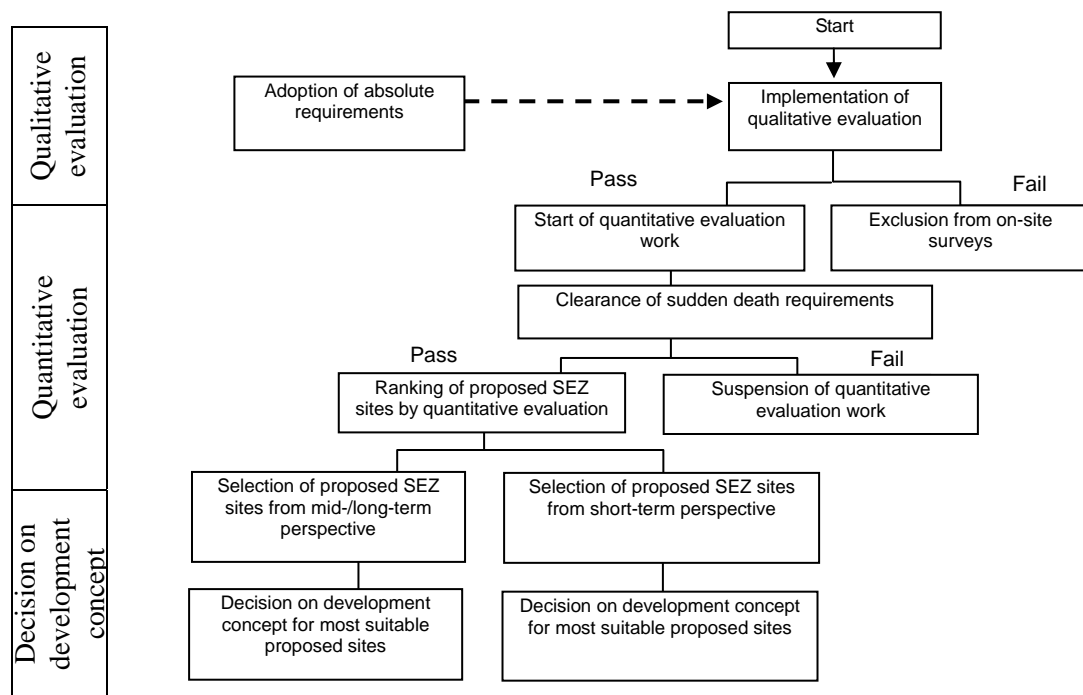


Figure 5-2-1: Evaluation Flow for the candidate SEZ sites

5.2.2 Evaluation axes of the candidate sites for development of SEZ

The following four major axes are established as evaluation exercise.

a. Location

- Evaluation of the site location.
- Specifically, the size and expandability of sites, necessity of embankments and reclamation works as flood mitigation countermeasures, present condition of land use, status of other owners, predicted compensation, related organizations (public and private services), stage of pollution and the ground contamination, etc.

b. Surrounding Area

- Evaluation of the relationship between the proposed site and surrounding region, the state of manual labor resources, etc.
- Specifically, the connectivity to neighboring towns, the potential for acquiring workforce (quantity, quality), linkage with neighboring industries, etc.

c. Natural Disaster

- Evaluation of vulnerability to natural disasters such as flooding from overflowing rivers, tidal surges caused by cyclones, landslides, earthquakes, etc.

d. Infrastructure

- In relation to transportation, evaluations were conducted focusing on accessibility to roads, railroads, international airports, international ports, land ports, etc.

- Evaluations were conducted focusing on accessibility to infrastructure facilities such as electric power, gas, water supply, waste disposal, communications, public transportation, etc.

For the candidate sites subject to evaluations, site reconnaissance surveys were conducted by Japanese Experts (two or more) from the Survey Team together with local consultants. For evaluation items that were difficult to confirm through on-site surveys, evaluations were implemented by local consultants through interviews and cartographically.

Format of Evaluation Scorecard is shown in the Table 5-2-1.

Table 5-2-1: Evaluation Scorecard for SEZ candidate sites

Evaluation Scorecard for the proposed SEZ Sites in Bangladesh (Candidate No. :)							
Key Aspect	Evaluation Points	Specific Requirements	Evaluation Scores				
			1	2	3	4	5
Locations (350 points)	Total Area (ha)	Size & Shape of the Site					
		Expandability					
	Level of Landfill Required						
	Existing Land Use & Zoning	Existing Land Use (Number of Annual Harvests)					
		Convertibility to Industrial Use					
	Land Ownership	Number of Land Owners					
		Major Occupation (Ratio of skilled workers)					
		Agreement to Land Acquisition					
	Resettlement & Compensation	Number of Resettlements (house holders)					
		Magnitude of Compensation					
	Existence of Supporter	Public Sector (Past Experience)					
	Private Sector (Technical/Financial Capability of proponent)						
	Contamination of Land						
	Soil Bearing Capacity						
Sub Total							
Surrounding Area (200 points)	Distance to Main Towns	Physical Distance to the available amenities					
		Availability of Amenities in Main Town					
		Commuting Time from Prime Residential Areas in Dhaka/Chittagong					
	Labor Market	Availability of labor force					
		Quality of Labor					
		Quality of Middle Managers					
	Linkage with Forward/Backward Industry	Distance from Existing Industrial Clusters					
Adjacent Development	Adjacent Development of public services						
Sub Total							
Natural Disaster (150 points)	Risk of Flood & Land Erosion	Risk of Submersion					
		Risk of Land Erosion					
		Risk of Land Slides					
	Risk of Cyclone						
	Risk of Earthquake						
Sub Total							
Infrastructure (300 points)	Transportation (Availability & Distance)	Access to Main Highway					
		Access to Railway Line					
		Access to Main sea Port					
		Access to Major Airport					
		Access to Inland Container Terminal					
		Access to Land Port/Customs					
	Power Supply	Access to National Grid					
		Supply Capacity					
		Frequency of Outage					
	Gas Supply	Access to Gas Pipeline Network					
		Supply Capacity					
	Water Supply and Sewage System	Distance to Water Supply Source					
		Supply Capacity & Water Quality					
		Distance to Effluent Treatment					
	Solid Waste Treatment	Distance to Solid Waste Treatment					
Telecommunication							
Availability of Public Transport to Site							
Sub Total							
Grand Total (1,000 points)							

