Destination Bangladesh

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Foreword

Bangladesh as an investment destination

Bangladesh's economy has witnessed steady growth in the past decade, with the country's annual gross domestic product (GDP) growth rate at 7.86% in 2018. It is poised to increase by 7% on an average till 2033, according to a forecast by the Centre for Economics and Business Research (CEBR).

With a rising per capita income and a growing middle-class population, there has also been a notable increase in domestic consumer demand. This is a positive sign, as increased domestic consumption reflects a certain insulation of the country's economy from global headwinds. The Bangladesh government has been proactive in the country's progress, as is evident from increased government investment in various initiatives.

Some of these are in the realm of infrastructure, such as the Padma Bridge and the Karnaphuli Tunnel. Bangladesh is also working with China on the regional Asian Highway and the 'One Belt-One Road' project. The Government is also in the process of strengthening ties with India, Bhutan and Nepal, and this is expected to facilitate more investment and global tie-ups. Government support can also be seen in the power facilities, with 7,000 MW of electricity being added to the national grid. Additionally, Bangladesh's Power System Master Plan (PSMP) targets uninterrupted power supply, and this is expected to increase the country's power generation capacity to 34,000 MW by 2030.

The country's burgeoning growth and relatively stable political scenario have attributed to steady and positive sovereign ratings, as Moody's and S&P's reports indicate. The reports underline that 'Bangladesh is a mobile economy on the verge of moving up the economic ladder'. Its stable growth rate of population at 1.2% since 2013 and young workforce – 60% of the populace is in the 15-64 age group – also contribute to the growth trajectory of the economy.

Bangladesh is already being recognised as a thriving investment hub, and this is reflected in the country's foreign direct investment (FDI) inflows. Bangladesh's FDI stood at USD 2.58 billion at the end of June 2018. According to the Bangladesh Investment Development Authority (BIDA), there was 13.34% growth in FDI in the third quarter of 2018, with proposals worth USD 3.23 billion in the basket. The government's mega projects were viewed as the primary reason for drawing substantial FDI investments in the transport, storage and communications sectors. Besides domestic consumption, exports from the country are also thriving. Bangladesh exported goods worth USD 6.88 billion to the US in 2018-2019. This ranks the US as the primary export destination for Bangladesh, followed by Germany and the UK.

This comprehensive report is a study of Bangladesh as an investment destination. The positives of investing in Bangladesh today are many. Preferential trade benefits and friendly investment policies are offered to countries investing in Bangladesh. The first chapter outlines the demographics, and financial and economic indicators that support this fact. The second chapter looks at the processes, funding opportunities and incentives available to companies wishing to enter the Bangladesh market. The third chapter delves into the regulations and policies that need to be adhered to for investment in Bangladesh. The subsequent chapter offers a step-by-step account of the processes involved in setting up business operations in the country, while the concluding chapter looks into the future of Bangladesh as an investment option.

We hope the report serves as a ready reckoner for prospective investors planning to invest in this riverine country.

Mamun Rashid
Managing Partner, PwC Bangladesh

Chapter 1: Doing business in Bangladesh: Expanding gateways

Bangladesh is considered to be among the next 11 emerging markets. In the past decade, Bangladesh's economy has grown at an annual rate of ~ 6-7%. The country has reflected both social and economic growth. The level of poverty has dropped, accompanied by increased life expectancy, literacy and per-capita food intake.

Sustained economic growth in recent years has generated higher demand for electricity, transport and telecommunication services. While the growth rate of the population has declined, the labour force is growing rapidly and is indicative of Bangladesh moving towards a lower dependency ratio; thereby, lessening the expense burden on the productive population.

Projections suggest that Bangladesh is going to be the one of the fastest-growing economies by 2050, and the 28th and 23rd largest economy by 2030 and 2050, respectively, from its 43rd position[1] currently.

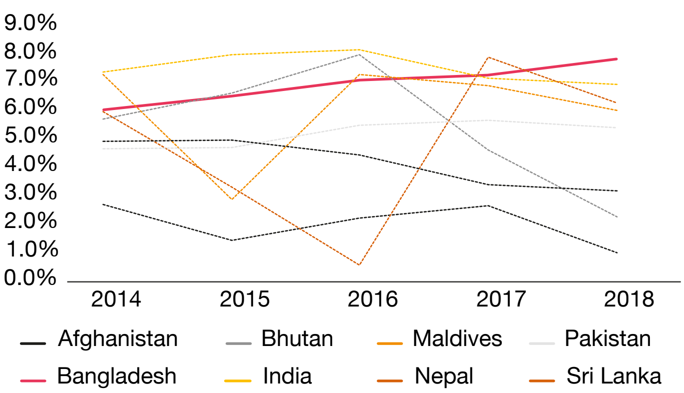
With aspirations to become a middle-income country by 2021, Bangladesh is making substantial efforts to maintain macroeconomic stability, strengthen revenue mobilisation, tackle energy and infrastructure deficits, support an expanding financial sector and external trade reforms, and improve existing labour skills. The country is also working on economic governance, urban management and adapting to climate change.

From strength to strength

Bangladesh achieved an impressive annual gross domestic product (GDP) growth rate of 7.86% in 2018, the highest in South Asia.[2] It has been striving to maintain an increasing GDP growth rate for the last five years. Strong consumption and public investment, recovery of ready-made garments (RMG) export and high remittance growth were identified as the main propellers of economic growth. Moreover, remittance flows increased by 17% to reach USD 14.9 billion, equivalent to ~ 5.4% of the GDP, while real public investments increased by 10.5% and merchandise imports by 25.2 %.

All these factors have been contributing to the growth of the country, and in turn is resulting in a sharp increase in domestic consumer demand. This is also an indication of prosperity as Bangladesh citizens begin to show an obvious preference for better quality goods and in greater volumes.

Fig. 1.1: GDP growth rates of Bangladesh and regional economies[3]



As of 2017, Bangladesh secured the position of being the 42nd and 58th largest economy globally in terms of purchasing power parity and in nominal terms respectively.[4] Already established as a lower-middle income country, according to World Bank benchmarks in 2015, Bangladesh is ready to graduate to the middle- income threshold by 2024. The GDP of Bangladesh is poised to increase by 7% on an average between 2018 and 2033, according to a forecast prepared by Centre for Economics and Business Research (CEBR).

In terms of its significant domestic growth, rising consumption and increased government investment are only two examples of the main contributors. Substantial infrastructural developments such as the Padma Bridge and the Karnaphuli Tunnel are predicted to further boost economic growth. Additionally, the market for consumer durables and other value-added products is also on the rise, bolstered by the rising per capita income and growth of the middle-class population. Moreover, Bangladesh is pursing stronger multilateral ties with India, Bhutan and Nepal while collaborating with China on the regional Asian Highway and "One Belt-One Road" initiative. Bangladesh's initiative to establish international ties will facilitate more investment and global collaboration.

1 https://www.pwc.com/gx/en/issues/economy/the-world-in-2050.html

2 The World Bank. (2018). Bangladesh Development Update.

3 The World Bank. (2018). Bangladesh Development Update & Asian Development Bank (ADB) Basic Statistics (2018), available at https://data.adb.org/dashboard/bangladesh-numbers

4 IMF. 2017. Report for Selected Country Groups and Subjects (PPP valuation of country GDP)

Steady sovereign rating and strong FX reserve

Consistent growth and a stable political landscape have contributed to steady and positive sovereign ratings for Bangladesh. Both Moody's and S&P have labelled the country as a mobile economy on the verge of moving up the economic ladder.

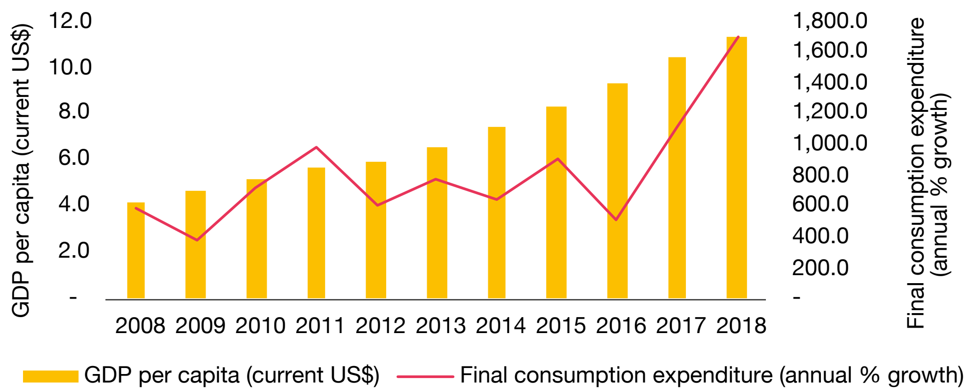
Table 1.1: Country Sovereign Rating by S&P and Moody[5]

S&P Sovereign Ratings			Moody's Sovereign Rating		
Year	Rating	Outlook	Year	Rating	Outlook
2018	BB-/ B	Stable	2018	Ba3	Positive
2016	BB-/ B	Stable	2014	Ba3	Positive
2010	BB-/ B	Stable	2010	Ba3	Positive

Improved standard of living

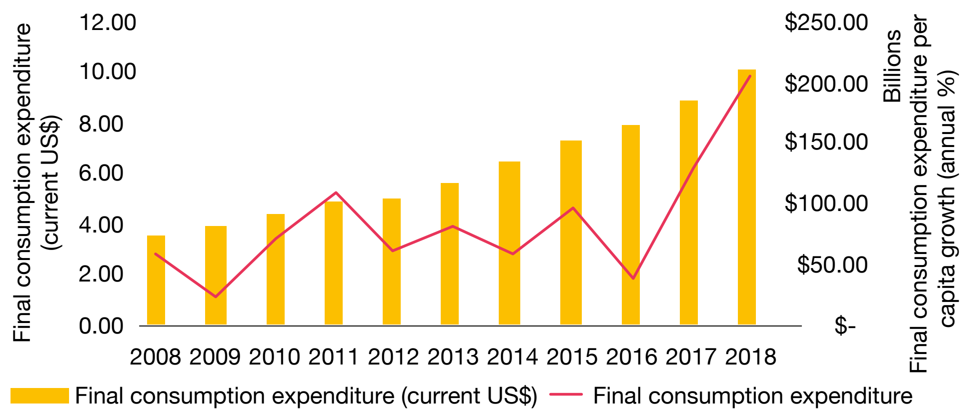
With more than a 5% persistent increase in growth rate since 2015, Bangladesh's per capita GDP as of 2018 stands at USD 1, 653[6]. This positive trajectory may be attributed to stable population growth and an increasing GDP growth rate. Final consumption expenditure, which accounts for private consumption and general government consumption, has been growing positively over the last 10 years, despite troughs in 2009 and 2016. Overall, both GDP per capita and consumption expenditure have demonstrated upward trends, which resultantly reflect higher living standard for Bangladeshis.

Fig. 1.2: GDP per Capita and Consumption Expenditure



Source: World Bank DataBank[7]

Fig. 1.3: Private Consumption Patterns



Source: World Bank DataBank[8]

Private consumption has also been on the rise in the last 10 years. Total private consumption expenditure was reported to be USD 171 billion in 2017.[9] Both private consumption per capita expenditure and final consumption expenditure growth rates spiked in 2016-2017. Consumer income is also likely to increase with the growth in GDP. A self-perpetuating cycle has been established where markets face sufficient consumer demand and producers meet this expectation, thereby increasing overall GDP. This increase in output is likely to generate more employment opportunities and rise in income of individuals. Consequently, a spillover would be created in the form of higher demand.

The trends in current consumption and estimates for the future suggest that consumption demand will be a key driver of economic growth, while the pattern of consumption is expected to reflect a preference for high-quality products, as witnessed with many countries experiencing economic boom.

