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The Investment Scenario in Bangladesh-Problems and Prospects

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Abstract: During the past three decades, FDI turned out to be the major resource for economic development in the developing countries along with domestic resource mobilisation. The context has changed so far because of declining trend in official development assistance (ODA), political unrest both in local and international arena and above all in the wake of globlisation. To attract more and more FDI the government of Bangladesh has been trying to establish private investment friendly environment. But increasing private investment will continue to remain a challenge for the country. The study presents the underlying reasons behind poor inflow of FDI and suggests measures to overcome these problems. In addition this study has made an attempt to identify some of the sectors for prospective investment and highlight the facilities and incentives currently prevailing in the country both for local and foreign entrepreneurs.

Key words: Investment scenario, Official development assistance, Private investment

Introduction

Countries that are unable to generate sufficient domestic saving to promote their economic growth have historically sought finance from other countries. The international flow of foreign capital takes two main forms: Public capital (or foreign aid) and private capital. Foreign private capital consists of two elements (Malcolm Gillis *et al.*, 1992) foreign direct investment is made by nonresidents, typically but not always by multinational corporations., in the enterprise located in host countries. Foreign direct investment implies full or partial control of the enterprises and physical presence, by foreign firms or individuals. (ii) Foreign indirect investment better known as portfolio investment is the purchase of host country bonds or shares by foreigners, without managerial control.

In recent years, most of the developing countries, have considered FDI as more favourable factor for stimulating economic growth, Bangladesh also is not an exception. A number of factors lie behind this new orientation : slowdown of the world economy along with political unrest in the international arena, declining trend in public capital or foreign aid and the globalisation of production and services. All these issues may cause adverse impact on Bangladesh economy. So the government has no other choice but to rely upon FDI to meet its investment needs.

Apart from transfer of capital, foreign direct investment expected to bring advanced technology, skills, know-how, managerial capacity and access to world markets. (Ibid, 387-391) All these benefits are available to host countries as an investment package incorporating equity capital (that is, ownership and control), management, technology and marketing. To capture more of the benefits from investment package. The country under took massive liberalisation of its trade and investment policies. However, in order to keep pace with global trend, Bangladesh decided to embrace free market economy and put emphasis on private sector- led growth to strengthen the functioning of market economy. Moreover, several institutions have been established to provide all support to private investment. Among them establishment of Board of Investment (BOI), Privatisation Commission and the development of the Capital market are most important. In addition to this, government should bear in mind that all these steps may not guarantee automatic flow of foreign private investment to the country. Bangladesh still remains the smallest recipient compared to other countries in the region(CTX, 2000).

Objectives of the study: The objectives of the studies are as follows

To evaluate trend of FDI in Bangladesh

To highlight the incentives and facilities provided by the government for attracting FDI.

To identify some sectors for prospective investment.

To identify the underlying problems behind the poor inflow of FDI in Bangladesh and suggest solutions to these problems.

Materials and Methods

The methodology of the study is desk research. The information used here on the relevant topic is based on secondary data. The sources of secondary data are government publications, previous research articles, national and international publications, publication of different offices I, e BOI, BEPZA, EPB etc.

FDI Inflows in Bangladesh: Private sector is recognised as the major driving force of the market economy, which in turn is viewed as one of the determinants of FDI. So, the privatisation programme has been further strengthened in FY 2002-03, since its inception in 1993. Under the impact of private sector-oriented reforms in the national economy, local and foreign investments have been rising and this resulted in gradual increase in private sector investment. According to the provisional estimates, the rate of national investment slightly picked up to 23.22 % of GDP in 2002-03 (GOB, 2003). The shares of public and private sector contribution are estimated to be 6.72 and 16.50 % respectively (Table : 1)

Investment registered with BOI: During 1991- 92 to 2002- 03, cumulative private investment registered with Board of investment (BOI) was estimated to be US $ 25,933 million (Ibid, 78).The investment registered consist of 47.65 % local and 52.35 % as foreign (Ibid. 78). Table 2 presents the time series data during FY 1991-92 to FY 2002-03. In FY1991-92, total private investment registered amounted to US $ 116 million, whereas in 2002-03 it reached US $ 2,395 million.

On the other hand, a country-wise analysis of foreign investment projects registered in FY 2002- 03 shows that top five investment registering countries are Japan (28.8 %), UK (24 %), Netherlands (11.6 %), South Korea (7.4 %) and Taiwan (6.4 %)(Ibid, 78).