Table 5-2-2: Grading standards for evaluating candidate sites (quantitative & qualitative evaluation)

Specific Requirements		Evaluation Scores					Note
		1	2	3	4	5	
Size & Shape of the Site	Size(ha)	S<50ha	50ha≤S<100ha	100ha≤S<200ha	200ha≤S<300ha	300ha≤S	Bad shape (not rectangle); -1
Expandability	addable Size(ha)	S=0ha	S<50ha	50ha≤S<100ha	100ha≤S<200ha	200ha≤S	
Level of Landfill Required	Height(m)	5m<H	2m<H≤5m	1m<H≤2m	0m<H≤1m	H=0m	
Existing Land Use (Number of Annual Harvests)	Count	C=3	C=2	C=1	C=0.5	C=0	
Convertibility to Industrial Use	-	Very difficult	Difficult	Normal	Easy	Very easy	
Number of Land Owners	Number	100<N	10<N≤100	1<N≤10	N=1	Government	
Major Occupation (Ratio of skilled workers)	-						
Agreement to Land Acquisition	-	Very difficult	Difficult	Normal	Easy	Very easy	
Number of Resettlements (house holders)	Number	250<N	100<N≤250	50<N≤100	0<N≤50	N=0	
Magnitude of Compensation	Money(BDT)	10^8<M	10^7<N≤10^8	10^6<M≤10^7	0<M≤10^6	M=0	
Public Sector (Past Experience)	-						
Private Sector (Technical/Financial Capability of proponent)	Capability (%)	C≤20	20<C≤40	40<C≤60	60<C≤80	80<C≤100	
Contamination of Land	-	Heavy	Medium	A little	Little	None	
Soil Bearing Capacity (Geological map)	-	Swamp, Paddy field	-	Sand, Cultivation	-	Upland, Hill	
Physical Distance to the available amenities	Distance(km)	100km<D	75km<D≤100km	50km<D≤75km	30km<D≤50km	D≤30km	
Availability of Amenities in Main Town	-	Very poor	Poor	Good	Very good	Excellent	
Commuting Time from Prime Residential Areas in Dhaka/Chittagong	Time(hr)	2.0hr<T	1.5hr<T≤2.0hr	1.0hr<T≤1.5hr	0.75hr<T≤1.0hr	T≤0.75hr	
Availability of labor force	Number	N<5000	5000≤N<10000	10000≤N<30000	30000≤N<50000	50000≤N	
Quality of Labor	-	Very poor	Poor	Good	Very good	Excellent	
Quality of Middle Managers	-	Very poor	Poor	Good	Very good	Excellent	
Distance from Existing Industrial Clusters	Distance(km)	150km<D	100km<D≤150km	50km<D≤100km	25km<D≤50km	D≤25km	
Adjacent Development of public services	-						
Risk of Submersion	Frequency(-/year) Depth(m)	5/10<F 1.0m<D	2/10<F≤5/10 0.5m<D≤1.0m	1/10<F≤2/10 0.1m<D≤0.5m	0/10<F≤1/10 0<D≤0.1m	F=0/10 D=0m	adopt the lower rank
Risk of Land Erosion	Risk	Very high	High	Low	Very low	No risk	
Risk of Land Slides	Risk	Very high	High	Low	Very low	No risk	
Risk of Cyclone	Risk	Very high	High	Low	Very low	No risk	
Risk of Earthquake	Risk	Very high	High	Low	Very low	No risk	
Access to Main Highway	Distance(km)	50km<D	25km<D≤50km	10km<D≤25km	5km<D≤10km	D≤5km	
Access to Railway Line	Distance(km)	50km<D	25km<D≤50km	10km<D≤25km	5km<D≤10km	D≤5km	
Access to Main sea Port	Distance(km)	200km<D	100km<D≤200km	50km<D≤100km	25km<D≤50km	D≤25km	
Access to Major Airport	Distance(km)	100km<D	75km<D≤100km	50km<D≤75km	25km<D≤50km	D≤25km	
Access to Inland Container Terminal	Distance(km)	75km<D	50km<D≤75km	20km<D≤50km	10km<D≤20km	D≤10km	
Access to Land Port/Customs	Distance(km)	100km<D	75km<D≤100km	50km<D≤75km	25km<D≤50km	D≤25km	
Power/ Access to National Grid	Distance(km)	75km<D	50km<D≤75km	25km<D≤50km	10km<D≤25km	D≤10km	
Power/ Supply Capacity	Power(MW)	P<10MW	10MW≤P<50MW	50MW≤P<100MW	100MW≤P<200MW	200MW≤P	250kW/ha
Power/ Frequency of Outage	Frequency(-/day)	10/10<F	2/10<F≤10/10	1/10<F≤2/10	0/10<F≤1/10	F=0/10	
Gas/ Access to Gas Pipeline Network	Distance(km)	50km<D	20km<D≤50km	10km<D≤20km	5km<D≤10km	D≤5km	
Gas/ Supply Capacity	Volume(10^3Nm3/day)	V<10	10≤V<25	25≤V<50	50≤V<75	75≤V	250Nm3/day/ha
Water/ Distance to Water Supply Source	Distance(km)	20km<D	15km<D≤20km	10km<D≤15km	5km<D≤10km	D≤5km	
Water/ Supply Capacity & Water Quality	Volume(m3/day)	V<1000	1000≤V<2500	2500≤V<5000	5000≤V<7500	7500≤V	25m3/day/ha
Sewage/ Distance to Effluent Treatment	Distance(km)	20km<D	15km<D≤20km	10km<D≤15km	5km<D≤10km	D≤5km	
Distance to Solid Waste Treatment	Distance(km)	20km<D	15km<D≤20km	10km<D≤15km	5km<D≤10km	D≤5km	
Telecommunication	-	Very poor	Poor	Good	Very good	Excellent	
Availability of Public Transport to Site	-	Very poor	Poor	Good	Very good	Excellent	