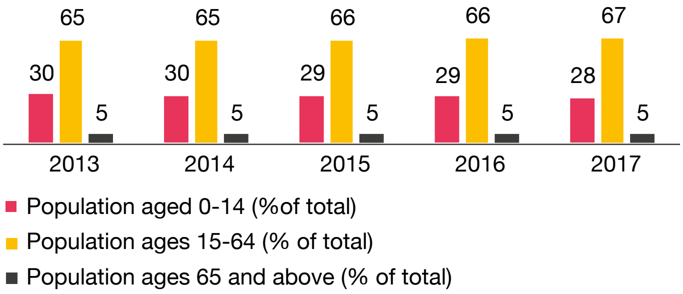
5 https://countryeconomy.com/ratings
6 https://data.worldbank.org/country/bangladesh
7 http://datatopics.worldbank.org/consumption/
8 http://datatopics.worldbank.org/consumption/
9 https://www.ceicdata.com/en/indicator/bangladesh/private-consumption-expenditure

Demographic dividend

Population growth rate has been stable at 1.2% since 2013 and the total population now stands at 167 million. The population structure has also remained unchanged for the last 6 years, with the 15-64 age group accounting for more than 60% of the population. The median age for the total population is 27 years (26 for males, 28 for females).[10]

Fig. 1.4: Age structure of population (% of total population)

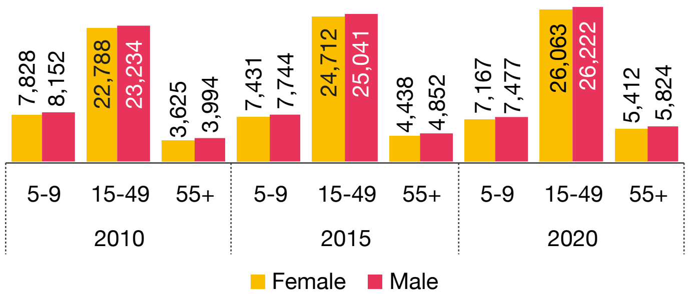
Age Structure of Population (% of total population)



Source: World Bank

Fig. 1.6: Population by age and sex (thousands)

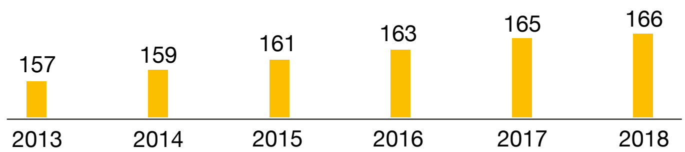
Population by age and sex (thousands)



Source: https://population.un.org/wpp/DataQuery

Fig. 1.5: Total population in Bangladesh

Total population in Bangladesh (in millions)



Source: World Bank

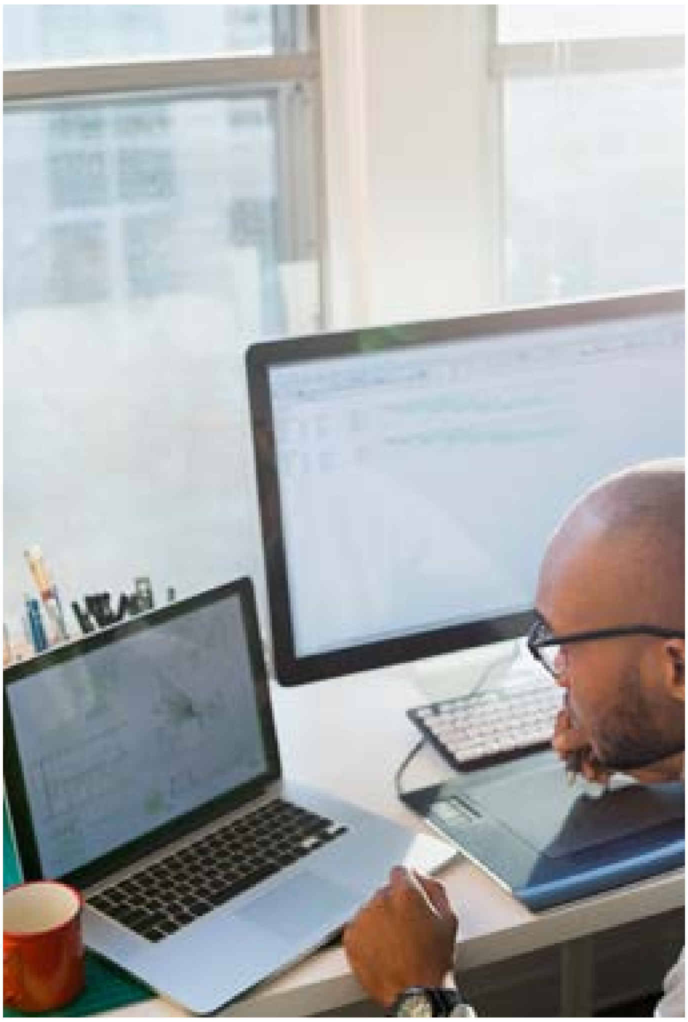
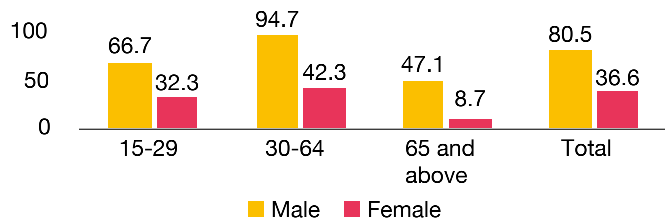


Fig. 1.7: Labour force participation by age, group and sex

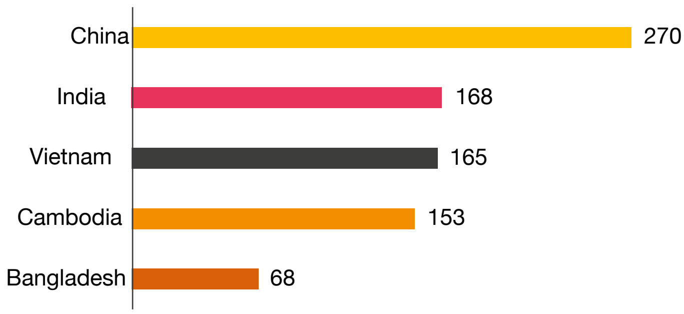
Labour force participation rate (%) by age group and sex



Source: Labor Force Survey 2016-17

Fig. 1.8: Monthly minimum wage in apparel manufacturing in 2017

Minimum monthly wages in apparel manufacturing 2017 in US($)



Source: World Bank, Chinese Bureau of Statistics, Global apparel and Trade sourcing

10 Central Intelligence Agency (CIA). 2018. The World Factbook. Accessed January 30, 2019. https://www.cia.gov/library/publications/resources/the-world-factbook/geos/bg.html.

The minimum monthly wage for workers in the apparel manufacturing sector in Bangladesh is 75% and 60% less than the minimum wages in China and India respectively. This provides a substantial manufacturing cost advantage as compared to the regional aforementioned peers.

Over the past decade, the country has witnessed a sharp rise in the working age population owing to the 'demographic dividend'. According to the United Nations (UN) population division forecast, the median age of the population will increase to 29.5 in 2025 and 31.6 in 2030. The economy will witness a stable population structure and growth rate, with a growing demand for consumer durables in the future. Investors may view this phenomenon as withstanding the challenges of an ageing population, as it mitigates the burden of the dependency ratio for a productive population.

Bangladesh set to be an outsourcing destination

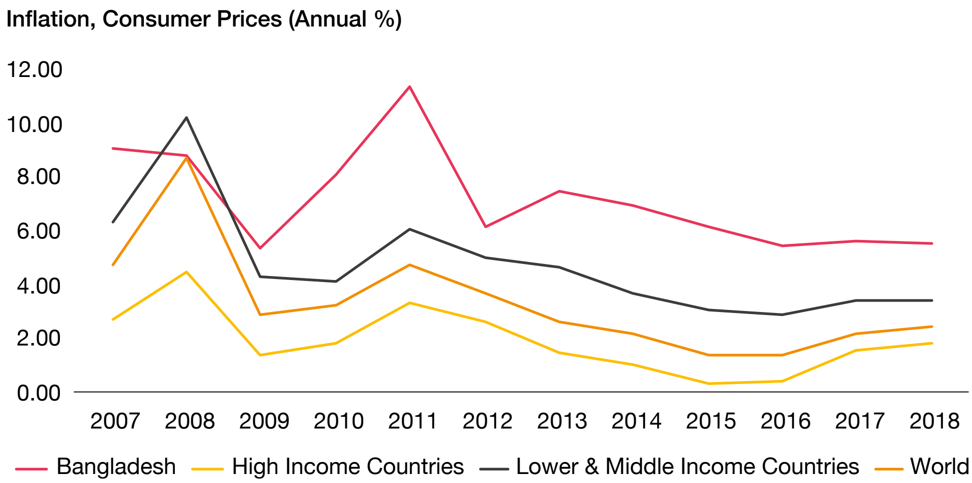
Bangladesh's working-age population and capabilities are geared to make it the next major outsourcing destination for services, replicating the paths taken by India and the Philippines. Bangladesh is set to create over 200,000 direct and 50,000 indirect jobs and earn USD 5 billion a year in the next decade through outsourcing [1]. Outsourcing businesses, such as call centres, comprise only 10% of Bangladesh's market potential. With 65% of the population under 25, there is an enormous opportunity for outsourcing in the country. Much of this population is university educated, and working women do not face significant discrimination in the workplace. As a result, there is a larger pool of workers keen to be involved in the ICT/outsourcing-tech-savvy sector [2]. Bangladesh's pool of resources is also primed to provide business processing outsourcing (BPO) services to the rest of the world.

1. https://www.thedailystar.net/news-detail-225145
2. https://www.thedailystar.net/news-detail-261591

Two-thirds of the total population belong to the working age group (15 and above), of which 63.5 million are actively participating in the country's labour force. Additionally, 2.2 million people are entering the job market each year. The labour force participation rate (LFPR) as of FY 2016-17 was estimated to be ~ 58.2%. According to a report by the Economic Intelligence Unit, Bangladesh's graduate unemployment rate stood at 47%, indicating a surplus of skilled labour force. By tapping into this sound labour market and with education policies focussed especially on Science Technology Engineering and Mathematics (STEM), Bangladesh has the potential to integrate a substantial number of skilled and motivated individuals into the workforce.

Stable inflation rate

Fig. 1.9: Inflation rate (%) from 2007 to 2023 (projected after 2019)



Source: International Monetary Fund (IMF)

Maintaining a stable inflation rate has been challenging over the last decade.[11] In 2018, the general inflation rate, which currently stands at 5.8%, was moderated by low levels of non-food inflation. Low food production and weak management of resources from FY2017 caused food inflation to increase to 7.1% in early 2018.

However, food inflation eased to ~ 6% in late 2018 owing to a fall in rice prices, propelled by excellent BORO harvests, and rice and wheat imports. Strong remittance inflows, domestic demand and the depreciating exchange rate helped contain non-food inflation rates.[12]
IMF forecasts strongly suggest inflation in Bangladesh to remain below 6% till 2023.

11 International Monetary Fund (IMF). 2018. Inflation rate, average consumer prices. October. Accessed January 30, 2019. https://www.imf.org/external/datamapper/PCPIPCH@WEO/OEMDC/ADVEC/WEOWORLD/BGD.