According to the sector-wise distribution, manufacturing sector recorded 39 % growth in FY 2002- 03 compared to FY 2001- 02. Simultaneously, total share of manufacturing grew from 55 % to 62 % in 2002- 03. A tremendous growth in the manufacturing sector indicates prospective growth of the industry in the upcoming years. It will also facilitate creating job opportunities. Other than that, agro-based and chemicals are the two most growing sectors in FY 2002-03 . Registration of local industries also grew substantially by 32 %. Engineering, printing and packaging, agro-based, food and allied sectors have led the growth .The share of manufacturing in local investment registration is 95 % of the total investment proposals in 2002- 03 that grew by 37 % over 2001- 02 (Ibid, 78).

According to the commitments made in the Mid term strategic promotional plan 2003- 04 of BOI, the first half yearly FDI inflow survey of 2003 was undertaken by BOI in co-operation with BEPZA. During January – June 2003 a total US $ 287 million of FDI received in Bangladesh which is 71% higher than the corresponding period of last year. Manufacturing continues to receive the highest FDI (74.6%). In this sector, Textile is the highest recipient of FDI (33.69%) followed by chemicals (30.43%) and device sector (Ibid, 81-83).

Investment in EPZs: Upto June 2003, 180 industrial units were operational in six EPZs (namely, Dhaka, Chittagong) Comilla, Mongla, Uttara, Iswardi) with a total investment of US $ 634.04 million. Of the operational units 23 % were RMGs and 10 % textiles. A total of 1,28,917 local man power have been employed in these industries.

European union and Western Europe, South East Asia and North America are the main sources of FDI in Bangladesh (Ibid, 84- 85).

Europe as a whole is the largest source (44%) of FDI in Bangladesh during January – June 2003. European investments spread over manufacturing and service sectors like textile, cement, agro chemical telecommunication, pharmaceutical's etc

South East Asia is the second largest source (39%) of FDI led by Hong Kong (13.94%), South Korea (10.62%) and Malaysia (9.28%). Investments from these nations are concentrated on manufacturing sector.

Facilities and Incentives for FDI: In order to attract both indigenous and foreign private investment the country has offered some attractive incentives for FDI. These include the following :

Fiscal and Non-Fiscal Incentives: Government permission is not required to set up new industries by both local and foreign investors. The investors only need to register with board of investment (BOI) to avail of the various facilities and institutional support provided by the government.

Tax holiday upto year 2005 for agro processing industry, roads and revering transport, computer software development.

Exemption of tax on interest on foreign loan.

Tax exemption on royalties, technical know-how fees.

Exemption of income tax up to 3 years for the foreign technicians employed in industries specified in the relevant schedule of Income Tax Ordinance.

Avoidance of double taxation on the basis of bi-lateral agreements.

Multiple entry visas for the investors.

Re-investment of profit or dividend treated as new investment.

Working capital loans as wells as term loan from local banks are allowed.

Foreigners can buy State owned enterprises (SOEs) being privatized.
No import duty for capital machinery of export oriented industry.
Investors can wind up their business and repatriate the sale proceeds.
Facilities for full repatriation of invested capital, profit and dividend.
"Taka" the national currency is convertible for international payments in the current accounts.
Any person investing US $ 100,000 may get permanent resident and any person investing US $ 0.5 million or transferring US $ 1.00 million to any bank may obtain citizenship. However all such investments are not repatriable.

Incentives Provided for Investment in the Capital Market: (Ibid, 55- 56) Though our capital market is small it has potentials for portfolio investment from aboard. The following are the incentives for foreign investment in the capital market:
Port-folio investment by purchasing shares in publicly listed companies through the stock exchange.
Approval of central bank not needed to invest in both primary and secondary markets.
All capital (including capital gains and dividend) can be really repatriated by foreigners.
In case of joint ventures with foreigners, no obligation to sell shares through public issue irrespective of amount of paid-up capital.
Tax exemption on capital gains from transfer of shares by the investing company.
To encourage FDI and joint investment existing tax rate of 15% on income from capital gains, arising out of transfer of stocks and shares of private limited companies be reduced to 10%.

