Destination Bangladesh

pwc

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Foreword

Bangladesh as an investment destination

Bangladesh s gross domestic product (GDP) grew by 6.9% in fiscal year 2021, recovering from a drop to 3.4% in 2020 as a result of COVID 19. The economy is poised to grow at an average rate of 6% till 2040 according to various estimates by the World Bank and ADB.

Despite COVID 19 negatively affecting businesses and demand, the economic growth bounced back in 2021 as a result of a series of stimulus measures taken by the government. Consumer demand has continued to grow with a burgeoning middle class and the growth in investment led by the public sector. The growing demand has made it easier for Bangladesh to cope with the impact of the rising global inflation and the slowing growth rates. Private consumption has also risen consistently over the last 10 years with a growing disposable income.

Recently completed infrastructure projects such as the Padma Bridge and the soon to be completed Karnaphuli Tunnel are expected to boost economic growth by providing easy access to the southwest of the country from the key markets in Dhaka and Chittagong. Other megaprojects as part of the 8th Five Year Plan (FYP) are also expected to boost development. The country s FDI grew by 12.9% in 2021 led by investment in the manufacturing sector followed by trade and commerce. Increased focus on bilateral and multilateral trade agreements are expected to enhance the FDI which is still low compared to the economies of the peer countries. Private investment makes up over 70% of the total investment in the country and is expected to grow steadily.

The emphasis on export led economic growth has resulted in exports reaching a peak of USD 52 billion in FY22 with the USA as the top destination for exports. The government s focus on digitisation is expected to drive the growth in the next few decades. Internet usage has grown at a CAGR of 3% over the past 5 years with close to 95% of the population covered by 4G mobile broadband networks. The telecom operators are key to the growth of internet penetration across the country.

The rise in digitisation not only enables a greater consumer market but is also expected to increase the productivity and boost the economic growth. The startup ecosystem in Bangladesh has also grown rapidly with over 200 startups being launched each year. The funding is led by international players as 96% of funds in the startup space have come from abroad.

The complexities of investment in Bangladesh revolve around both entry into and exit from Bangladesh. Many investors find the regulations surrounding setting up a business or investing in local companies as well as the myriad regulations surrounding repatriation of profits complex. One of the most important resources for investors are partners with a local presence who understand the pulse of Bangladesh and the unique challenges and opportunities in the market.

This comprehensive report is a study of Bangladesh as an investment destination. The first chapter focuses on an overview of Bangladesh focusing on the demographics, financial and economic indicators and an overview of key economic sectors that highlight the potential of Bangladesh as an investment destination. The second chapter focuses on the processes and opportunities available to companies investing in Bangladesh from remittance regulations to the key nuances of the market here. The subsequent chapters explain the key regulations to succeed in the Bangladesh market and steps required to set up operations.

Using PwC s unparalleled experience of operating across sectors in the Bangladesh market and supporting the growth of our partners, we hope that this report can serve as a guide to investment in Bangladesh.

Mamun Rashid

Managing Director, PwC Bangladesh

Chapter 1: Doing business in Bangladesh – expanding gateways

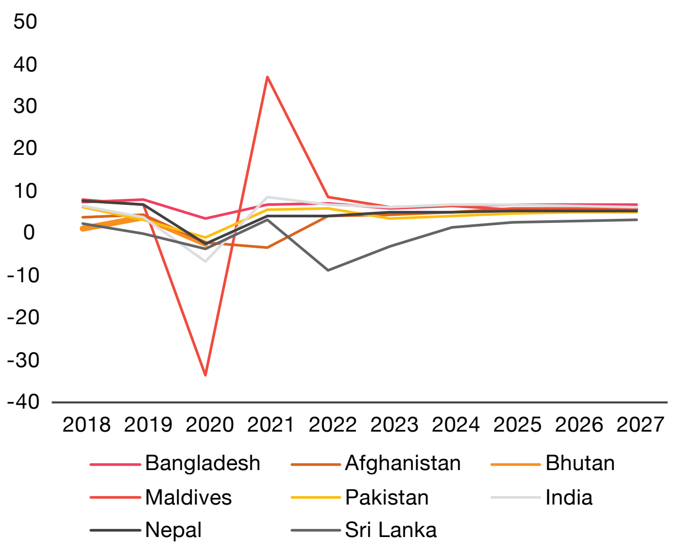
Bangladesh is among the Next 11 (N–11) emerging markets. In the last decade, Bangladesh's economy has grown at an annual rate of around 6–8% and delivered positive growth during 2020 despite the pandemic. Bangladesh's macroeconomic stability during the pandemic illustrates the economy's resilience. The country has reflected both social and economic growth. The level of poverty 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 forecasted to reach the 34th place in 2026 and will rise to the 24th position in 2036. This represents an economic boom during the ongoing as well as the next in the decade.[1] Recommended to graduate from the Least Developed Country (LDC) status in 2026, Bangladesh has undertaken massive infrastructure development projects to sustain economic development. The resilience that was exhibited by the recovery and handling efforts of the COVID-19 pandemic shows the potential of the country to stay strong despite most odds. The preparation for LDC graduation that the country is undertaking in terms of trade relations also shows potential for continued growth, even as a developing nation.