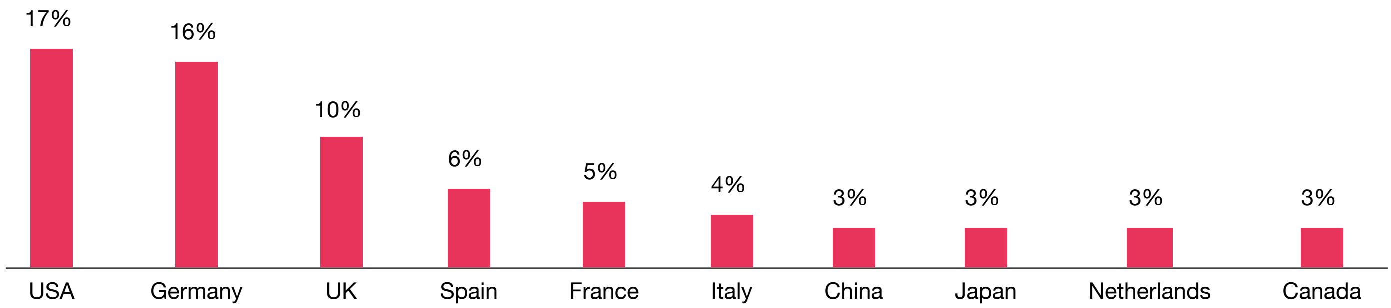
12 The World Bank. (2018). Bangladesh Development Update

Thriving export-led sectors and remittances

The economy exported USD 6.88 billion worth of goods to the US market in 2018-2019 making it the top export destination for Bangladesh, followed by Germany and the UK. Readymade garments and frozen foods were the major items exported to these markets

Fig. 1.10: Top destination for export products[13]

Top 10 Export Destination



Source: Bangladesh Export Promotion Bureau

Previously, the majority of Bangladesh's import basket consisted of food grains and consumer goods. Currently, Central Bank data from the first quarter of 2018-19 suggests a drop in import bills for these items. Import payment for food grains dropped by a staggering 54.71% from USD 1.53 billion to USD 694.01 million. Consumer goods decreased by a notable 30.35% from USD 3.83 billion to USD 2.67 billion in the same time period. On the other hand, imports of intermediate goods, such as coal, hard coke, clinker and scrap vessels increased to USD 2.85 billion between July-December of FY19 from USD 1.91 billion in the same time period of the previous fiscal year.

The demand for intermediate goods is expected to continue to rise in the future, which may be justified by the government's undertaking of mega infrastructure projects such as the Padma Bridge and metro-rail. Bangladesh's export basket is skewed towards RMG and textiles, along with other items such as leather, jute, agricultural products and frozen food. In terms of service, remittance is one of the key foreign currency earners. In FY18, Bangladesh had exported an astounding USD 34.65 billion worth of products, of which 82% comprised apparel items.[14]

Consequently, significant efforts have been made to diversify the export basket by patronising other manufacturing industries. According to Figure 1.11, manufacturing sectors attract 35% of foreign investment. The government has declared light engineering, agro processing and ICT as thrust sectors. A recent World Bank report (2018) ranked Bangladesh as the ninth-highest recipient of remittances in the world, with USD 15.9 billion remittance inflow as of FY 2017-18. The country secured the third position in South Asia, where the first and second positions were held by India (USD 79.5 billion) and Pakistan (USD 20.9 billion) respectively. The Central Bank's initiatives to keep BDT stable against USD and maintain strong surveillance on the illegal money transfer process, have encouraged more migrant workers to send their earnings through legal channels. Analysts at Central Bank predict that this upward trend will persist through 2019.

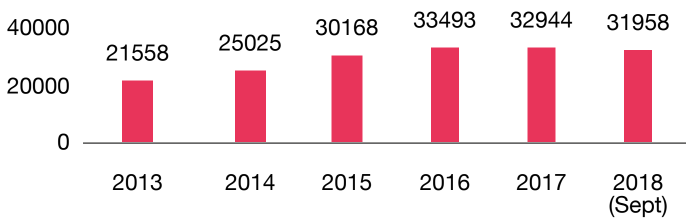
13 http://www.epb.gov.bd/site/files/51916ae6-a9a3-462e-a6bd-9ef074d835af/Statistic-Data-2017-2018

14 Export Promotion Bureau. Statistics Data 2017-18. Accessed January 29, 2019

Foreign currency reserve

Fig. 1.11: Foreign currency reserve showing stability

Foreign Exchange Reserve (USD million)



Source: Bangladesh Bank[15]

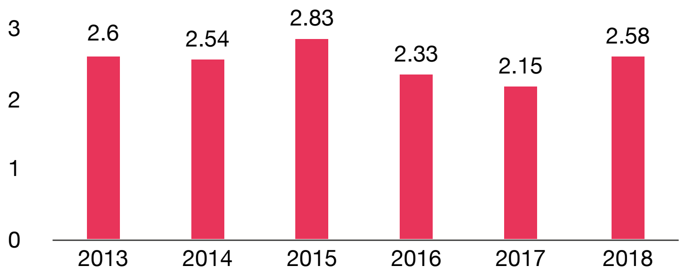
Bangladesh has faced certain roadblocks that have negatively impacted its current account position. Experiencing a nationwide flood in 2017 that required higher food grain imports, coupled with increasing oil prices and demand for capital machinery imports vital to infrastructure projects, have contributed to higher import bills and a consequent negative current account balance in the past year and a half. However, Bangladesh's consistently increasing foreign exchange (FX) reserves seem to be combatting such issues. The foreign currency reserve can now sufficiently cover the country's import bills for several months. Moreover, incremental infrastructure funding coming from China and India, along with recovering apparel export and rebounding worker remittances will stabilise the balance of payment (BOP), while supporting the growth of FX reserves.

FDI Inflow

The foreign direct investment (FDI) inflow stood at USD 2.58 billion at the end of June 2018. The Bangladesh Investment Development Authority (BIDA) confirmed an impressive 13.34% growth in FDI in the third quarter of 2018, receiving proposals worth USD 3.23 billion during the same period, indicating robust interest on the part of international investors.

Fig. 1.12: FDI inflow in last 5 years[16]

FDI Inflow (USD billion)



Trends in foreign investment

In 2016-17, 35.4% of the FDI came from the manufacturing sector. The country experienced a notable 11% Y-o-Y growth in this sector in 2017. Industry experts are confident that this growth will be sustained in the coming years. The transport, storage and communications sectors ranked second with 25% FDI inflows. This could be attributed to the government's mega projects currently being commissioned and implemented. Power, accompanied by gas and petroleum, attracted 19% FDI during the period. The power sector has been consistently attracting foreign investments over the years owing to favourable tax incentives provided by the government. Sectors that witnessed lower FDI inflows include agriculture and fishing (2%) and services (4%), establishing a shift in focus from primary sectors to manufacturing sectors.

Fig. 1.13: Top sectors for foreign investment

35%	25%	19%	13%	2%	4%	2%
Manufacturing	Transport, Storage and Communication	Power, gas and petroleum	Trade and Commerce	Agriculture and Fishing	Service	Others

Source: Bangladesh Bank 2016-17

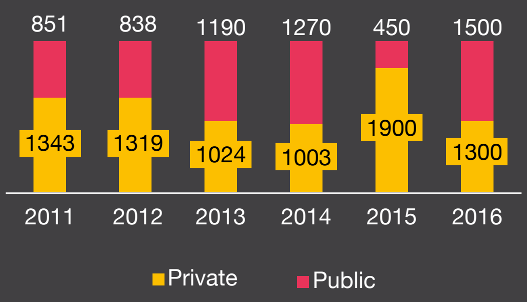
15 https://www.bb.org.bd/econdata/intreserve.php

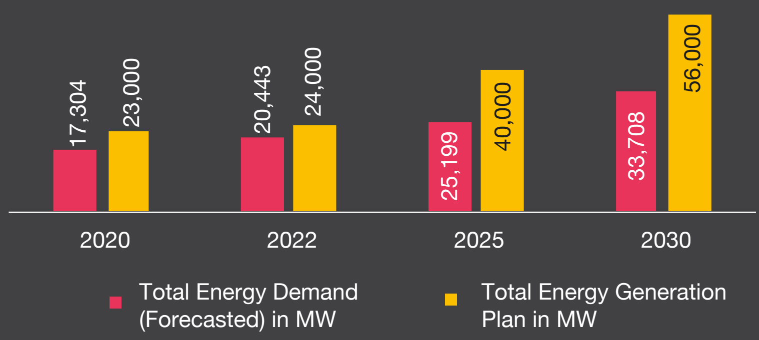
16 Bangladesh Bank Data. Accessed at: https://www.bb.org.bd/econdata/fdi.pdf

Energy, utility and power play

Demand has been increasing at a remarkable pace to facilitate economic growth and industrialisation. Starting 2009, 7,000 MW of electricity has been added to the national grid. The country's Power System Master Plan (PSMP) simultaneously aims to provide undisrupted power supply and increase the power generation capacity to 34,000 MW by 2030. Moreover, Bangladesh intends to substantially increase the number of coal fired power plants, as they are low-cost and are a sustainable power-generating energy source. The additional 25 new coal-fired power plants, operational by 2022, will possess the ability to generate 23,692 MW of power for meeting rising energy demands. In addition, Bangladesh has started importing LNG since August 2018 to meet the country's growing need for energy in the face of rapid depletion of gas reserves. However, LNG is comparatively more expensive than its alternate, locally-sourced natural gas, with the average energy cost expected to increase in 2019. Along with these actions, the country's first nuclear power plan, Rooppur Power Plant, is scheduled to be operational from 2023.

Private sector engaged in power generation

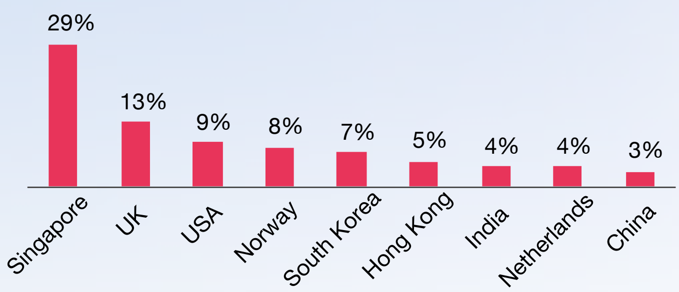




Source: Power System Master Plan
https://powerdivision.portal.gov.bd/sites/default/files/files/powerdivision.portal.gov.bd/page/4f81bf4d_1180_4c53_b27c_8fa0eb11e2c1/ (E)_FR_PSMP2016_Summary_revised.pdf

Fid: 1.14 Top 10 countries with FDI in Bangladesh in FY 2016-17

Top 10 FDI Countries (2016-17)



During 2016-17 fiscal year, Singapore made the highest investment worth USD 701 million in Bangladesh and secured the top position in the Foreign Investor's list. Chinese and Japanese investments only made up 5% of the total invested amount; however, the two economies intend to significantly increase investment in Bangladesh. China committed to invest USD 31 billion in Bangladesh in 2018. Bangladesh needs to maintain and attract high FDI for the manufacturing industry to satisfy expanding local demand.

Infrastructure, the road ahead

The Dhaka-Chittagong highway has been renovated into four lanes to connect the port city of Chittagong with the Capital. Inland Container Terminals (ICT) are also being constructed as an additional route for cargo delivery through the inland waterway. Additionally, a new Payra port has become operational.

Activities	Mongla Port		Chittagong Port	
	FY 2016-17	% growth from previous year	FY 2016-17	% growth from previous year
No. of ships handled	784	25.84%	3370	11.77%
Total cargo handled (MT)	9,716,000	29.31%	78208580	12.33%
Import Cargo (MT)	9,568,000	28.83%	71295969	12.66%
Export Cargo (MT)	148,000	74.12%	6912611	8.98%
No. of container handled	42,989	59.50%	2566597	10.02%

Source: Annual Report of Mongla17 and Chittagong Port Authority18

In November 2018, Asian Development Bank committed to providing USD 200 million for upgrading road infrastructure in Bangladesh. The USD 285.31 million worth project is due to be completed in November 2023. By 2020, Bangladesh intends to upgrade nearly 80% of its rural infrastructure and ADB's donation will greatly contribute to constructing 1,700 kilometres of all-weather withstanding rural roads in 34 districts, guided by the Seventh Five Year Plan.