Each axis was evaluated at a 5-grade basis, but as 4 evaluation fields are emphasized, the points allotted are ultimately converted in a way as shown below, in order to facilitate evaluations properly with weighing 4 evaluation fields as shown in the column of allotment which tally to 1,000 points in total.

Quantitative evaluation items and allocation of score points:

Major Aspects	Allocation of scores	No. of evaluation axis	Full score of evaluations
(1) Location	350 points	14 axes	70
(2) Surrounding Area	200 points	8 axes	40
(3) Natural Disaster	150 points	5 axes	25
(4) Infrastructure	300 points	17 axes	85
	1,000 points in total	44 axes	

Moreover, when the following conditions are reconfirmed in the evaluation process, they are to be excluded from selections.

Sudden death evaluation items (3 items):

- When it has been determined that development is restricted for reasons such as the existence of rare species within the candidate site
- When it has been observed that there is disputed land within the candidate site
- When it has been observed that local government or local residents are opposed to development of the candidate sites

Evaluation technique for evaluation axis (5-grade evaluation):

Evaluation shall be done using 5 grades shown in the Scorecard.

- Grade 1 evaluation : Evaluation points: 0
- Grade 2 evaluation : Evaluation points: 1
- Grade 3 evaluation : Evaluation points: 2.5
- Grade 4 evaluation : Evaluation points: 4
- Grade 5 evaluation : Evaluation points: 5

Aggregate scores and ranking:

Evaluation points assessed by site reconnaissance survey shall be aggregated according to the following calculation formula.

- Location: 350 x Subtotal evaluation points/70
- Surrounding Area: 200 x Subtotal evaluation points/40
- Natural Disaster: 150 x Subtotal evaluation points/25
- Infrastructure: 300 x Subtotal evaluation points/85

The overall evaluation scores of the candidate SEZ sites are found by aggregating scores from the above-mentioned evaluation exercise.

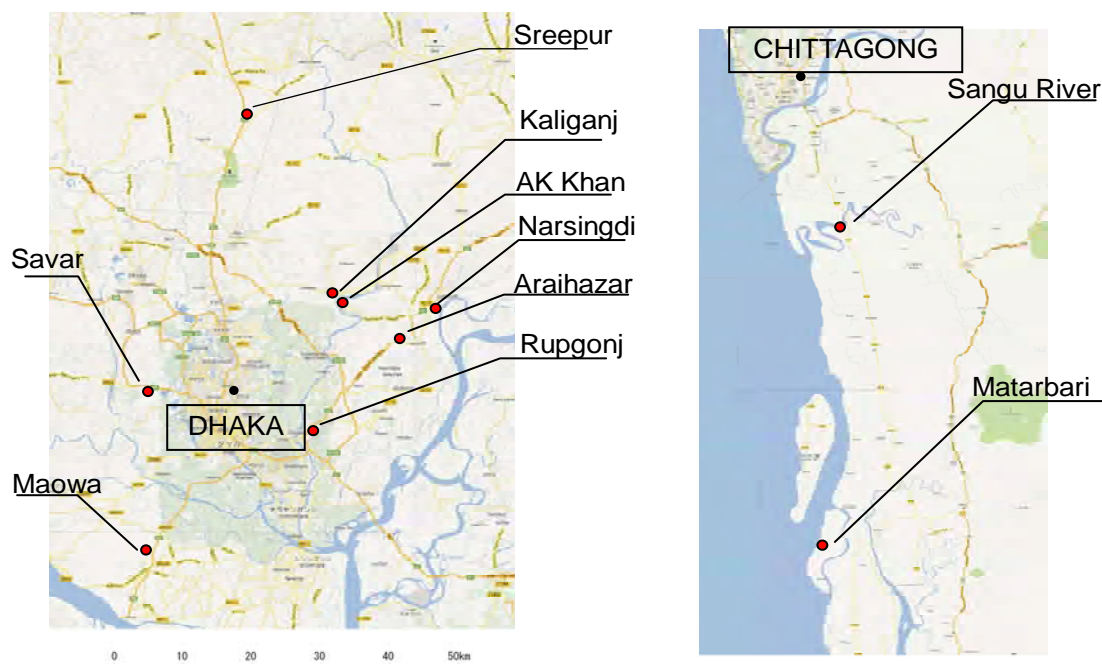
5.3 Evaluation results on the candidate sites for Development of SEZ

5.3.1 Evaluation results for candidate sites for Development of SEZ

The 10 locations were short-listed as candidate sites in this survey are shown in Table 5-3-1 and Figure 5-3-1.