Resilient strength

Bangladesh is one of the Next 11 (N11) countries and a frontier market. The country's economy grew at a robust 6-8% annually during 2015-2019 period. Supported by a demographic dividend, Bangladesh has thrived on readymade garments (RMG) exports, remittances and favourable macroeconomic conditions. Bangladesh achieved a positive GDP growth of 3.4% in 2020, despite the COVID-19 pandemic while the world grew at -3.3% due to the impact of the pandemic.[2] The country has bounced back to the pre-pandemic growth trajectory in 2021 with 6.9% GDP growth, the highest in South Asia. The country has bounced back to the pre-pandemic growth trajectory in 2021 with 6.9% GDP growth, the highest in South Asia. Strong consumption and public investment, RMG exports and remittance growth have been the main drivers of economic growth. Remittance flows reached USD 21 billion (5.04% of the GDP in 2020) and USD 22 billion in 2021, making Bangladesh the seventh highest remittance recipient in the world. In the Center for Economics and Business Report (CEBR) 2022 report, Bangladesh ranked as the 42nd largest economy among 191 nations ranked in the report for the 2021 period and is estimated to ascend to 24th rank in 2036, a place held by Sweden in 2021. Approved to graduate from the LDC status in 2026, Bangladesh has achieved its target far before the expectations of the World Bank benchmarks. The GDP of Bangladesh is poised to increase by 6–7% annually between 2022 and 2027, according to a forecast by the International Monetary Fund (IMF).[3]

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



Source: World Bank, National Statistics Bureau

According to United Nations Conference on Trade and Development's (UNCTAD) Least Developed Countries Report 2021,[4] Bangladesh will need at least an annual investment of USD 119.9 million to sustain a GDP growth rate of 7%, as

1 Bangladesh to become 24th largest economy by 2036: https://cebr.com/reports/bangladesh-to-become-24th-largest-economy-by-2036/

2 World Bank Data Indicator, Accessed on 13th December, 2022: https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=BD-1W

3 Real GDP Growth, IMF, Accessed on 16th November 2022: https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/BGD

4 The Least Developed Countries Report 2021: https://unctad.org/webflyer/least-developed-countries-report-2021

targeted in SDG 8.1. Bangladesh Bureau of Statistics says that in FY 2020–21, total investment stood at USD 106.24 million USD in 2021, of which USD 75.45 million was private, and the rest USD 30.79 million was public.[5]

Rising consumption and increased government investment are two examples of the main contributors to the economic growth of the country. Substantial infrastructural developments such as the recently inaugurated Padma Bridge and the soon-to-be complete Karnaphuli Tunnel are predicted to further boost economic growth. Commerce and real estate projects have already gone far ahead on their progress along the highways of Padma Bridge. 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 and affluent population. Moreover, Bangladesh is pursuing 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.

Steady sovereign rating and strong FX reserve

Consistent growth during pre-pandemic years and sound economic growth in face of heightened external pressure have contributed to steady and positive sovereign ratings for Bangladesh. Both Moody's[6] and S&P[7] have rated the country as a mobile economy on the verge of moving up the economic ladder.