Classification	Number of roads	Total length (km)
National Highways	96	3,813
Regional Highways	126	4,247
Zilla Highways	654	13,242
Total	876	21,302

Source: Roads and Highway, Ministry of Road Transport and Bridges16

Chapter 2: Entering the Bangladesh market, funding opportunities and incentives to draw foreign investments

Companies operating in Bangladesh enjoy preferential trade benefits and friendly investment policies, many of which are due to the country's status as an Least developed country (LDC). Due to inexpensive labour and overhead costs, manufacturers of low-cost products have been a large revenue earner. The apparel sector has successfully harnessed this innate competitive advantage, catapulting Bangladesh as the second largest global apparel manufacturer after China. Other sectors - from leather and leather goods, jute products and agro processing to frozen fish - have been growing at a noteworthy pace.

Over the last decade, the domestic market has undergone rapid transformation, with sharply rising per capita income, rapid urbanisation, evolving nuclear family structure and more involvement of women in the workforce. In 2005, 26.8% of the total population lived in urban areas, which has increased to 34.3% in 2015. By 2025, it is estimated that 42% of the population will be living in urban areas.[17] Urbanisation level is expected to grow further in the next ten years with the growing Middle and Affluent Class (MAC) population. Besides, there are bright opportunities for investors in both export-oriented sectors and sectors which cater to the burgeoning domestic demand.

Entering the Bangladesh market

Foreign investors can either form a fully/partially owned subsidiary or setup branch or liaison office for operating in Bangladesh. The type of entity formed would depend on the investor's medium and long-term strategy for penetrating the market.

Wholly owned subsidiaries

Foreign companies are permitted to establish wholly owned subsidiaries in Bangladesh under the 'Companies Act 1994', for establishing either a private limited or a public limited company.

Company registration documentation and its approval is handled by the Registrar of Joint Stock Companies and Firms (RJSC) and foreign entities can incorporate a new company complying with the requirements of the RJSC. Foreign entities can also fully acquire any existing Bangladeshi companies.

Joint ventures

Like wholly owned subsidiaries, foreign companies can incorporate a joint venture company with Bangladeshi partner(s). The equity ownership of the foreign company will vary depending on the amount invested by each party.

Limited liability by purchasing shares in an existing Bangladeshi company

Foreign investors are free to invest in local companies (subject to limitation in certain sectors) There are no restrictions on the transfer of shares to non-residents. Foreign investors may sell their shares, irrespective of their percentage of shareholding.

For details on company registration process, please refer to Chapter 4.

17 2018 Revision of World Urbanization Prospects. United Nations 2018.

Operating as a foreign entity

Branch or Liaison Office: Foreign companies can also set up a presence in Bangladesh through a Branch Office or Liaison Office. The activities of the Branch Office or Liaison Office must follow the foreign exchange regulations and the activities allowed need to have approval from BIDA. A Branch Office is generally permitted by the BIDA to represent the parent / group companies and undertake specific activities such as export / import of goods, rendering of professional or consultancy services. However, a Branch Office is generally not permitted to carry out manufacturing activities.

A Liaison Office's activities should be limited to serve as a communication channel for the parent entity. A Liaison Office cannot engage in any income generating activity in Bangladesh.

Generally, for these offices, no outward remittance of any kind from Bangladesh is allowed unless specifically permitted by the BIDA and aligned to regulations of Bangladesh Bank. These offices are required to bring inward remittance of at least USD 50,000 within two months from the date of setup as establishment cost. One of the required approvals for setting up a Liaison Office is that security clearance has to be obtained from the Ministry of Home Affairs, Government of Bangladesh.

The documents which are generally needed include the Memorandum and Articles of Association and Certificate of Incorporation of the principal or parent company, directors' details of the parent company, details of activities to be performed through the proposed branch or liaison office.

A fee of BDT 25,000 (twenty-five thousand) is required to be paid through bank Pay Order and the original copy of the Pay Order has to be submitted to the BIDA. After proper scrutiny of all documents, BIDA officials will place the application and documents to the Inter-Ministerial Committee and if the Committee is satisfied, it will provide the necessary approval.

However, it is advisable to check the latest requirements prior to applying for the approval.

Funding opportunities in Bangladesh

Foreign entities can conveniently get access to funding from local financial institutions for short and long-term investments, including loans for working capital, syndication and trade financing. Alongside this, some of the local and international Foreign Institutions (FIs) have access to on-shore and off-shore funding facilities.

Currently, the financial sector has 58 scheduled commercial banks as well as a host of Non- Bank Financial Institutions (NBFIs) and specialised financial institutions.

Apart from raising debt-based funding, investors may also consider securing equity-based financing from the country's capital market. Bangladesh currently has two stock exchanges, which are growing in tandem with the country's growth. As of September 2018, 302 companies are listed with market capitalisation of USD 47.34 billion. The government has preferential policies for encouraging companies to list in the country's bourses. Primary benefits include tax breaks for sector-specific companies.

Fig. 2.9: Capital Markets in Asia

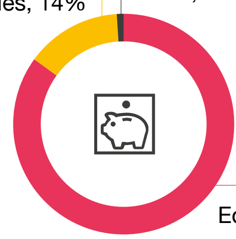


Fig. 2.9: Capital Markets in Asia

Name of Capital Market	Indice Name	Year-end Indice (2018 Jan)	Listed Companies	Value of Share Trading in USD (2017)
Colombo Stock Exchange	CSE All Share	6476.4	296	1,458.1
Dhaka Stock Exchange	DSEX	6039.8	302	26,694.9
Pakistan Stock Exchange	KSE 100	44,049.1	559	28,652.6
Philippines	PSE Composite	8,764.0	267	17,485.2

Formal Sectors

Commercial Banks

Total: 58 Scheduled

- 6 State-owned Commercial banks
- 3 Specialised Banks
- 8 Islamic Shariah-based Banks (Private)
- 9 Foreign

Non-Bank Financial Institutions

Total: 34

- 2 State-owned
- 1 Subsidiary of State-owned Bank
- 15 Domestic Private
- 15 Joint Ventures

Insurance Companies

Total: 62

- 18 Life insurance (1 State-owned, 1 Foreign)
- 44 General Insurance (1 State-owned)
- Listed: 46

Micro Finance Institutions

Total: 599

- Geared towards Rural Financial Markets
- 87% market captured by top 10

Other Sectors

Capital Market Intermediaries

- Dhaka Stock Exchange (DSE) – 365 listed securities
- Chittagong Stock Exchange (CSE) – 328 listed securities
- Stock Dealers and Brokers – 238 under DSE and 136 under CSE
- 18 Asset Management Companies
- 53 Merchant Banks
- 8 Credit Agencies
- 12 Alternate Investment Licence

Specialised Financial Institution & Cooperatives

- House Building Financial Cooperation
- PKSF (Rural Cooperative)
- Sambay Bank
- Grameen Bank

Regulatory Authorities

Bangladesh Bank

(For Banks and NBFIs)

Bangladesh Securities and Exchange Commission

(Regulatory of capital market intermediaries)

Insurance Development & Regulatory Authority

(Insurance Authority)

Microcredit Regulatory Authority

(MFI Authority)

Funding options

Equity capital

Foreign-owned companies can start raising capital from the equity market, subject to compliance of some terms and conditions. The government is keen on increasing the number of listed companies in the local bourse and is providing regulatory incentives for encouraging profitable companies. Listed companies enjoy 25% corporate taxes against 35% tax rate for non-listed companies, excluding certain sectors.

The fund-raising process requires formal approval from the Bangladesh Securities and Exchange Commission (BSEC). Companies can proceed using either the fixed price or the book building process. Under the fixed price method, the appointed merchant bank and auditor help prepare a prospectus, valuing the company based on existing assets and future growth potential. The indicative price of the stock is estimated and requires approval from the regulator. The book building method requires appointed merchant bank to prepare a prospectus with indicative pricing. The company in contention then hosts a series of road shows where institutional investors are invited for bidding on their stocks. IPO share price is set based on the feedback and interests from other institutional investors.

The process of listing in the DSEX has the mandatory requirement of hiring or appointing an Issue Manager (approved by the DSEX). The method of deciding IPOs requires assistance from the approved Issue Manager. The draft prospectus must be prepared in line with an Issue Manager and the Securities and Exchange Commission (Public Issue) Rules, 2015. IPOs could be issued through either book building or the fixed price method.

Debt capital from local commercial banks

Foreign investors have access to local debt funding. Trade finance, term loans and working capital are readily available, especially to major foreign investors. Interest rates for such loans are low and between 9-16%. Bangladesh has a high number of state and commercial banks (as mentioned in the previous section), and bank loans may be obtained against secured collateral.

Private foreign commercial borrowing

For securing long-term foreign currency loans, an application must be submitted to BIDA, which is subsequently forwarded to the Central Bank for further assessment.

To secure the funding, the application must include a business case justifying the loan requirement. The application along with the business case is submitted to a committee chaired by the Bangladesh Bank governor including members from BIDA, PMO Ministry of Finance for assessment and decisions.

Bonds

The bond market is at a nascent stage with only a few bonds available for investment. Policymakers are pushing to promote the market, but there is hardly any demand for the debt instrument, therefore discouraging companies from floating debt-based instruments.

Government incentives for encouraging investments

The Bangladesh government has welcoming investment policies, geared towards encouraging entry of investors in the secondary and tertiary sectors. As part of the government's liberal policy regime, several benefits have been instituted for investing in certain sectors. Examples of such benefits include tax exemptions, import duty waiver, ease of profit, capital repatriation and preferential benefits.

Tax exemptions

The Bangladesh government provides five to ten years of tax exemption to international investors planning on operating in certain sectors. Investments in select priority sectors such as Power, enjoy tax exemption for up to 15 years.

Import duty

No import duties are applicable for export-oriented sectors. There are duty exemptions also for some preferred sectors. General exemption of import duties is also available in respect of import of specific Plant & Machinery and spares.

Double taxation regime

Bangladesh has double taxation avoidance agreement with more than 30 major trading partner countries. Expatriate employees involved in specific sectors can also avail income tax exemption for up to 3 years.

Capital repatriation

Full repatriation of invested capital, profits and dividends is allowed, subject to applicable taxes.

Exit

An investor can cash out from an investment, subject to approvals from applicable regulatory authorities. Once a foreign investor completes the formalities to exit the country, the investor can repatriate the net proceeds after securing proper authorisation from the Central Bank (Bangladesh Bank).

Investing in the stock market

Foreign investors are allowed to participate in Initial Public Offerings (IPOs) without regulatory restrictions. Also, capital gain from listed shares is tax-exempt for individual investors and lower tax rate is applicable for company and others entities.

Investing in a sector

Four sectors are restricted for private investment in Bangladesh (1) arms and ammunition and other defence equipment and machinery, (2) forest plantation and mechanised extraction within the bounds of reserved forests, (3) production of nuclear energy, and (4) security printing (currency notes) and mining.

In addition, there are seventeen prescribed controlled sectors which require permission from relevant Ministries/ Authorities.