Table 5-3-1: List of candidate SEZ sites subject to the evaluations

No.	Name	Location	Owner
1	Narsingdi	Baghata, Narsingdi	Narsingdi District Commissioner
2	AK Khan	Polash, Narsingdi	A.K. Khan & Co., Ltd.
3	Kaliganj	Kaliganj, Gazipur	Private Sector
4	Sreepur	Sreepur, Gazipur, Dhaka	Cotton Development Board
5	Savar	Savar, Dhaka	Bengal Development Corporation
6	Maowa	Sreenagar, Munshiganj, near Maowa Ferry Gat	Amin Mohammad Foundation
7	Rupgonj	Golakandail, Rupganj, Narayanganj	Private Sector
8	Araihazar	Rasulpur, Araihazar, Narayanganj	Private Sector
9	Sangu River	Sangu River Estuary, Banshkhali, Chittagong	Chittagong District Commissioner
10	Matarbari	Matarbari, Masheshkali, Cox's Bazar	Cox's Bazar District Commissioner



Prepared by JICA survey team

Figure 5-3-1: Location map of candidate SEZ sites selected for evaluations

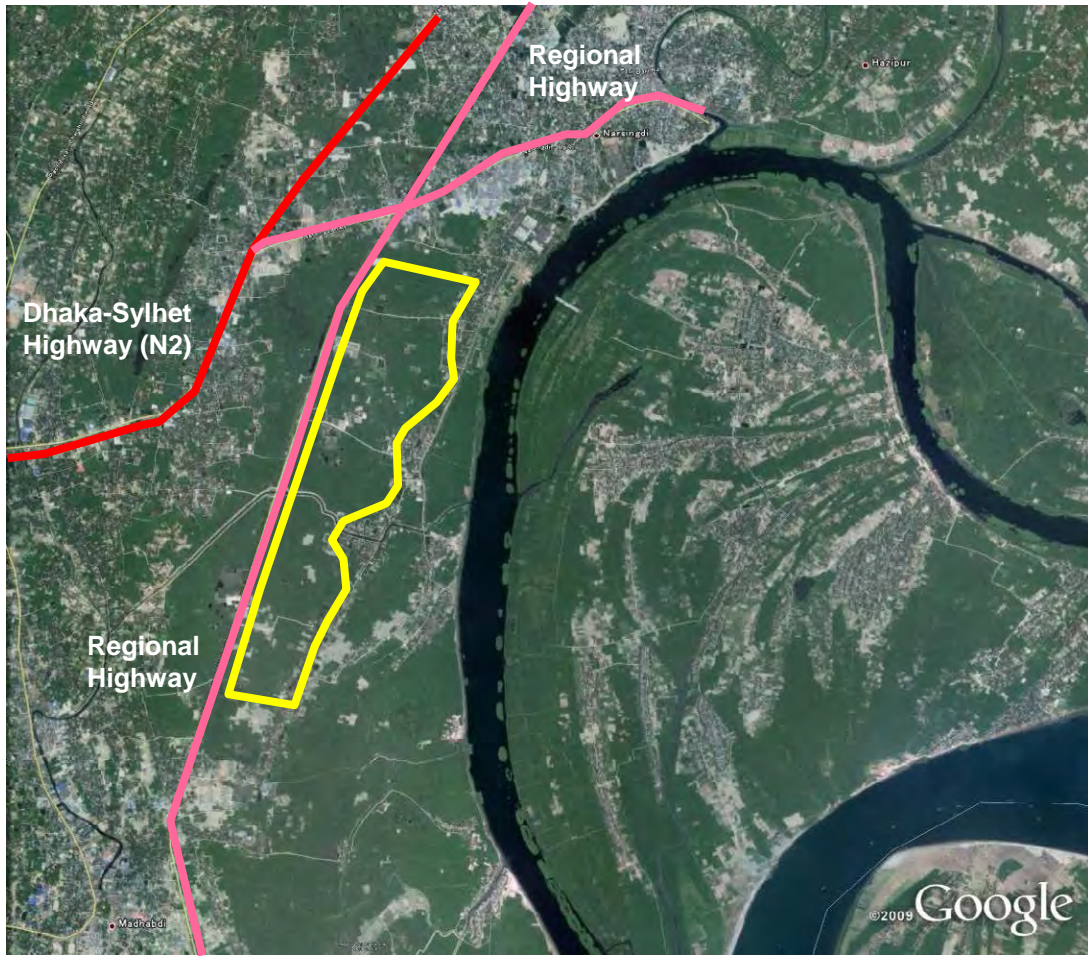
(1) Narsingdi

The Narsingdi candidate site is located on the west side of the main town of Narsingdi, and the site has approximately 280ha. of lands. There are upwards of 100 other private owners at present. The site is convenient for transportation, as the west side of the site is close to the Narsingdi - Araihasar Highway (Regional Highway 114) and the Dhaka - Shilet Highway (National Highway 2) runs at approximately 1km west. The site is approximately 55km from Dhaka (based on assumption that the Gulshan, the prime residential area in Dhaka where many foreigners live; same assumption shall be applied hereinafter). The site is approximately 290km from Chittagong International port. The land is currently used as agricultural land (paddy fields). There is no housing, so resettlement will not be an issue. The site is close to rivers and is on slightly low ground, so it is at risk of being submerged when floods occur. It is thought that there is potential for future expansion, as the surroundings are mostly used as agricultural land.