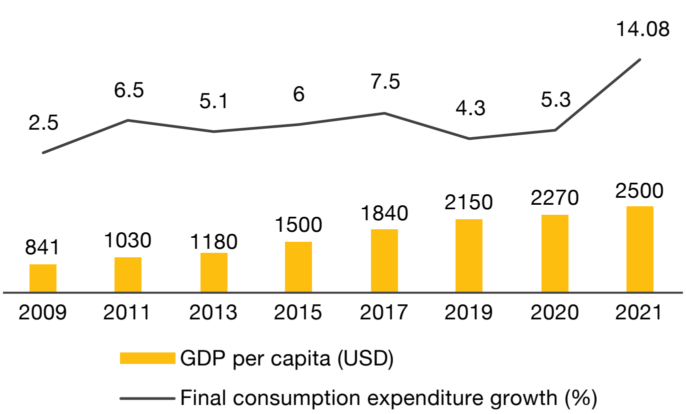
Country sovereign rating by S&P and Moody's

S&P Sovereign Ratings			Moody's Sovereign Rating		
Year	Rating	Outlook	Year	Rating	Outlook
2022	BB-/ B	Stable	2022	Ba3	Stable
2020	BB-/ B	Stable	2020	Ba3	Stable
2018	BB-/ B	Stable	2018	Ba3	Stable

Improved standard of living

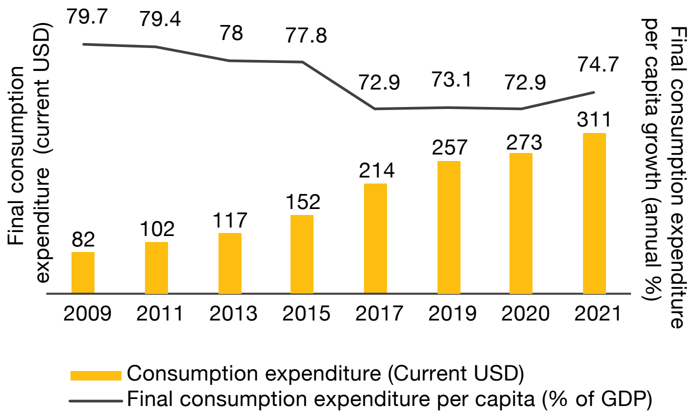
Bangladesh has seen a 6%+ GDP growth rate since 2015 except for the pandemic year (2020), which the country has also been resilient in tackling, getting right back up to 6.9% in 2021, with total GDP reaching USD 416.26 billion. The growth has been driven by the favourable demographic dividend supported by growing infrastructure projects, facilitating commerce and businesses, and creating employment. The resultant GDP per capita and consumption expenditure growth trends reflect improving standard of living for Bangladeshis.

Fig. 1.2: GDP per capita and consumption expenditure growth (%)



Source: GDP per capita, current prices, IMF October 2022

Fig. 1.3: Private consumption patterns and final consumption (% of GDP)



Source: World Bank Open Data

5 Annual Investment needed to sustain GDP Growth Rate: Annual Investment needed to sustain GDP Growth rate

6 Moody's affirms Bangladesh's Ba3 ratings maintains stable outlook: https://www.moodys.com/research/Moodys-affirms-Bangladeshs-Ba3-ratings-maintains-stable-outlook--PR_463658?cy=can&lang=en

7 S&P affirms sovereign ratings for Bangladesh; outlook remains stable: https://www.business-standard.com/article/international/s-p-affirms-sovereign-ratings-for-bangladesh-outlook-remains-stable-122082600029_1.html

With growth in GDP, consumer income and private consumption have risen in the last 10 years. A self-perpetuating cycle can be observed where markets face sufficient consumer demand and producers meet the demand. This increases the overall GDP and generates more employment opportunities which further improves income for individuals.