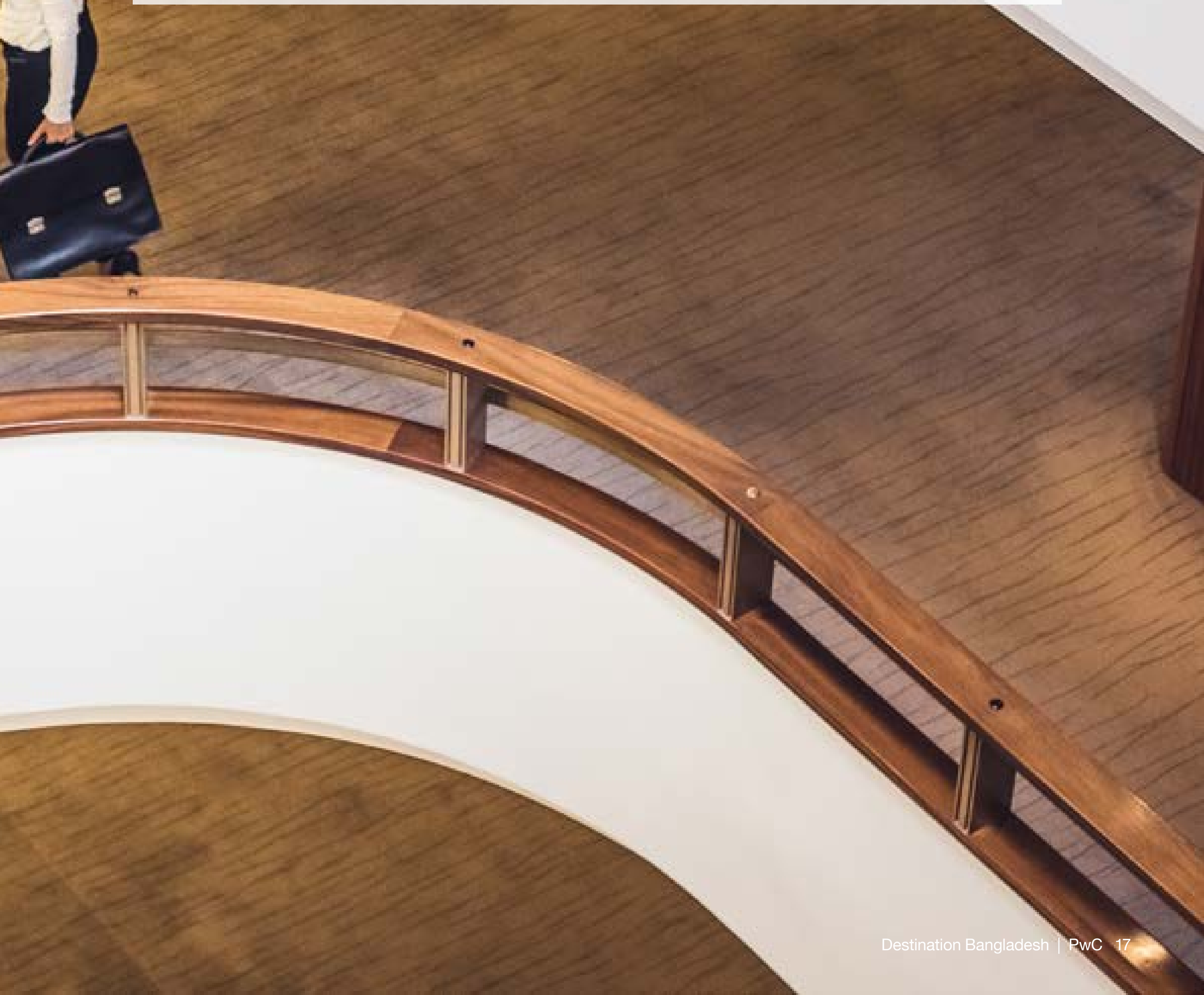
Except the aforementioned sectors, most sectors are open for private investment without limitation for foreign equity participation except for certain sectors, wherein local participation has been mandated by the respective regulatory authorities, such as logistics and telecommunication-value added service. Foreign investors or companies may obtain full working capital loans from local banks. The terms of loans are be determined based on negotiation.

Expatriate employees are normally provided with 3 months to one-year multiple entry E1 and E visa. Based on the recommendation of the investing company, experts with those companies will be provided multiple entry visa during their operating timeline.

Other incentives

Citizenship by investing a minimum of USD 500,000 or by transferring USD 1,000,000 to any recognised financial institution (non-repatriable).

Permanent residency by investing a minimum of USD 75,000 (non-repatriable).



Sector-specific incentives and taxation policy

Bangladesh has identified some 'Thrust Sectors' which have the potential for growth, especially in terms of exports or employment. The government policy has been revised to support key players in these sectors and boost economic growth.

Tax incentives are available in various sectors in Bangladesh, which inter-alia include:

- RMG/ Textile sector
- Physical infrastructure facility
- (such as deep sea port, elevated expressway, gas pipe line)
- Industrial undertaking in specified areas(such as active pharmaceuticals ingredient and radio pharmaceuticals, bio-fertiliser, computer hardware, textile machinery, insecticides or pesticides)
- Manufacturing industry
- Power generation companies
- Information technology-enabled services
- Export processing zones
- Economic zones
- Cinema hall or cineplex
- Public-private partnership projects

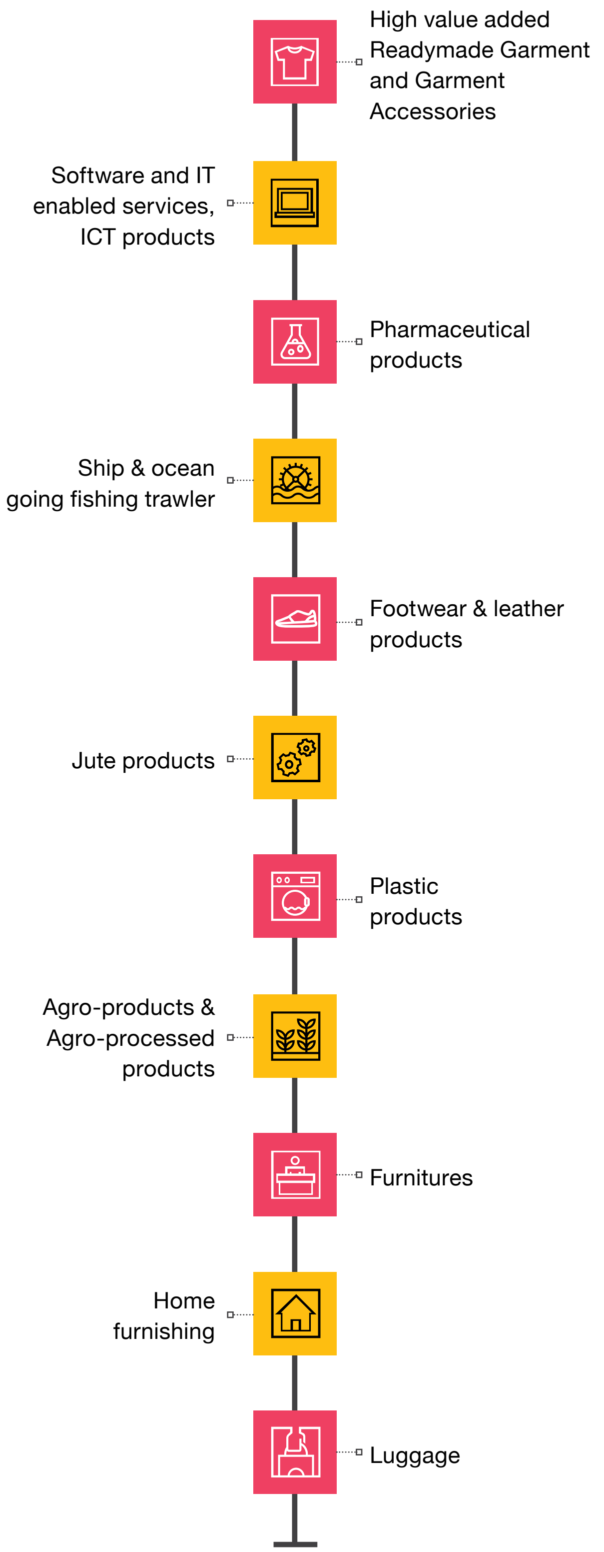
Trade policy in Bangladesh is operated under the jurisdiction of Export Policy Act 2015-18 and the Import Policy Act 2015-18. The government has a host of policy tools like tariffs and anti-dumping measure for protecting local players. As part of the Government's vision for crossing USD 60 billion export within 2021, policymakers have earmarked 12 sectors as 'Highest priority sectors', while 14 have been categorised as 'Special Development Sectors'.

Some sector-specific benefits include:

- Project loan at reduced interest rate
- Income tax rebate
- Subsidies for utility services
- Export credit
- Duty drawback
- Duty free import of equipment

The import policy 2015-18 intends to facilitate raw material import for players operating in sectors such as jute, electronics, paper.

Fig. 2.1: Priority sectors by the GOB for investment



Special Development and Service Sectors

Diversified jute products	Value added frozen fish	Paper and paper products	Handloom products including Lungi
Electric & electronic products	Poppadum	Rubber	Coir products
Ceramic products	Printing and packaging	Silk products	Tourism industry
Light engineering product	Rough diamond and jewellery	Handicraft	Architecture, engineering and consulting service

Institutions facilitating investments

Regulatory institutions

The investment route depends on the sector targeted for investment and the FDI policy implemented by the Government of Bangladesh. The following government and trade institutions will regulate and facilitate investment for most sectors;

Bangladesh Investment Development Authority (BIDA), previously known as Board of Investment (BOI), was established for dealing with matters relating to local and foreign investments. All incoming investments need to be approved beforehand by BIDA. The regulatory body aims to promote domestic and foreign investments by simplifying the bureaucratic challenges for entering the Bangladesh market.

Bangladesh Bank (BB) is the country's central bank. The central bank must be formally notified while bringing in any international investments, including portfolio investments brought into the capital market. All incoming investments must be reported to BB through commercial banks.

Trade bodies and chambers

Dhaka Chamber of Commerce and Industry (DCCI) is a non-profit, service-oriented chamber serving as the first point of contact for SMEs. DCCI provides market-oriented inputs during the government's policy formulation process with respect to import, export and investments. The chamber regularly publishes guidebooks for facilitating trade and commerce. DCCI also has its dedicated training facility for supporting capacity development of professionals working with member organisations.

Foreign Investment Chamber of Commerce and Industries (FICCI), established in 1963, is composed of 188 members across industry, service and manufacturing sectors. Classified as a Class 'A' chamber of commerce, FCCI is affiliated with FBCCI, International Trade Center (Geneva) and World Trade Organisation (Paris).

Metropolitan Chamber of Commerce and Industry (MCCI) is a leading chamber body composed of members from large local and multinational corporations. MCCI maintains regular liaison with major international trade bodies and foreign private sector organisations.

Online portals

The following online portals will be crucial for both domestic and foreign investors:

Table 2.1: List of online portals for investors

Purpose	Entity	Website Link
Foreign direct investment (FDI)	BIDA	www.bida.gov.bd
Investing in economic zones	BEZA	www.beza.gov.bd
Trade-related Information	Bangladesh Government	https://www.bangladeshtradeportal.gov.bd/
Company name Clearance	Office of the Registrar of Joint Stock Companies and Farm (RJSC)	http://app.roc.gov.bd:7781/psp/nc_search?p_user_id=
Registration of Company	Office of the Registrar of Joint Stock Companies and Farm (RJSC)	http://www.roc.gov.bd/
VAT Registration	National Board of Revenue	http://www.nbr.gov.bd/
Issuance of Certificate for using standard mark	Bangladesh Standards and Testing Institution (BSTI)	http://www.bsti.gov.bd/Form_Online.html
Comprehensive List of Licences	Bangladesh Government	http://www.forms.gov.bd/
For import and export related policies, documents, licences	Chief Controller of Importer and Exporters	http://www.ccie.gov.bd/
For IP Registration, renewal	Department of Patent, Design and Trade Marks under Ministry of Industries	http://www.dpdt.gov.bd/
For Issuing Environmental Clearance	Department of Environment	http://ecc.doe.gov.bd/login/

BIDA- One Stop Solution (OSS)

BIDA has introduced an online-based One Stop Service (OSS) for assistance with necessary licences and permits required for international investment in Bangladesh.

Trade Licence

Depending upon the location of place of business, local City Corporation or Municipal Corporation or Union Parishad are the competent authorities for issuance of trade licence.