Narsingdi river port is nearby, but the port was used as a passenger transport at present.



Figure 5-3-2: Location map-1 of the Narsingdi Site



Source: Created by survey team

Figure 5-3-3: Location map-2 of the Narsingdi site



Photo: Narsingdi site

(2) A.K.Khan

The A.K.Khan candidate site is located at Palash, Narsingdi, a place that is currently being developed by local development company A.K.Khan, and the site area is approximately 100ha. At present, approximately 60ha of the lands has been acquired, and the remaining 40ha is in the process of being acquired. The site is located on the curve of the Shitalakshya River, and reclamation work is currently underway. The company plans first to construct a container terminal (approx. 20ha), followed by a SEZ (approx. 60ha) and a non-commercial area (approx. 20ha). The company is also planning to construct a power plant (approx. 250MW) on another site. The site is in a location with inconvenient road access around 10km from the Dhaka—Shilet Highway (National Road 2). This site can be reached by crossing an upstream bridge from the Tongi-Kaliganj Highway (Regional Highway 301) from Dhaka in the direction of the opposite shore (Kaliganj) of this site, but it is quicker to cross directly by boat. Kaliganj is approximately 30km away on the opposite shore.

The environment for distribution to Chittagong will be greatly improved if a container terminal is constructed.

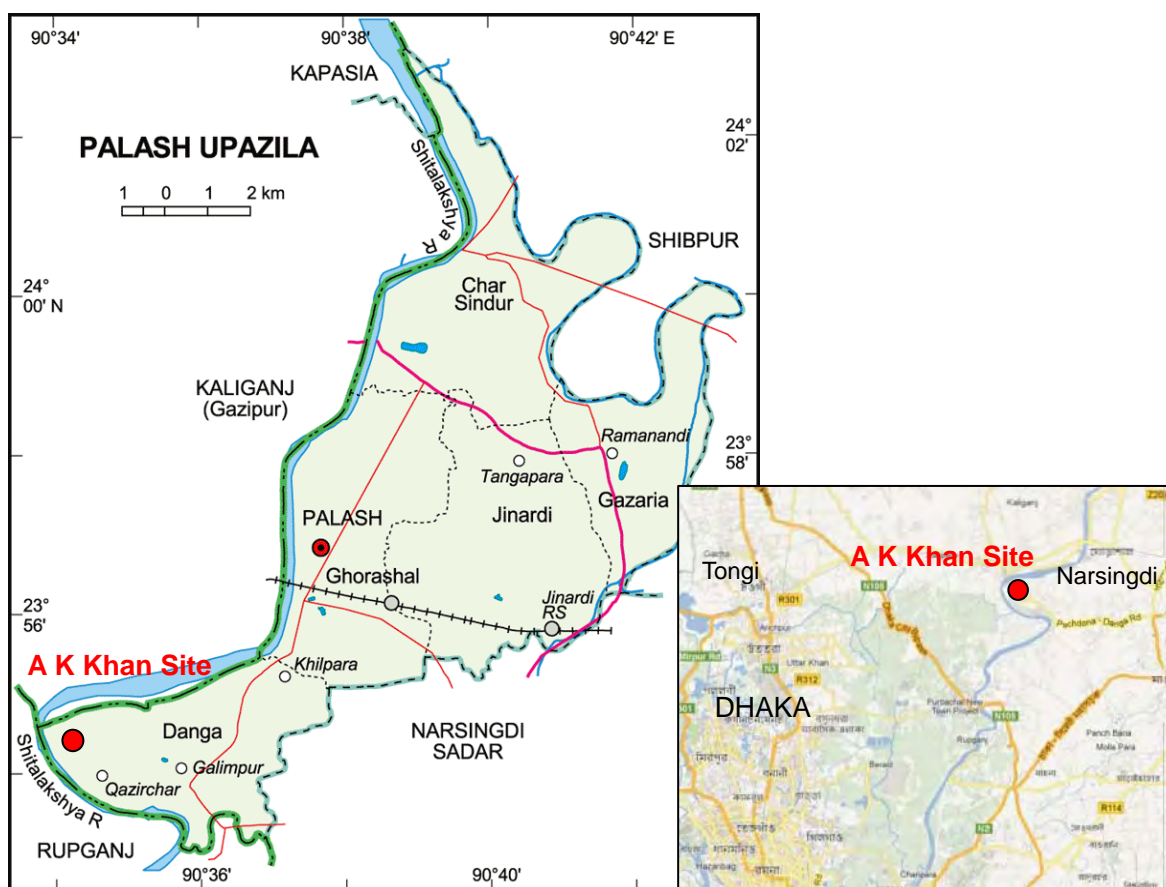


Figure 5-3-4: Location map-1 of the A.K.Khan site



Figure 5-3-5: Location map-2 of the A.K.Khan site

Source: Created by survey team

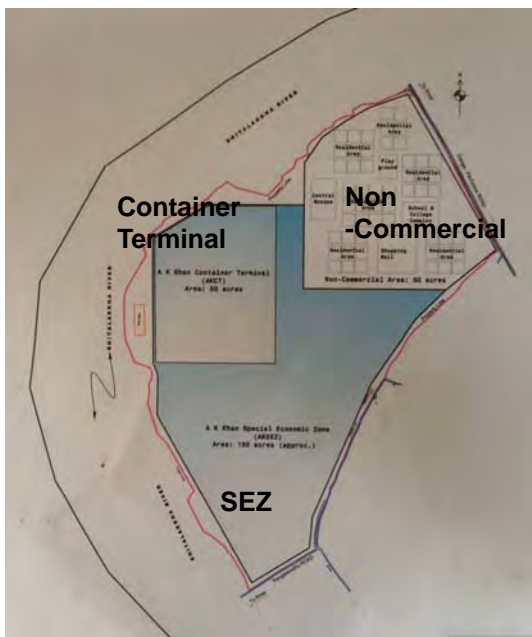


Photo: A.K.Khan site and plan

(3) Kaliganj

The candidate site at Kaliganj is located to the south of the Kaliganj Bazar in Gazipur, and the site area is approximately 40ha. This site was an ex-factory site occupied by the Moslin Cotton Mill. Gates, walls and internal buildings, etc. remain at the site. The factory covers around 60% of the site, while the remaining 40% is made up of ponds and the housing complex for factory workers. There are several dozen of private owners on the site. Since the site is an ex-factory site, the lands are prepared and there is no need for constructing embankments as flood countermeasures.

