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Investment Policy Review of Bangladesh
Speaking points

By
James Zhan
Director
Division on Investment and Enterprise
UNCTAD

Investment Policy Review of Bangladesh

Speaking points

Presentation of James Zhan

29 April 2014

Honourable Minister Amu,

Excellencies,

Distinguished participants,

Ladies and Gentlemen,

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I am honoured and pleased to present to you the main findings and recommendations of the Investment Policy Review (IPR) of Bangladesh.

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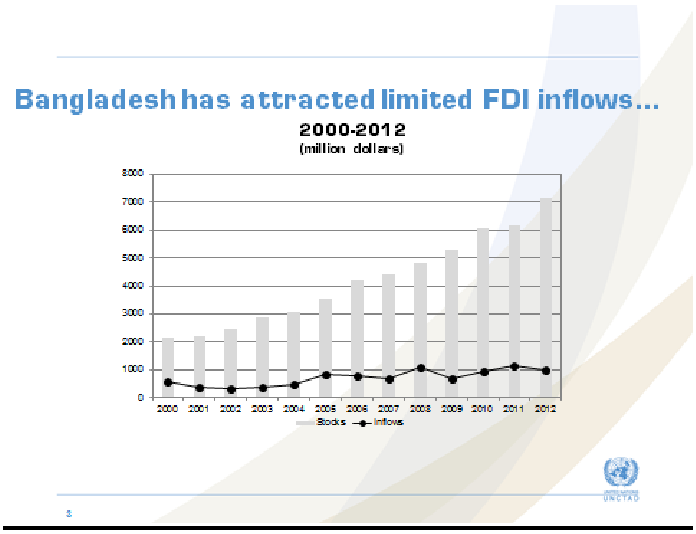

Bangladesh has achieved significant progress in the past decade with economic growth reaching nearly 6% annually. Almost doubling in the second half of the 2000s compared to the first half of the decade, the FDI stock has increased steadily even though inflows were at relatively low levels. In recent years, FDI inflows into the textile sector, including ready-made garment, have gained in importance and played a catalytic role.

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Furthermore, Bangladesh has enormous potential as a location for FDI. The country not only has an abundant and competitive workforce, in terms of labour costs, but Bangladesh also benefits from a strategic geographical location between the largest emerging markets (China and India), which could facilitate its integration into regional and global value chains.

Moreover, it enjoys preferential access to high-income markets like the European Union and the United States. The success of the ready-made garments sector is testimony to the vibrant entrepreneurial private sector. It is exemplary that a LDC can manage to develop its dynamic capabilities and gain its international competitiveness in manufacturing, and become one of the world leading exporters in garments. Additionally, there is substantial potential to develop a large middle-income domestic market.

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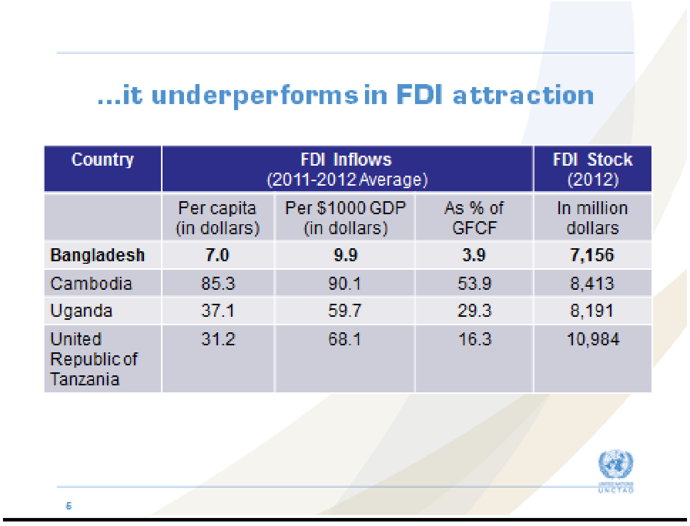

Country	FDI Inflows (2011-2012 Average)			FDI Stock (2012)
	Per capita (in dollars)	Per $1000 GDP (in dollars)	As % of GFCF	In million dollars
Bangladesh	**7.0**	**9.9**	**3.9**	**7,156**
Cambodia	85.3	90.1	53.9	8,413
Uganda	37.1	59.7	29.3	8,191
United Republic of Tanzania	31.2	68.1	16.3	10,984

But statistics show that Bangladesh underperforms in FDI attraction. The FDI stock in 2012 was $7.2 billion. Bangladesh also ranks behind countries such as Cambodia, Uganda and Tanzania in terms of FDI inflows per capita, per $1000 GDP, and as a percentage of gross fixed capital formation. This demonstrates the great potential for FDI attraction.