Chapter 3: Regulations for operating in Bangladesh

Investment friendly FDI policies

Interests of international investors are protected by government policies. Successive governments since the country's independence in the 1970s have continued with the preferential policy treatment to international investors. The policy framework for foreign investment in Bangladesh is based on 'The Foreign Private Investment (Promotion & Protection) Act 1980,' which ensures legal protection for foreign investments in Bangladesh. The law guarantees non-discriminatory treatment between foreign and local investments, and permission of freely repatriating proceeds of profits and divestments.

Following are some of the benefits for foreign investors:

- Foreign investors can fully own companies (excluding certain sectors) within the country and invest in the domestic bourse without restrictions.
- Full repatriation of investments and dividend are permitted, subject to relevant taxes, and reinvestment of profit is considered as new investment.
- Expatriates working for the company in some specific sectors will be not be subjected to personal tax for up to 3 years.
- Expatriates employed in Bangladesh are entitled to remit up to 75% of their post-tax remuneration. Residual amount can be remitted at the time of leaving the country.
- Multiple entry VISAs i.e. E1 VISA and E VISA are issued to foreign investors for up to one year and could be extended through appropriate application process.
- Income tax exemptions in respect of income from business activity are carried on in the SEZs for up to ten years (rate of income tax exemption varies based on year of operation), while investments in some sectors such as power enables tax holiday for up to 15 years.

Capital repatriation

Profit and capital repatriation are subject to reporting requirements or authorisation by Bangladesh Bank. Proceeds from the sales of securities (equity) of publicly listed companies may be repatriated without prior approval for an amount not exceeding the market value of the shares as listed in the stock exchange. All other capital repatriations (i.e. private limited companies and public limited companies not listed in the stock exchange) are subject to prior authorisation by Bangladesh Bank. In the absence of an established market valuation of the company, the amount repatriated may not exceed the net asset value of the company at the date of the transaction. It is examined on case to case basis depending on factors such as company profile, market dynamics and transactions model.

The Foreign Exchange Regulation Act requires foreign-owned companies to obtain commercial domestic loans. The regulations provide a general authorisation to banks involving working capital. Term loans may be provided as well upon fulfilling certain conditions. Borrowing from abroad is possible based on approval from the Central Bank and BIDA. Investors can exit the country any time with their investment based on the resolution of the company board. Once a foreign investor completes the formalities to leave the country, he or she may repatriate the net proceeds after securing proper authorisation from Bangladesh Bank.

Types of Taxes in Bangladesh	
Direct Taxes	**Indirect Taxes**
Tax on Income	Import Duties
Branch Profit Tax on Repatriation	Value Added Tax
	Excise Duty for Banks/Airlines
	Supplementary Duty

Direct Tax rates - Corporate

Nature of Company		Tax Rate
Bangladesh Company Rates	Private Company	35%
	Minimum Tax computed on the amount of company's gross receipts from all sources for a tax year irrespective of its profits or loss for that tax year	0.6% to 2.0% (initial 3 years at the rate 0.1% for industrial undertaking engaged in manufacturing of goods)
	Dividend Income (for all companies)	20%
	Branch Profit Tax	20%
Other rate for specified companies	Public Listed Company*	25%
	Cigarette Manufacturing Company	45%
	Banking, Insurance and Financial Company (publicly traded)	37.5%
	Banking, Insurance and Financial Company (non-publicly traded)	40%
	Merchant Banking Company	37.5%
	Mobile Phone Operating Company	45%
Specific SRO	Export of Ready Made Garments/Factory having internationally green building certification	12%/10%

*Subject to fulfillment of certain conditions, else taxed at 35%

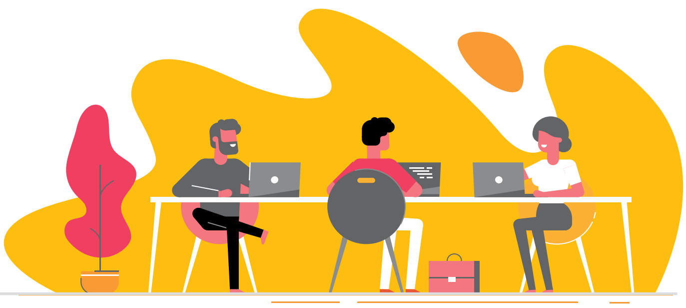
Note: Surcharge @ 2.5% to be levied on income from business of manufacturing cigarette, bidi, zarda, gul and all types of tobacco products.

Income from business or profession

Income from business or profession is computed in accordance with the method of accounting regularly followed and subject to the adjustments/deductions as prescribed in the Ordinance. The income is subject to tax at the rates as mentioned above.

Capital gains

Companies operating in Bangladesh are liable to pay 15% on the capital gain generated from transfer of capital assets.



Personal Income Tax

All individuals who are liable to pay income tax or are specifically prescribed to file income return must file annual tax returns by 30 November, following the end of the tax year (30 June).

Taxability of Individual

Resident	Non-Resident
Taxed on global income earned during the year	Taxed only on income earned in Bangladesh during the year

Resident and Non-Resident Bangladeshis are taxed at below mentioned rates:

Total Income (Bangladesh Taka)	Tax Rate
First 250,000	0
Next 400,000	10%
Next 500,000	15%
Next 600,000	20%
Next 3,000,000	25%
Balance	30%

"The first threshold of BDT 2,50,000 is extended for:

- Women and senior citizen (aged 65 years & above) to BDT 3,00,000;
- Person with disability to BDT 4,00,000;
- Gazetted war-wounded freedom fighter to 4,25,000."

Resident: -

- Presence for 182 days or more in a fiscal year, or
- Presence for 90 days or more current year +365 days in preceding four years

Employers are required to withhold tax from salary of employees
Return filing deadline for individuals is 30th November

Non-resident Individuals (other than Non-Resident Bangladeshi) are taxed at a flat rate of 30%.

Rates of surcharge applicable to individuals

Amount of net wealth	Rates of surcharge (as % of income tax)	Minimum surcharge
(1)Net wealth upto BDT 3 crore	Nil	Nil
(2) (a) Net wealth exceeding BDT 3 crore but not exceeding BDT 5 crore; or (b) Ownership of more than one motor car; or (c) Ownership of house property having an aggregate area of more than 8000 square feet in a city corporation	10%	BDT 3,000
(3) Net wealth exceeding BDT 5 crore but not exceeding BDT 10 crore; or	15%	
(4) Net wealth exceeding BDT 10 crore but not exceeding BDT 15 crore	20%	BDT 5,000
(5) Net wealth exceeding BDT 15 crore but not exceeding BDT 20 crore	25%	
(6) Net wealth exceeding BDT 20 crore	30%	

Note: Surcharge for individual taxpayers having net wealth of BDT 50 crore or above to be higher of "0.1% of net wealth" or "30% of income-tax payable".

Bilateral Double Taxation Avoidance Treaties

For foreign investors, double taxation may be avoided on the basis of Bilateral Double Taxation Avoidance Treaties (DTTs). NBR is authorised to negotiate Double Taxation Agreements (DTA) with foreign countries to promote FDIs in Bangladesh. The DTA is an agreement between two countries seeking to avoid double taxation by defining the taxing rights of each country with regard to cross-border flows of income and providing for tax credits or exemptions to eliminate double taxation. DTAs enable exchange of information between treaty partners regarding evasion of tax. The list of bilateral signatories of Double Tax Avoidance (DTA) are presented below:

Bangladesh: Tax Treaties – DTAA

Sl	Country	Sl.	Country
1	Belgium (Effective date 1st July, 1997)	18	Poland (Effective date 1st July, 2000)
2	Canada (Effective date 1st July, 1982)	19	Romania (Effective date 1st July, 1989)
3	China (Effective date 1st July, 1998)	20	Saudi Arabia (Effective date 1st July, 2012)
4	Denmark (Effective date 1st January, 1997)	21	Singapore (Effective date 1st January, 1980)
5	France (Effective date 1st January, 1988)	22	Sri Lanka (Effective date 1st July, 1989)
6	Germany (Effective date 1st January, 1990)	23	Sweden (Effective date 1st July, 1984)
7	India (Effective date 1st July, 1993)	24	Switzerland (Effective date 1st July, 2009)
8	Indonesia (Effective date 1st July, 2007)	25	Thailand (Effective date 1st July, 1998)
9	Italy (Effective date 1st July, 1980)	26	Turkey (Effective date 1st July, 2004)
10	Japan (Effective date 1st July, 1992)	27	United Arab Emirates (Effective date 1st July, 2012)
11	Korea (Effective date 1st July, 1983)	28	United Kingdom (Effective date 1st July, 1978)
12	Malaysia (Effective date 1st January, 1982)	29	United States of America (Effective date 1st October, 2006; withholding tax 1st January, 2007 - other taxes)
13	Mauritius (Effective date 1st July, 2011)	30	Vietnam (Effective date 19th August, 2005)
14	Netherlands (Effective date 1st July, 1995)	31	Belarus (not yet in force)
15	Norway (Effective date 1st July, 2006)	32	Kuwait (not yet in force)
16	Pakistan (Effective date 1st January, 1980)	33	Bahrain (Effective date 9th October 2017)
17	Philippines (Effective date 1st July, 2004)	34	Czech Republic (not yet in force)

How to file tax returns

The process of submitting the return of taxable income to the Deputy Commissioner (DC) of Taxes in the prescribed format is known as tax return.

Each income tax payer or person prescribed to file tax return is entitled to get the income tax return form, free of cost from tax offices or NBR's website (www.nbr-bd.org). After calculating the amount of income tax, every assessee shall deposit the amount to the govt. exchequer through pay order, treasury challan and submit duly signed and verified return form along with the necessary documents to relevant tax circle.

A company or individual must submit income tax return by tax day following the income year. The last date for the submission of return may be extended by the Deputy Commissioner of Taxes by up to two months and further extended for two months with approval of the Inspecting Joint Commissioner.

Tax day in case of company is the 15th day of the seventh month following end of Income Year or 15th September following the income year when the due date of filing falls prior to the said date. Tax day for an individual is the thirtieth day of November following the end of the income year.

eTIN registration

The incumbent has to obtain Tax Identification Number (TIN).

Indirect Taxes

Value Added Tax (VAT)

Standard VAT rate of 15% is applicable on supply of both goods and services in Bangladesh. Certain prescribed goods and services are chargeable to VAT rate at 5%, 7.5% and 10%. VAT is imposed on goods and services at each stage of import, manufacturing, supply and trading. Input tax credit is available at each stage where goods and services are supplied at standard VAT rate of 15%. Recipient of service is liable to pay VAT under reverse charge in respect of import of service.

All business or industrial units with an annual turnover of BDT 30,000,000 are liable to obtain VAT registration and pay VAT at the applicable rates. If annual turnover is less than BDT 30,000,000, a tax rate of 4% is levied as Turnover Tax. Supply of goods and service up to the turnover of BDT 50,00,000 are exempt from payment of VAT and Turnover tax. In terms of Section 26 of the VAT & SD Act 2012 (The Act), Goods and services notified in 1st Schedule to the Act are exempt from payment of VAT.

VAT is payable on a monthly basis within 15th of next month and monthly VAT return is also required to be filed within 15th of next month. At present though VAT return is filed manually, it is expected that on implementation of "VAT-online project", VAT return could be filed online.

Import duties

The following import duties are generally levied on import of goods in Bangladesh:

Customs duty, Supplementary duty, Regulatory duty, VAT, Advance Income Tax and Advance Tax.

The Harmonised Tariff System is used for imposing import duties on import of goods. Different rate of import duties are notified in the Customs Tariff Schedule based on HS code of the products imported into Bangladesh.

Supplementary Duty (SD)

Supplementary duties ranging from 10% to 500% are levied on luxury and non-essential goods imported into Bangladesh. Further supplementary duty ranging from 5% to 65% is imposed on non-essential or socially undesirable goods produced and supplied in the country. The rates vary depending on the nature of the goods.