The Tongi-Kaliganj Highway (Regional Highway 301) passes the site on its north side, ensuring good road access. However, while this is a paved road with approximately 5.5m of width, there is in reality very heavy traffic congestion due to existence of markets and residential areas along the route according to RHD, and the traffic volume of AADT 20,000 vehicles/day means that it will be necessary to expand the road to four lanes. There is however no prospect of construction work so far as the provision of a budget for the widening work is still pending.



Figure 5-3-6: Location map-1 of the Kaliganj site



Source: Created by survey team

Figure 5-3-7: location map-2 of the Kaliganj site

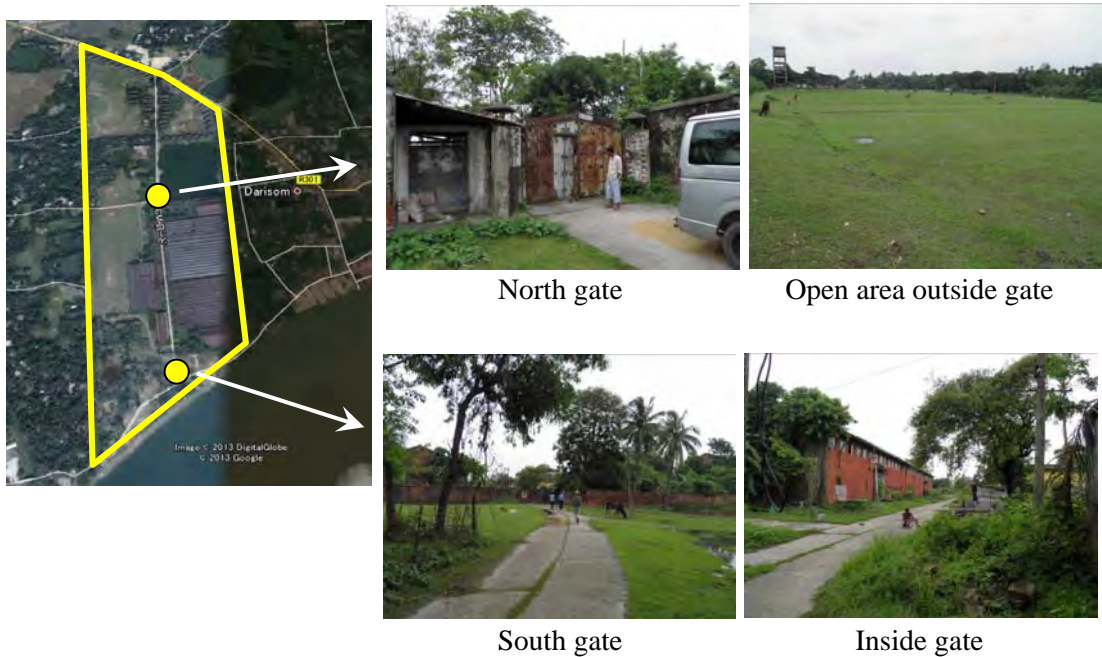


Photo: Kaliganj site

(4) Sreepur

The Sreepur candidate site is used as a “Cotton Research Training and Seed Multiplication Farm”, and the site area is approximately 60ha. The site has convenient access, as it faces the Dhaka-Mymensingh Highway (National Highway 3) and is located approximately 45km from Dhaka. There are currently problems with traffic congestion at the intersections with the Dhaka bypass road, but it is likely that the traffic situation will be improved, if the widening and grade-separation works being currently implemented by ADB comes to completion.

Since owner of the premises is the Cotton Development Board, it is possible to expropriate all of the land on the site in one lump, but developing the site as an SEZ is subject to decision by relevant government organizations such as the Ministry of Agriculture and Ministry of Industry. This area is at higher ground in the north of Dhaka city, and is not prone to flooding. Therefore, it is likely that there will be little need for land reclamation to establish a SEZ when developing this candidate site.

The site is surrounded by settlers such as farmers, so expropriation of land will be required when expanding the site.