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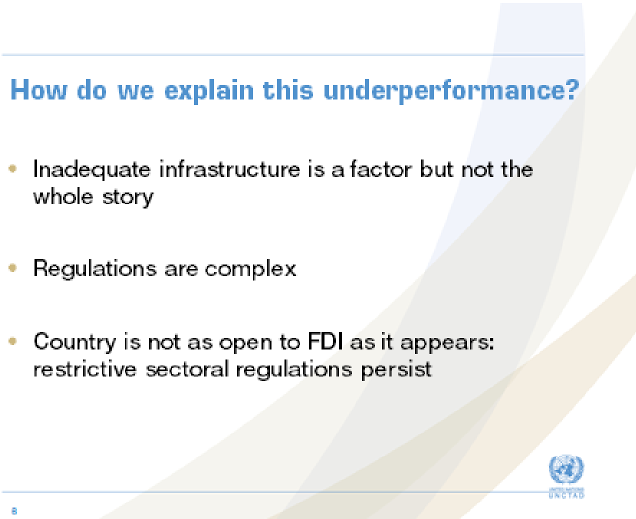

So, how do we explain this underperformance?

The IPR shows that inadequate infrastructure is an important contributing factor affecting the business environment. But it does not account for the whole story. There is a complex regulatory framework in place that makes it challenging for domestic and foreign investors to operate.

Indeed, the Review finds that Bangladesh is not as open to FDI as it appears, and restrictive sectoral regulations persist, which have negatively affected the country's investment environment.

Against this background, the IPR calls for reforms to unlock Bangladesh's FDI potential in the interest of achieving its long-term sustainable development objectives. Allow me to expand into some of the more pertinent regulatory issues that need to be addressed if FDI is to play a more prominent role in the country's sustainable development agenda.

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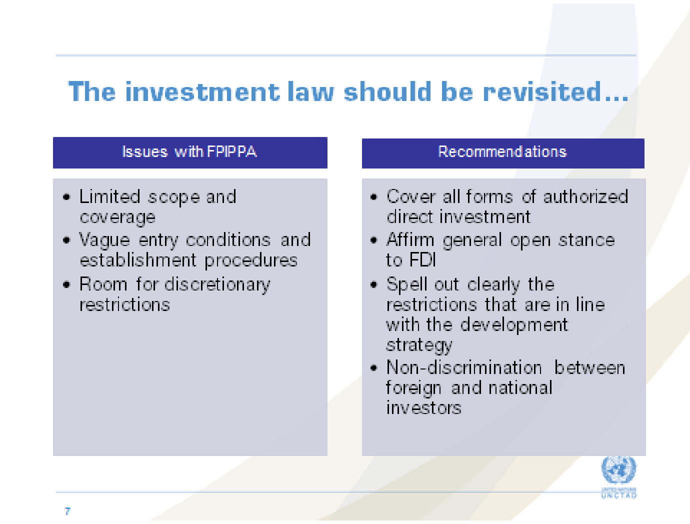

The first measure we recommend is to revisit the Foreign Private Investment Promotion and Protection Act of 1980 – the FPIPPA.

In its current form, the law has limited scope and coverage, which makes it applicable only to industrial undertakings and those services which have been listed in the country's industrial policy. It covers mostly investor treatment, protection against expropriation and repatriation of capital and earnings. The law remains however rather vague when it comes to entry conditions and establishment procedures. For instance, it pledges openness to foreign investment while the right that it reserves to impose additional conditions are not clearly defined in the law. As a result, the Law leaves room to apply discretionary restrictions to the investment environment. It would be better, argues the IPR, to set out the conditions for investment – domestic and foreign – in a clear and transparent manner in line with the country’s overall development strategy.

Given the existing situation and the desire expressed by the Government to attract and benefit from more FDI inflows, the IPR recommends drafting a new investment law, which would:

1) Cover all forms of authorized direct investment;

2) Affirm a general open stance to FDI, whilst clearly spelling out regulations in line with the country's development strategy; and

3) Preserve the principle of non-discrimination and transparency.

The IPR also calls for a consolidated investment policy that harmonizes sectorial regulations with the general investment law.