Merger and Acquisition (M&A) framework for Bangladesh

The policy on the Merger and Acquisition (M&A) of companies is mentioned through Section 12-14 of the Companies Act, 1994. According to Section 12, companies willing to go through M&A must seek approval from the court.

Currently, a company planning on merging with another company must seek approval from the existing shareholders, based on Company Act 1994, followed by ratification from the court. According to the proposed guidelines, the court would remain the sole authority for ratifying merger between two organisations.

Preferential trade policies

Bangladesh has bilateral agreements and investment treaties with the following countries.

Bilateral agreements: Belgium, Canada, China, Denmark, France, Germany, India, Italy, Japan, Poland, Romania, Singapore, South Korea, Sri Lanka, Sweden, Thailand, The Netherlands, United Kingdom.

Ongoing negotiations for bilateral agreements: US, Iran, Philippines, Qatar, Australia, Nepal, Turkey, Indonesia, Cyprus, Norway, Finland and Spain.

Investment treaties: Belgium, Canada, France, Germany, Iran, Italy, Japan, Malaysia, Pakistan, Philippines, Poland, Republic of Korea, Romania, Switzerland, Thailand, The Netherlands, Turkey, UK, US, Indonesia.

Ongoing negotiations for investment treaties: Negotiations are ongoing with India, Hungary, Oman, Moldova, DPRK, Egypt, Austria, Mauritius, and Uzbekistan.

Additional policies for protecting foreign investments

- Bangladesh is a signatory to MIGA (Multilateral Investment Guarantee Agency) which insures investors against political risks. MIGA is an Investment Guarantee Agency of the World Bank Group that guarantees foreign investors against losses incurred due to non-commercial risks and encourages FDI. MIGA's guarantee protects investors from the risks of currency transfer, exploitation, war and civil disturbances. MIGA is only restricted to de-risking new investments, privatisation and financial restructuring.
- Overseas Private Investment Corporation (OPIC), a US-based organisation, insures incoming US investments to frontier markets like Bangladesh. OPIC provides the necessary guarantee for foreign investors in case of unforeseen major events such as civil war, expropriation and natural calamities.
- Bangladesh is a signatory of International Centre for Settlement of Investment Disputes (ICSID), an organisation that settles investment disputes between states and nationals of different countries. ICSID seeks to encourage greater flow of international investment by providing facilities for the conciliation and arbitration of disputes between governments and foreign investors.

Preferential trade benefits

Bangladesh enjoys several trade benefits, which provide significant cost advantages while competing in international markets. However, the country is predominantly benefitting from exporting to the EU, which has provided free entry to all kinds of goods and services.

European Union

Bangladesh benefits from EU's Generalized Scheme of Preferences (GSP), namely the Everything But Arms (EBA) arrangement, which grants duty and quota-free access for all items, except arms and ammunition. Under the framework of the EU-Bangladesh joint co-operation Agreement, ratified in 2001, engagements between the two regions can include a variety of activities from trade and economic development to good governance and environment regulation. Bangladesh's export to EU is dominated by apparel, which contributes 90% of total export.

The US

United States is the single largest export destination for Bangladesh and in FY 2017-18, the latter exported goods worth USD 5.98 billion. Bangladesh used to enjoy Generalized System of Preferences (GSP) in the US market till 2013. In response to US's cancellation of GSP, Bangladesh is currently negotiating a new trade agreement with the US, under the Trade and Investment Facilitation Agreement (TCFA) arrangement. The agreement, signed in November 2013, provides a platform for discussing trade and investment-related issues and other areas of common interest.

Chapter 4: Steps to set up business operations

There are several steps involved in setting up business operations in Bangladesh. These are outlined below:

Company registration documents

A foreign investor planning to operate in Bangladesh would need to register the company with Registrar of Joint Stock of Company (RJSC). While other company documents such as TIN and VAT certificates and trade licences are equally important for business operations, company incorporation is the first step of the process. The following table outlines the steps, time frame and document requirements for setting up a new company in Bangladesh.

Sl No.	Particulars	Requirements
1.	Applying for Name Clearance to RJSC	An online application for obtaining name clearance has to be filed with RJSC in Bangladesh. **Documents required** generally include Board resolution with regard to preferred names of the New Co. **Time frame** Name Clearance certificate is generally allotted within a period of 2-3 days subject to submission of all relevant documents.
2.	Transfer of paid up capital in Bangladesh, Obtaining Encashment certificate and Payment of RJSC fees	The Investing / Holding Company is required to transfer paid up capital money (plus incorporation expense) to a temporary Bank A/c (e.g. Provisional Bank A/C or Local Lawyers Bank A/c) in Bangladesh. Thereafter, the Company is required to obtain encashment certificate from the concerned Banker and make payment of RJSC fees.
3.	Apply for Incorporation of New Co. (Forms)	An online application for incorporation is required to be done on the RJSC website. **Documents required** generally include Copy of Board Resolution, MOA & AOA and Incorporation certificate of the Parent Co, Letter of authorisation (LOA) to the local representative, Passport copy of the Directors of the New Co, Copy of Name clearance approval certificate, Encashment certificate (to be issued by the concerned banker in Bangladesh), Receipt of payment of fees to RJSC, Draft MOA & AOA of the New Co, Filled and signed application forms (requiring various details). **Time frame** From practical experience, it takes around a 6-8 weeks' time for preparing and arranging all the required documents (i.e. drafting and finalisation of MOA & AOA, preparation of incorporation forms of the New Co., obtaining signatures on relevant documents and notarisation /attestation of documents etc.). Once the required documentation has been received and subsequently filed with the RJSC, it generally takes around 10-15 days to obtain the incorporation certificate.
4.	Application for TIN of the New Co.	An online application for obtaining a TIN of the New Co. has to be filed in Bangladesh. **Documents required** generally include photographs of the Directors of the New Co., particulars of Directors, copy of MOA & AOA along with Incorporation Certificate of the New Co, LOA to the local representative, Rental Deed for Office in Bangladesh, local mobile number of the company representative. **Time frame** TIN for the New Co. is generally allotted within a period of 4-5 days subject to submission of all relevant documents.

5.	Trade Licence	The New Co. is required to obtain a Trade licence from the respective City Corporation/Municipal Corporation for conducting business in Dhaka. **Documents required** generally include prescribed application form duly filled in [filled-up in Bengali Language], Rental Deed for Office in Bangladesh, photograph of the Director in whose name the licence will be applied for, passport copy of the Director in whose name the licence will be applied, MOA & AOA along with Incorporation Certificate of the New Co, Board Resolution passed by the Parent Company, LOA to the local representative, copy of the TIN of the New Co, undertaking on 200 Taka Stamp paper. **Time frame** Trade licence approval is generally issued within a period of 10-15 days subject to submission of all relevant documents.
6.	VAT / BIN registration number	An online application for obtaining VAT registration has to be filed with NBR through the VAT online portal in Bangladesh. **Documents required** generally include name and address of the Company, Bank Account details (Name of Bank with branch name, Account Title & Account Number), copy of updated Form XII, copy of Passport/ National ID of the Authorised Signatory along with details such as designation, contact number and email address, copy of TIN certificate of the company, copy of trade licence of the company, company's estimated annual turnover. **Time frame** VAT registration certificate is generally provided within a period of 7-15 days, subject to submission of all relevant documents.
7.	Import Registration Certificate	For undertaking imports, Import Registration certificate is required to be obtained from Chief Controller of Import & Export by filing online application in the CCI&E website. **Documents required** generally include signed application forms, bank solvency certificate (to be issued by the concerned Banker in Bangladesh), copy of Trade Licence, copy of TIN of New Co, copy of MOA & AOA along with incorporation certificate of the New Co, Membership Certificate from Recognised Chamber/Trade Association **Time frame** IRC approval is generally issued within a period of 3-4 weeks subject to submission of all relevant documents.
8.	Export Registration Certificate	For undertaking export, Export Registration Certificate is required to be obtained from Chief Controller of Import & Export by filing online application in the CCI&E website. **Documents required** generally include signed application forms, Telegraphic Code, copy of Trade Licence, copy of MOA & AOA along with Incorporation Certificate of the New Co, bank solvency certificate (to be issued by the concerned Banker in Bangladesh), copy of TIN of New Co., membership certificate from recognised Chamber/Trade Association. **Time frame** ERC approval is generally issued within a period of 3-4 weeks subject to submission of all relevant documents.

Note: The timelines provided above are practical estimates subject to notarisation / attestations / sign off and receipt of all necessary and relevant documents, and submission of the same with relevant regulatory / government authorities in Bangladesh.
It is also advisable to check the latest requirements prior to application.

Fees for company registration

Fee for Name Clearance ('NC')

i. NC for company: Nominal fee for each of the proposed names.

Registration fees
PRIVATE COMPANY (Companies Act, 1994)

Stamp fees:

i. For the Memorandum of Association: BDT 1000.00
ii. For the Articles of Association :

For Authorised Capital	Fee (BDT)
Up to 20,00,000.00	3,000.00
> 20,00,000.00 up to 6,00,00,000.00	8,000.00
> 6,00,00,000.00	20,000.00

Registration fees:

i. For filing 6 documents (5 filled in forms plus 1 memorandum & articles of association, @ BDT 400.00 per document): BDT 2,400.00
ii. For the authorised share capital:

For Authorised Capital	Fee (BDT)
Up to 20,000.00	00.00
Additional for every 10,000.00 or part after first 20,000.00 up to 50,000.00	00.00
Additional for every 10,000.00 or part after first 50,000.00 up to 10,00,000.00	00.00
Additional for every 1,00,000.00 or part after first 10,00,000.00 up to 50,00,000.00	50.00
Additional for every 1,00,000.00 or part after first 50,00,000.00	80.00

Fees for trade licence:

For limited company

Paid up capital	Annual fees
1 lac	1,500
1-5 lac	2,000
5-10 lac	3,500
10-25 lac	4,500
25-50 lac	5,500
50 lac- 1 Crore	7,500
1-5 crore	10,000
More than 1 crore	12,000

Please note that the fees mentioned above are exclusive of VAT @15% or any other statutory dues that may be applicable in Bangladesh.

Registration with the Bangladesh Investment Development Authority (BIDA)

Documents required generally include Application in duly filled-in prescribed form, Trade licence, Certificate of Incorporation along with Memorandum of Association, Partnership deeds, Deeds of the proposed land, Background of the proprietors in official letterhead pad, Pay Order/Bank Order for applicable registration fee in favour of BIDA, TIN certificate.

Table 4.1: Registration fees based on investment amount

Registration fee for foreign Investment	
Amount (BDT)	Required fee (BDT)
Up to 10 Crore	5,000/-
10-25 Crore	10,000/-
25-50 Crore	25,000/-
50-100 Crore	50,000

It is advisable to check the latest requirements prior to application.

Land

- Foreign individuals or entities are not allowed to own real estate properties in Bangladesh but may procure land under special arrangements.
- Foreign investors may acquire a local company with 100% foreign ownership and use the company as a vehicle for real estate acquisition.
- Foreign investors can establish Joint Venture-based companies for purchasing real estate.
- Foreign investors may purchase shares of a local company that owns real estate.
- Investors can lease land in certain specialised areas such as export processing zones (EPZs) and Economic Zones (EZ).

Commercial leasing

The primary step for executing a leasing contract involves conducting a title verification to determine the existence of any material or title defect of the land to be leased. Once the title clearance is obtained, the terms of the lease need to be ascertained. Certain clauses must be considered carefully by both parties:

- Rent free period
- Sole renewal option for lessee
- Lock-in period
- Force majeure
- Termination

Machinery import

An entity willing to import equipment and machinery to Bangladesh must obtain an import registration certificate (IRC) from the Ministry of Commerce.