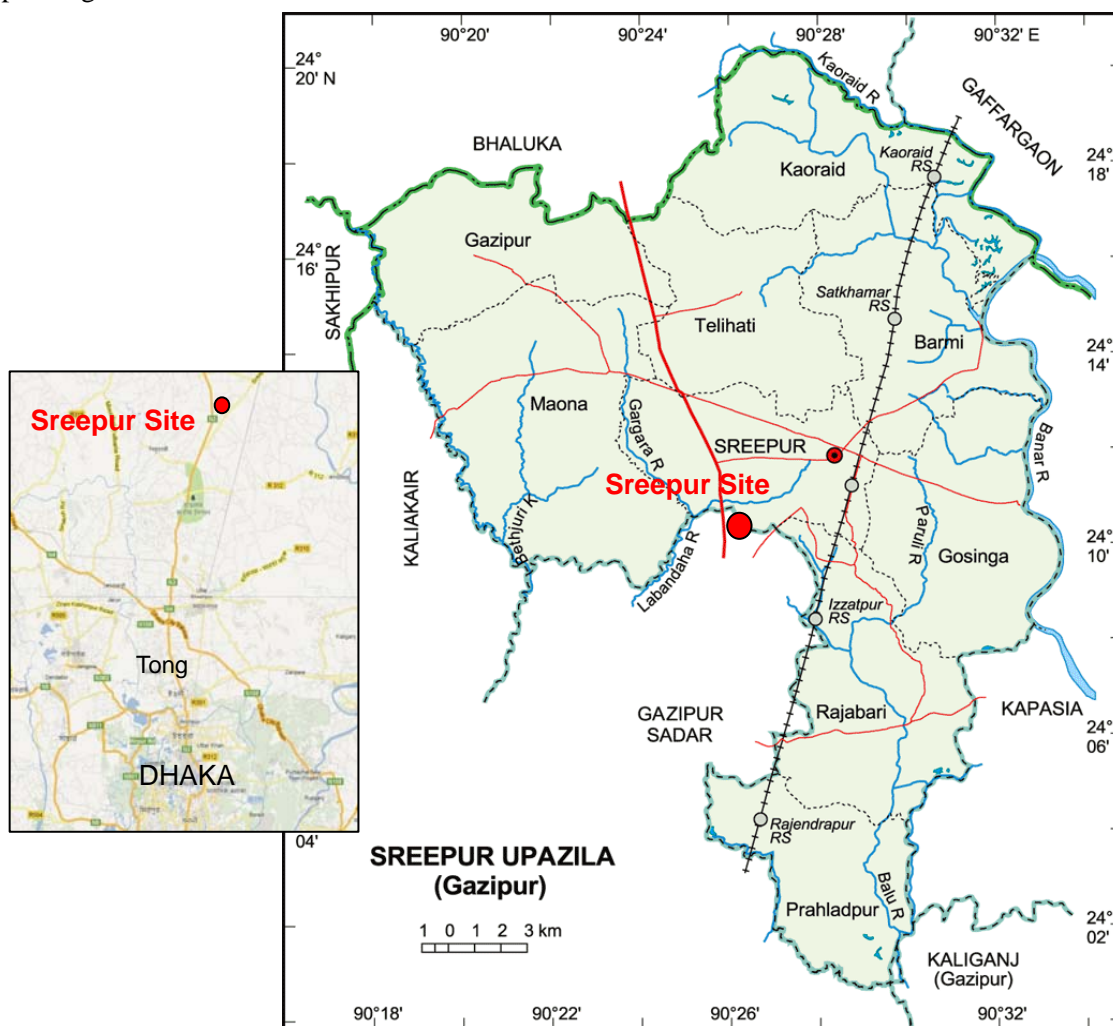


Figure 5-3-8: Location map-1 of the Sreepur site

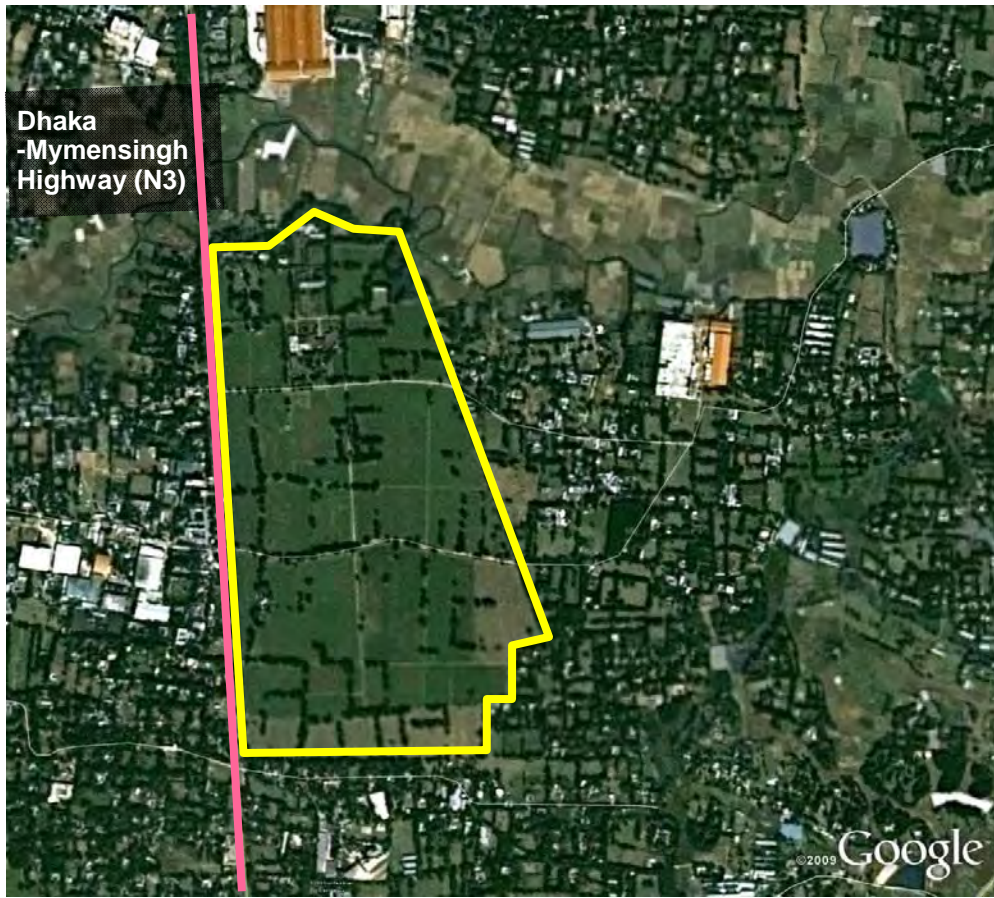


Figure 5-3-9: Location map-2 of the Sreepur site

Source: Created by survey team



Dhaka-Mymensingh Highway (N3)



Entrance Gate of Cotton Research Center



Photo: Sreepur site

(5) Savar

This candidate site covers an area of approximately 220ha in Savar Upazila, to the west of Dhaka city. The site faces the south side of the Dhaka-Aricha Highway (National Highway 5) and it has excellent access to the National Highway. It is also close to Dhaka city, with a commuting time of around 30 minutes from the residential area for foreigners in Dhaka city such as Gulshan. The site also has convenient access to Dhaka International Airport, which is approximately 20km away. The site also has good access for water transportation, as it is close to Amin Bazar of Turag River on the east, which is just 4km away. The Modhumoti Model Town is adjacent to the site on the east side.

This site is partly located on higher ground that is rarely submerged. Apart from the high ground, the rest of the site is used as agricultural land (paddy fields).



Photo: Transformer substation 2km east of the site

Photo: Boats moored at Amin Bazar



Photo: Walking to the site from the National Highway 5



Figure 5-3-10: Location map-1 of the Savar site



Figure 5-3-11: Location map-2 of the Savar site

Source: Created by survey team



Photo: Savar site

There are no settlements within the site, thus no fear on resettlement. The owner of the site is one of Bangladesh's leading private development companies, which has a positive attitude to changing the land into a SEZ, therefore it is assumed that there will be no difficulties.