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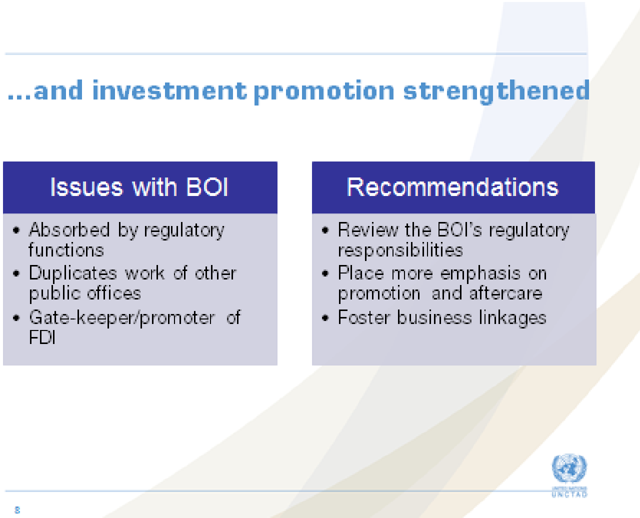

Another area key to unlocking FDI potential is investment promotion. The Board of Investment – the BOI – is in charge of promoting and facilitating investment. However, much of the BOI's resources are employed in regulatory functions, even though many of these functions fall under the mandate of other public offices. The BOI serves a double role of gate-keeper and promoter of FDI.

The IPR recommends reviewing the BOI's regulatory responsibilities, and to place more emphasis on its promotional activities. The IPR suggests that BOI adopt a client-oriented approach with regard to facilitation and aftercare activities; and develop expertise to support targeted promotion efforts in priority sectors. It would also benefit from more actively promoting business linkages between foreign and domestic firms and from continuous advocacy to reform investment policy in areas where it identifies weaknesses.

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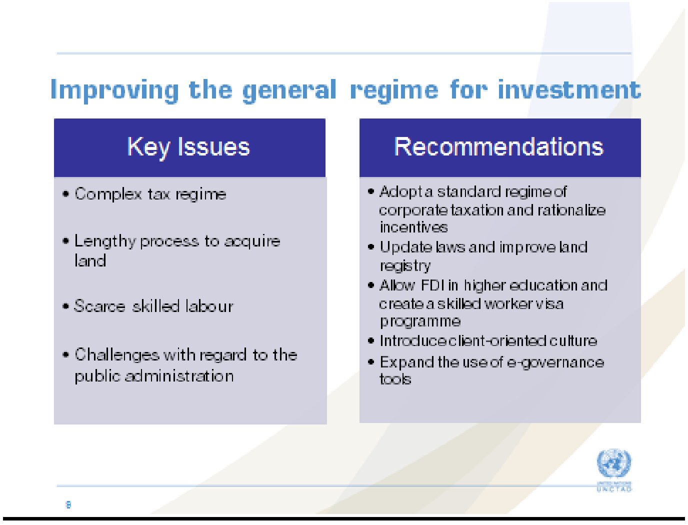

Allow me to say that the regulatory issues affecting investment go beyond those strictly related to FDI. For instance, Bangladesh faces major tax policy challenges. The tax regime is complex and difficult to comply with. There are differentiated corporate income tax rates and a complex web of tax incentives. The IPR recommends simplifying corporate taxation into a standard regime with one base rate. It also suggests rationalizing incentives subject to a cost-benefit analysis and measurable development outcomes in line with UNCTAD's Investment Policy Framework for Sustainable Development (IPFSD).

Facilitating access to land for industrial parks and infrastructure development is another important issue. The regulatory framework for land in general suffers from its lack of coherence, outdated laws, a poor land registry and frequent court disputes related to land titles. As such, it needs reform in light of modern practices, whilst protecting the interests of smallholders. The IPR recommends updating the relevant laws and improving the land registry. Concerning FDI, the IPR suggests the long-term provision of land in industrial parks, and addressing land clearance issues for road development.

Scarcity of skilled labour is a constraint on FDI attraction in Bangladesh. Despite the country's abundant workforce, business surveys show that technical and managerial talent is in short supply. While there has been a rapid growth in access to higher education, there are capacity and quality bottlenecks that could benefit from foreign involvement. The IPR recommends facilitating the collaboration between domestic and foreign educational and vocational training institutions. It also recommends creating a skilled-worker visa scheme to facilitate access to foreign talent. These visas would be sponsored by companies, be linked to a specific job and subject to credential checks.