Documents required for import:

- Letter of credit authorisation form
- Bill of lading or airway bill
- Commercial invoice or packing list
- Certificate of origin

Note: For certain imported items, additional certifications or import permits relating to health security or other relevant matter have been made mandatory. Companies established in EPZs have separate guidelines for import.

Types of importers

- Direct Commercial Importers: Import of goods for sale without further value addition.
- Private Industrial Consumers in EPZs: Tax free import of any quantity of non-restricted items
- Private Industrial Consumers (those not located inside EPZs): These entities import raw materials and machineries to produce goods and services for sale in both the local and domestic markets. IRC specifies the maximum value for each product that the industrial consumer may import each year.

Digitisation process for 'One Stop Solution'

Handling contract related legal dispute

Commercial disputes are either legally handled by the court or through an arbitration body.

Dispute related to land

Any dispute in relation to land rights is normally resolved by the courts. The government assures foreign investors protection against nationalisation and exploitation through the Foreign Private Investment Act of 1980.

Legislation to ensure legal compliance

Bangladesh has a common law-based judicial system. The country's basic laws such as penal code, civil and criminal procedural codes, contract laws and company law are used to absolve local disputes. In cases of disputes, alternate dispute resolutions are viable under the Arbitration Act of 2001 and 2004. Bangladesh is a signatory of the International Convention for the Recognition and Enforcement of Foreign Arbitral Awards and a member of International Centre for Settlement of Investment Disputes (ICSID). Bangladeshi law allows contracts to refer dispute settlement to third country forums (e.g. in Singapore) for resolution. Bangladesh is also a party to the South Asia Association for Regional Cooperation (SAARC) Agreement for the Establishment of an Arbitration Council since November 2005. This association aims to establish a permanent centre for alternative dispute resolution in one of the SAARC member countries.

Other regulations

- Bangladesh is a signatory of the New York Convention and recognises the enforcement of international arbitration awards.
- Domestic arbitration is under the authority of the district judge court bench, and foreign arbitration is under the authority of the relevant high court bench.
- The Bangladesh Arbitration Act of 2001 and amendments in 2004 reformed alternative dispute resolution in Bangladesh. The Act consolidated the law relating to both domestic and international commercial arbitration.
- The Bangladesh International Arbitration Centre (BIAC) is available for dispute resolution. The Centre operates under the Bangladesh Arbitration Act of 2001. BIAC is an independent arbitration centre established by prominent local business leaders in April 2011 for commercial dispute resolution. The council committee is headed by the President of International Chamber of Commerce – Bangladesh (ICCB) and includes the presidents of other prominent chambers including Dhaka Chamber of Commerce and Industry (DCCI) and Metropolitan Chamber of Commerce and Industry (MCCI).

Chapter 5: The way forward

Bangladesh's economy expanded by a remarkable 7.86% to USD 275.8 billion in 2018. The country has continued making strides to achieve its social development goals for its 167 million citizens. The country's historic growth has been spearheaded by its private sector, which has benefitted from the demographic dividend and rising middle and affluent class population. Bangladesh has been enjoying the benefit of a rising young population that has resulted in a larger labour force to support industrialisation and a rapid shift in consumption pattern. The young population is expected to keep growing in the coming years, which will augur well for expanding industrialisation. The government has also significantly enhanced its efforts to mitigate some of the bottlenecks hampering business operations as these contribute towards the country's aspiration to graduating to a middle-income economy.

Transitioning to a developing middle-income economy

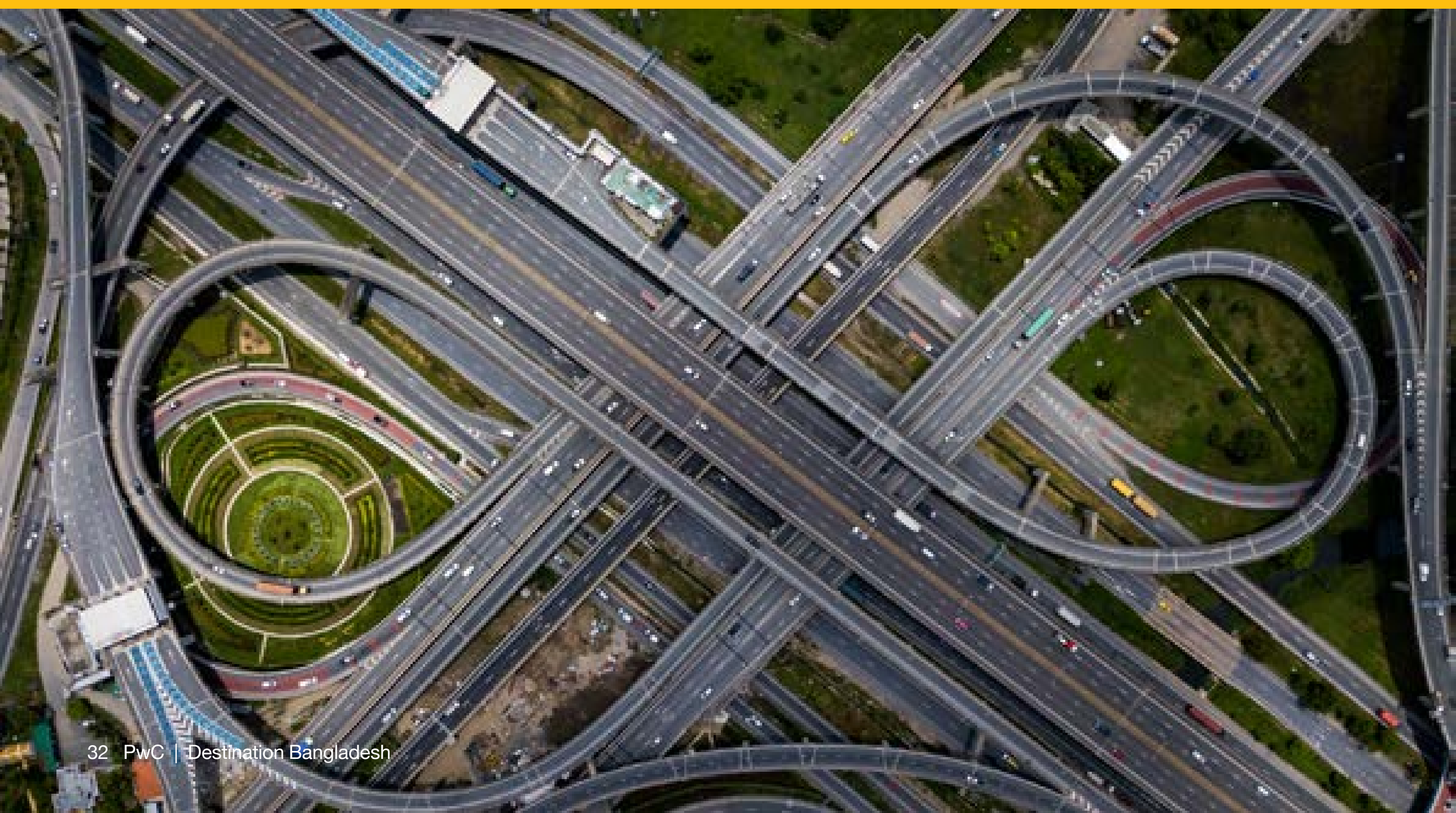
In 2015, Bangladesh graduated to the World Bank's "Lower Middle Income" status with its Gross National Income (GNI) reaching USD 1,046. Lower middle income countries have GNI between USD 996 and USD 3,895, while GNI of upper-middle-income economies range between USD 3,896 and USD 12,055 per capita. Bangladesh aims to reach that GNI by 2025.

On March 2018, Bangladesh got the nod from the UN and graduated to the status of a developing country upon meeting all three graduation criteria – Gross National Income (GNI) of USD 1,272 (required USD 1,230), Human Assets Index (HAI) of 72.8 (required greater than 66) and Economic Vulnerability Index (EVI) of 25.2 (required 32 or below). The country has to maintain the required threshold till 2024 in order to graduate to the middle-income status.

The incremental growth of the economy will augur well for the country in terms of its global economic standing. Bangladesh will have more opportunities for attracting foreign investments. Besides, the sovereign rating is also expected to improve, leading to lower risk premium while making investments in debt and equity-based instruments. The government's objective of launching sovereign bonds will get a further impetus by attracting a wide array of investors.

Bangladesh will have till 2027 to build the necessary infrastructure to remain competitive following the withdrawal of duty-free and quota-free (DFQF) access. The country is already undertaking different policy reforms and pursuing bilateral and multilateral trade agreements to develop the platform to compete in the global marketplace.

- Investor friendly policies and incentives including 100% foreign equity
- Access to human capital with affordable wage rates
- A strategic geographic position in the Asia- Pacific region
- Macroeconomic stability characterised by a consistent GDP growth rate at around 7%.



The road ahead

Policymakers realised the importance of infrastructure for attracting investments. Taking lessons from China's success story, the government is fostering an industrialisation-led growth strategy by setting up Special Economic Zones across the country, while attracting investments through policies such as tax holidays. Bangladesh Economic Zone Authority (BEZA), a semi-autonomous body under the Prime Minister's office, is primarily responsible for managing the development of these zones, with the mandate to eliminate any bureaucratic bottlenecks hindering the flow of incoming investments.

The government investment in the power sector resulted in the rise in electricity access that has gone up from 50.5% in 2006 to 75.92% in 2016. According to a World Bank publication, the time required for businesses to obtain new electricity connections significantly decreased from 400 days in 2014 to less than 150 days in 2018. However, given the rapid expansion of the Bangladesh economy, continuous investments are required for meeting the energy demand of 30,000 MW in 2030. Greater private sector participation is imperative for scaling up the power sector further, apart from infusion of Government-to Government (G2G)-based investments and more power and natural gas import.

Infrastructure development of the country has been driven by both national and international (G2G and multilateral agencies) funding. Recently, both China and India have committed to investing nearly USD 31 billion and USD 4.5 billion respectively. A majority of these investments has been designed for road, rail and port infrastructure development, as part of implementing China's "One belt, one road" initiative. The initiative is meant to connect Bangladesh through infrastructure and economic collaboration to other parts of Asia and Africa; and factors in India's bid for securing transit through Bangladesh to connect Indian states located on the two sides of Bangladesh. Further investments are in the pipeline to build and repair new highways and expand existing port capacities as well as build a deep-sea port and new power plants.

For averting corruption while registering a company, BIDA will launch a One Stop Service (OSS) online portal for foreign investors, with a mandate to securing all necessary documentation for setting up a company within 45 working days. Investors can track the progress of the registration process through an online portal.

The digital edge

Overall, the government intends to digitise the investment process by making government services more accessible. As part of the digitisation process, the government has already digitised the tax payment procedure, introducing e-tins for simplifying the payment cycle. Other areas of improvement include property registration process. Therefore, although bureaucratic challenges and corruption may be impediments for operating businesses in Bangladesh, continual efforts are being made to combat such issues.

Bangladesh's graduation to the middle-income status would negate existing preferential trade benefits currently enjoyed by the country. However, the government has proactively started engaging in bilateral trade agreements with major trading partners. The economic impact of the government's initiatives to establish diplomatic ties will further bear fruit in the coming years.

In conclusion, the influx of emerging sectors such as readymade garments, consumer staples & durables and telecommunication in Bangladesh is indicative of the dynamic investment opportunities in the country. Bangladesh's robust economic growth, rising young population and progress in human and social development are propelling its domestic consumption and private investments. The market for both imported and locally-manufactured consumer durables is expanding at a rapid pace. Moreover, the government's incentives to attract investments, such as setting up economic zones with robust infrastructure and fiscal incentives, are supplementing Bangladesh's promising GDP forecast.

Once prospective investors have familiarised themselves with the logistics and regulations for operating in Bangladesh, the opportunities would be ripe for the picking.

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