Apart from the high ground on the candidate site, the rest of the site is at lower ground, so reclamation of at least 4m is required. Figure 5-3-13 shows the RAJUK Land Use Plan (Dhaka Metropolitan Development Planning Area / Integrated Detailed Area Plan 2010-2015). This figure shows that the proposed site is in a flood prone zone between Turag River on the east and Dhaleswari River on the west.

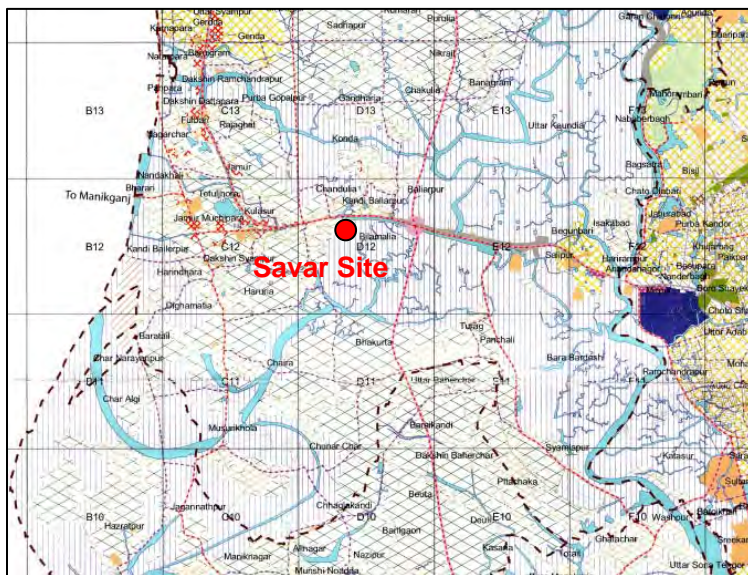


Figure 5-3-12: Land Use Plan by RAJUK

(6) Maowa

This candidate site covers an area of approximately 600ha in Sreenagar Upazila. Situated on the north side of the Dhaka-Maowa Highway (National Highway 8), the site has good access to the National Highway. While the site is not too far from Dhaka with a distance of approximately 35km, there is traffic congestion at around the Buriganga Bridge No. 2 (Bangladesh-China Friendship Bridge). The land is owned by 100 or more owners which include some farmers and there are issues related to the resettlement. There is a possibility of sub-merging risks for about 2m of water in the rainy season, thus reclamation of land for is necessary.

The Padma Bridge on the Dhaka-Maowa Highway is under planning, and it will remarkably improve the road network with the southwest region when the bridge is completed

The developer has commenced land acquisition and some of the lands have already been acquisitioned.



Photo: Difference in elevation between planned site and National Highway





Figure 5-3-13: Location map-1 of the Maowa site



Source: Created by survey team

Figure 5-3-14: Location map-2 for proposed Maowa site

Dhaka – Maowa Highway



Photo: Maowa site

The photo below shows the site that will serve as a base for the construction of the proposed Padma Bridge (storehouse for materials, etc.). An embankment of with 6m of height has already been constructed.



Photo: Area around Maowa and current state of reclaimed land