Incentives to Export Oriented and Export Linkage Industries: (Ibid, 56) Export industries are given special priority in our industrial policy. The following are the incentives for foreign investment in export oriented industries.
Duty free import of capital machinery including spare parts up to 10% of the value of such capital machinery.
Facilities for bonded warehouse and back to back letters of credit.
Duty drawback on exported good.
Bank loan up to 90% against L/C or Sales contract.
Export handicrafts and cottage industries products are exempted from income tax.
For all other industries 50% income tax rebate on export earning.
Concessional duty on raw materials.
Duty-free import of samples.
Use of local raw materials by export industries are treated as indirect exports and entitled to various export benefits.
Export credit guarantee scheme
100% export-oriented industry outside EPZ are allowed to sell 20% of their product in the domestic market, subject to payment of duties.
Export industries located at EPZ are provided special facilities like electricity, water, gas and telecommunication facilities by the zones land and factory buildings are available on rental basis, work permits issued by BEPZA, availability of food stuff and beverages for foreigners on payment of nominal tax, recreational facilities, import and export permits are issued by EPZA within 24 hours etc.
The government will give 30% cash incentives to those companies engaged in exporting agro-based industrial product. This incentive will encourage foreign investors to invest in agro-based industry (Prothom Alo, 2004).
In recent years, government has plans to establish more export processing zones to promote more foreign investment in the country (Ibid, 15).

Investment Prospects in Bangladesh: In early part of 1990's Bangladesh introduced various reforms for liberalising its trade and investment policies with necessary legal protection and attractive incentive package. As a result potential investors from local and foreign countries have grown substantially in Bangladesh' (table: 2). A number of multinational companies are operating in various sectors in Bangladesh for decades. Among these sectors manufacturing, telecommunication, energy and gas sector attract the foreign investment most. In addition to this, the following sectors or sub sectors are very promising for potential private investment.

Composite Textiles and Linkage Industries: In the last two decades, the RMG (ready made garments) of Bangladesh have grown substantially and now constitute 70% of total export of Bangladesh (International chamber of commerce, 2003). Currently 2500 RMG units spend approximately 60% of their export earning on import of fabrics. To meet the import requirements of the RMG industries additional investment in spinning, weaving, dyeing, printing and finishing is required on a top priority basis.

Telecommunication: In Bangladesh, the systems and services of telecommunication have been expanded . Government has already allowed private operation in this sector and has plans to increase the number of fixed telephone lines by 1.6 million (Ibid, 57). As a result, it has emerged as one of the largest sectors having huge growth potential in the reformed environment of telecom sector.

Information and Communication Technology (ICT): Bangladesh has the scope of profitable investment in ICT. Bangladesh IT firms are interested to join in with foreign investors. In accordance with greater interest with the government, it would be given the highest level of support from the government.

Energy and Gas Sector: The energy sector of Bangladesh has remained the chief recipient of FDI inflow up to the period 1998-99. In the 1998-99 fiscal more than half of the $ 380 million of the FDI came to the gas sector alone. (CTX, 2ooo) But after that a share of energy and gas sector has sharply declined. This sector was able to attract 10.6% of FDI during January–June 2003. However, given the present utility infrastructure situation of the country and projecting faster growth of industry in recent years, energy and gas could be attractive sector for investment in future .

Infrastructure: Bangladesh needs to develop its infrastructure facilities and services in various sectors and in this context has encouraged private participation with a number of policy initiatives. The potential areas are:
Power generation
Exploration and exploitation of gas and other mineral resources.
Highway development including bridge, expressway and tunnels.
Port infrastructure facilities,
Industrial Parks / Private Export Processing Zones.
In addition to these sectors, the following sectors are considered to be potential for investment in Bangladesh.(International Chamber of Commerce, 2003)
Computer software and electronics
Diversified Jute goods, Jute based pulp and Study.
Chemicals and Petrochemicals
LP gas, Environment friendly insecticides etc.
Leather and leather goods.
Tourism
Food Processing, Fruit Canning and allied Products.
Sports Good
Light engineering and agro-based industry.

Factors that Affect Inflow of FDI: The vital element and major factor about domestic and foreign investment of any country is political stability, Stable government, sound economic policy, a strong industrial base and peaceful atmosphere. Bangladesh, like other developing countries, is far from achieving these ideal conditions although progress has already been made in some but not in all sectors.
Some of the problems that cause poor inflow of FDI in Bangladesh, have been highlighted below:

Bureaucracy: The activities of bureaucrators in some government agencies create problems in the implementation of the project, thereby giving rise to acrimony and legal hassles. In consequence, these adversely affect the attractiveness of a country for future potential investment.