Public administration is another area where improvements could be made. Here, the IPR recommends adopting a client-oriented culture of service in public administration. This would entail introducing client charters, and specifying service that investors can expect to receive from a public office. Bangladesh should also seek to expand the use of e-governance tools to improve efficiency and transparency.

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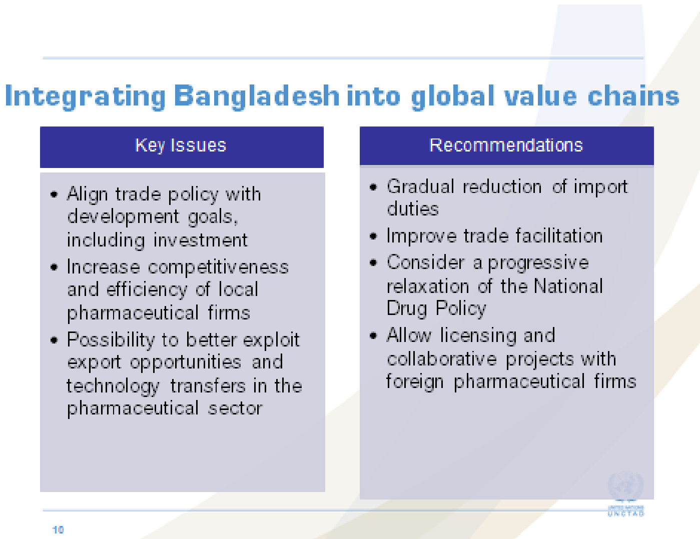

Let me now move on to the area of global trade. Although the country has made significant headway towards a more open trade policy, some barriers — including non-tariff ones — remain. This makes it difficult for firms based in Bangladesh to insert themselves into international value chains. The IPR recommends adopting an export-oriented trade policy that endorses the gradual reduction of import duties on raw materials, intermediate and capital goods in those export-oriented manufactures. It also calls for improvement in trade facilitation and support to local firms to identify export opportunities. Moreover, the country should continue to secure preferential market access to key developed economies and with strategic partners such as China and India.

The IPR has looked into trade and FDI policies in the case of the pharmaceutical sector, which are illustrative of the need for adequate policy coherence in the context of global value chains. In 1982, Bangladesh closed most of this sector to FDI and promoted the development of local manufacturing. Since then, the domestic manufacturing sector experienced a huge expansion. But as the end of the TRIPS exemption for pharmaceuticals benefiting LDCs begins to loom, the local pharmaceutical industry is at a crossroads and the current model is starting to show its limitations. To foster competitiveness at the global level and capacity to take advantage of export opportunities and global industrial restructuring, the Review recommends considering a progressive relaxation of the National Drug Policy, opening up gradually the sector to FDI, including through joint ventures, and encouraging greater technology transfer through licensing and other collaborative projects with foreign firms.

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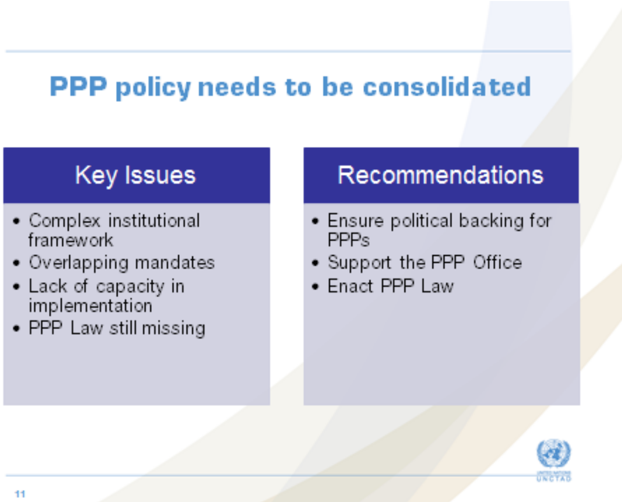

Let me turn to the potential for FDI in public infrastructure. The Government has identified major developmental challenges. An unreliable electricity supply means businesses depend on expensive and inefficient self-generation. Poor transport access to remote areas makes it difficult for rural communities to take advantage of potential markets. Congested roads and railways create bottlenecks for trade logistics and make it expensive to transport goods. Likewise, the lack of a deep sea port means Bangladesh continues to depend on transhipments from neighbouring countries, affecting the country's export competitiveness and potential as a logistics hub.