Weak Infrastructure: The infrastructural inadequacy like power, fuel supply, telecommunication, Road and Railway communication, required manpower, trained workers, modern management technique and above all inadequate and insufficient port and shipping facilities hamper both domestic and foreign investment. However, these type of facilities are available in EPZs.

Political Unrest: Political unrest, due to lack of understanding between government and oppositions, delays the implementation of the project. The recurrence of strike and hartal in the country pollutes the investment climate and affects the fruitful operation of any project. It makes the investors unhappy and also hampers image of the country to the foreign investors.

Lack of Good Governance: Lack of good governance stand in the way of promotion of FDI in Bangladesh.(MD. Mohiuddin, 1994) It has been observed that there is tradition to change established rules and regulation overnight to give benefit to particular applicant. Thereby causing uncertainty and shaking the confidence of investors. On the other hand, affiliation of workers union with political parties also hampers good governance.

Lagging in Enterpreneurship Development: Shortage of enterpreneurial manager and lack of professionalism in Business management also hampers investment opportunity in Bangladesh.

Ineffective Judiciary System: The old and outdated laws and the poor functioning of Judicial system in the country have discouraged many of the prospective investors.

Poor Capital Market: Capital market has a very significant role to play in the private sector development and economic prosperity of a country. To strengthen its role in the overall development of the country, various reform measures have been initiated since the beginning of 1990's.(GOB, 2003) But political unrest, lack of Supply of reliable securities and lack of transparency in accounts and reports have reduced foreign investment in the capital market.

Lack of Adequate Information: The image of Bangladesh is unfavorable for investment to the outside world. The cultivation of favorable image requires dissemination of information related to macro economic situation, industry policies, lists and descriptions of potential joint venture partners, privatization programmes, laws and regulations governing FDI, administrative structures and procedures relevant to FDI. Apart from these information, foreign investors may not likely to come to Bangladesh.

Lack of Simplification of Approval Procedure: The procedure followed in customs, tariff, port etc. is too cumbersome and time consuming both for local and foreign investment. It often encourages corruption and delays the approval procedure.

Poor Industrial Base: The expansion of foreign investment can be mobilised by the modernization or development of domestic industries. To encourage both domestic and foreign investment, the GOB has adopted the privatisation policy for state owned enterprises since 1994. But the implementation of this policy is far from satisfactory. The progress of privatising state owned enterprises is very slow to attract FDI.

Suggestions for Further Action to Improve the Investment Environment: In the beginning Government and Government institutions are responsible to create investment environment by formulating policies, coordination of policies and finally resolving the prevailing problems of a country. In the last two decades, the achievement of these institutions is so far not impressive. More action is needed to liberalise FDI policies for the acceleration of investment. Furthermore, negative image of the country should be removed.

The following are some suggestions to improve the investment climate to attract more foreign investment and encourage local investor as well. Foreign investors in any country have to come in contact with a large number of government institutions for various purposes. The operational efficiency of these institutions dealing with FDI should be improved through the establishment of some kind of one-stop service centre. The principal aim of this centre should be simplication of approval procedure and assistance to foreign investors in all ways. In the early part of 1990's Bangladesh decided to embrace free market economy. For market based economic growth, an honest and efficient bureaucracy can serve as a motor of development. This in turn reduces procedural formalities, which are considered as serious problems by the foreign investors. Speeding up the privatization process to improve economic performance and promote domestic and foreign private investment.

Capital market can play a key role for mobilizing local capital as well as foreign capital for economic development in the country. Inspite of the attractive incentive package to transact share business in Bangladesh, lack of availability of investment port-folio, poor creditability of financial reports affect capital availability . This problem could be overcome by i) Off- loading of Government shares in multinationals ii) Dis investment of SOE's iii) Introduction of new instruments (commercial papers, Govt. bonds etc) iv) Improvement in Accounting and auditing standards (Although the Central Depository System has already started Operation and a number of companies have started dealings through CDS. It is expected that this will bring about transparency in share transaction) (v) Strict application of audit rules vi) Ensure full disclosures in Prospectus and Annual reports.

Infrastructural development of the country particularly inside or outside the investment zones is essential for encouraging FDI. In this respect, Public investment on essential infrastructure could be increased which will have favorable impact on private investment.

To attract larger FDI the appropriate content of information relating to locational at attractiveness is needed. In addition, in order to disseminate these type of information to the outside world, effective means (for example print media, websites, dialogue, with potential investors etc.) should be adopted. To encourage the expansion of operation of foreign investors aftercare services to existing foreign investors is being increasingly recognized. The services involve frequent contact with investors, assessment of their problem and identification as well as implementation of measures to solve the problems. In this context, an investment Ombudsperson could be appointed for immediate remedying of any problem. The contribution of expatriate Bangladeshis in the economic development of the country is outstanding. Efforts of the government should be further strengthened to encourage the expatriate Bangladeshis to remit home valuable foreign exchange and to invest it in productive activities. In this context, quality of operation of the nationalised banks should be improved.

Rule of law such as labour laws, commercial laws, company laws, Banking laws, Insurance Act must be developed for healthy investment environment. This will create confidence of investor to get relief from undue pressure and demand of workers, politicians and other agencies.

Qualified and trained workers, entrepreneurs and managers are very useful in running joint ventures in association with foreign investors. We have enough educated unemployed youth but hardly they are suitable for direct employment. Extensive training must be provided to these unemployed youth to create skilled manpower which in turn contribute a lot in creating investment environment.

Governance and corruption become important factors affecting firm performance, while following a number of regulations administered by the government. But all regulations are not onerours and unnecessary. Regulations in developing countries often tend to be more complex and bureaucratic than necessary and are associated with corruption. So, effective regulations should be provided for more foreign investment.

In addition to general laws and regulations, investors are reluctant to invest because of lack of assurance that contracts will be fairly honored, disputes well be handled fairly and quickly by the legal system. Therefore, in addition to policy making and implementation, government should be more careful in negotiations with foreign companies.

Conclusion

Realizing the importance of FDI in economic development, the Government of Bangladesh has been trying to establish a congenial, economic and political, atmosphere for foreign investment along with liberal investment policy, administrative re-organization and attractive incentive. As a result, a number of foreign investors are showing keen interest for investment in Bangladesh. But at the same time, the investment opportunities could be disrupted largely, if the problems like bureaucracy, inadequate infrastructure, delay in implementation of policy, lack of information, operational inefficiency of the institutions related to foreign investment could not be overcome. Moreover, all these problems will increase the investment cost (i,e at present it is highest in south Asian region) further and gradually discourage the floatation of foreign capital to the host country. The study provided some suggestions to overcome these problems. Along with this, some sectors have been recommended for prospective investment with attractive incentives and facilities. In conclusion, it is hoped that investors from home and abroad will explore the possibilities of investment in Bangladesh and contribute to its further economic development.

Appendix

Different tables relating to FDI.

Table 1: Investment as % of Gross Domestic Product (GDP)

Year	Total Investment	Public Investment	Private Investment
1990-91	16.90	6.63	10.27
1991-92	17.31	6.97	10.33
1992-93	17.95	6.48	11.47
1993-94	18.40	6.65	11.76
1994-95	19.12	6.74	12.38
1995-96	19.99	6.42	13.58
1996-97	20.72	7.03	13.70
1997-98	21.63	6.37	14.26
1998-99	22.19	6.72	15.47
1999-00	23.02	7.41	15.61
2000-01	23.09	7.25	15.84
2001-02	23.15	6.37	16.78
2002-03*	23.22	6.72	16.49

Source: Bangladesh Bureau of Statistics (BBS). *Provisional

Table 2: Distribution of Private Investment Projects (Local and Foreign) Registered with BOI from FY 1991-92 to 2002-2003. (In million US$)

Fiscal Year	Local Investment	Foreign Investment	Total	Growth (%)
1991-92	91	25	116	-
1992-93	90	53	143	23%
1993-94	457	804	1,261	782%
1994-95	846	730	1,576	25%
1995-96	1,171	1,516	2,687	70%
1996-97	1,108	1,054	2,162	-20%
1997-98	1,137	3,440	4,577	112%
1998-99	1,183	1,926	3,109	-32%
1999-00	1,324	2,119	3,443	11%
2000-01	1,420	1,271	2,691	-22%
2001-02	1,531	302	1,833	-32%
2002-03	2,027	368	2,395	31%
Total	12,385	13,608	25,993	-
Share (%)	47.65%	52.35%	100%	-

Source: Board of Investment

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