Across the board, the country has shown interest in using PPPs and concessions to address some of these issues, but a complex and changing institutional framework prevents major initiatives from being successfully implemented. There are many public offices involved at different stages of PPP implementation and sometimes their mandates overlap. Implementation capacity is also complicated by changes in the contract terms at advanced stages of tendering or the withdrawal of planned projects. Through the adoption of the 2010 PPP Policy, Bangladesh has encouraged private investment through PPPs. However, the absence of a fully-fledged law is a weakness that needs to be addressed if authorities want to increase the predictability of PPPs. The IPR understands that a draft PPP law has received "In-Principle Approval" from a Cabinet Committee chaired by the Honourable Prime Minister, and calls for its timely enforcement. The IPR also welcomes the creation of the PPP Office, as it could help coordinate the currently dispersed implementation efforts. Full support and resources should be allocated to the office so it can carry out its important mandate.

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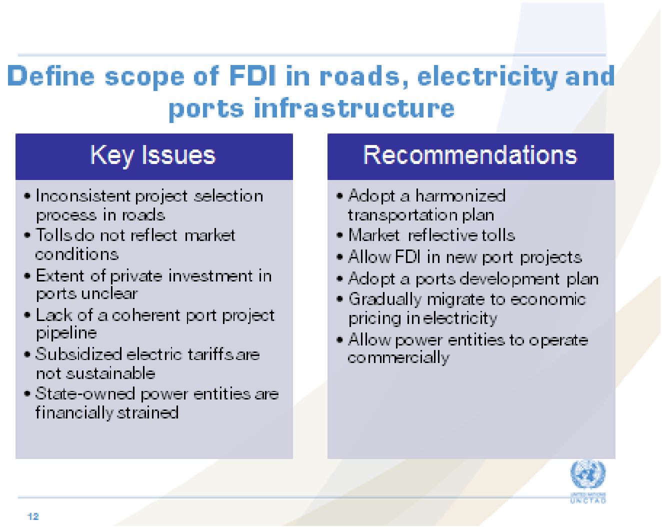

Let me now move to some project-specific challenges. Conditions for FDI through PPPs in roads and bridges seem, propitious thanks to heavy traffic volumes. However, the implementation capacity remains underdeveloped. Concerning planning, inconsistency in project selection has been a challenge, and often off-plan projects have been approved without following procedures. Mistakes in implementation are also a hindrance. For example, the Government has provided subsidy funding for expensive, commercially viable projects (such as the Dhaka airport-city expressway), which risks diverting scarce public funds from initiatives in less developed regions. The IPR recommends creating a single prioritized pipeline for roads and bridges to ensure all projects undergo the same scrutiny and process. In addition, tolling should be more market determined in urban areas, in order to free resources to support infrastructure projects in lower income areas, even if toll-free alternatives should be offered whenever possible.

In ports, it is still unclear how private operations could co-exist with State-owned authorities in a competitive environment. Although the Government has no wish to privatize existing port assets, the IPR recommends that it considers a mixed public and private sector model in both new port infrastructure and the expansion of existing facilities. The IPR also recommends adopting a ports development plan that fully joins-up with rail and road planning. A pre-requisite for PPPs in port infrastructure is the creation of an independent regulator.

Finally, the IPR finds that foreign investors are interested in financing projects in electricity. However, the combination of purchase-power agreements for private operators with subsidized tariff schemes that set the price below cost of production does not seem sustainable in the long-run, posing a threat to public finances. In addition, a lack of energy source diversification also threatens the policy of self-sufficiency in energy. The IPR recommends policies for gradually moving towards economic pricing of domestic gas and coal for industrial consumption and diversifying energy sources (including imports). Other policies include encouraging a fully independent energy regulator; and promoting clean energy, in the context of a renewable energy development plan.

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Mr. Chairperson,

I would like to end my presentation by expressing our great appreciation to the Government of Bangladesh and its Geneva mission for its precious collaboration in the IPR process. Allow me to also reiterate our gratitude to the Government of Sweden for its financial support to this UNCTAD programme.

My appreciation also goes to the UNCTAD IPR team led by Ms. Dupasquier. I would like to congratulate the authors of the report, including Mr. Adachi and Mr. Baumgarten, who are with us today, as well as colleagues who contributed to the report. I would also like to thank Mr. Arguedas for his support with the organization of this event.

I thank you very much for your attention and look forward to your comments, feedback and questions on the Investment Policy Review.

Thank you.