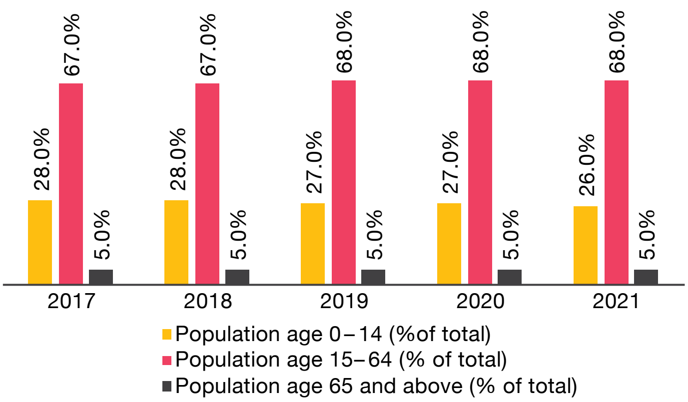
Although COVID-19 has brought about a wave of damage to the macroeconomic conditions, Bangladesh has proved to be quite resilient on all fronts. On top of the vaccination drive, the country has managed to restabilise RMG exports, bring up employment rates, and invest in the healthcare sector, making it more robust than ever. Within three weeks of the first case, the World Bank had authorised USD 100 million as a countermeasure to boost the healthcare sector to combat the onset of the pandemic. Since June 2020, the World Bank has deployed a total of USD 1.7 billion to help the country on multiple avenues. The programs include the Private Investment and Digital Entrepreneurship (PRIDE) Project that helped bring in USD 2 billion direct private investments, create 1.5 lakh jobs, and develop economic zones (EZs) and software technology parks,[8] the USD 250 million Second Programmatic Jobs Development Policy Credit that helped the government better its fiscal space and the economic resilience, among others. The Government of Bangladesh has also invested heavily into many of the core economic pillars of the nation to go digital, in an effort for them to remain functional especially in the face of travel restrictions. These efforts were directed mainly at education, telemedicine, government offices, etc.[9]

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 an economic boom.

Demographic dividend

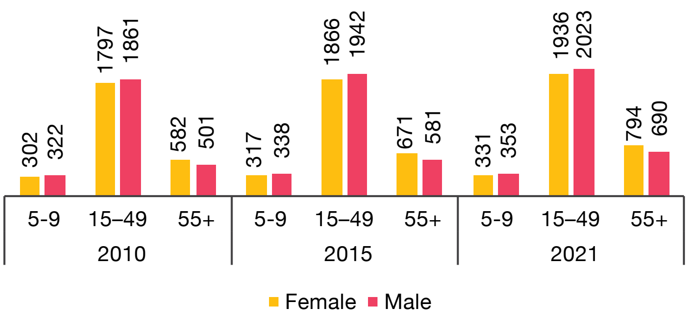
Population growth rate has been stable at 1.0–1.08% since 2017 and below 1% in 2021. The total population stood at 166.3 million in 2021. The population structure has also been the same for the last 5–6 years, with the 15–64 age group accounting for more than 67% of the population. The median age for the total population is 27.9 years (27.1 for males, 28.6 for females) in 2020 (estimate).[10]

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



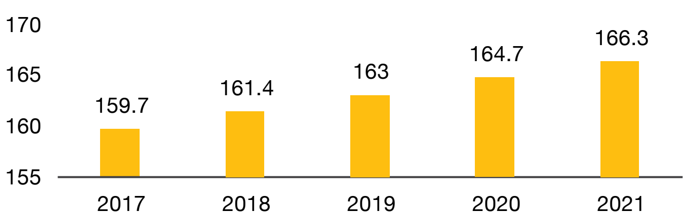
Source: World Bank Open Data

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



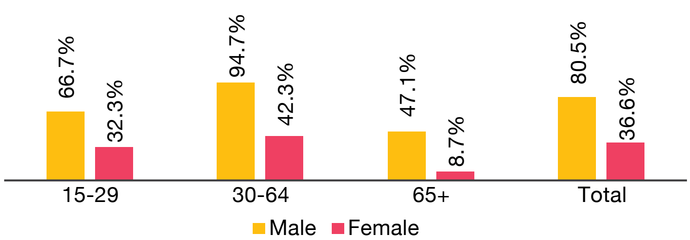
Source: 2022 Revision of World Population Prospects

Fig. 1.5: Total population in Bangladesh



Source: World Bank Open Data

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



Source: Labor Force Survey 2016–17

8 Bangladesh: Private Investment and Digital Entrepreneurship Project: https://www.worldbank.org/en/news/loans-credits/2020/06/19/bangladesh-private-investment-and-digital-entrepreneurship-project

9 The World Bank in Bangladesh: https://www.worldbank.org/en/country/bangladesh/coronavirus#:~:text=The%20Bangladesh%20government%20responded%20fast,resumed%20on%20a%20limited%20scale

10 Central Intelligence Agency (CIA). 2022. The World Factbook. Accessed on 16 November 2022: https://www.cia.gov/the-world-factbook/field/median-age/

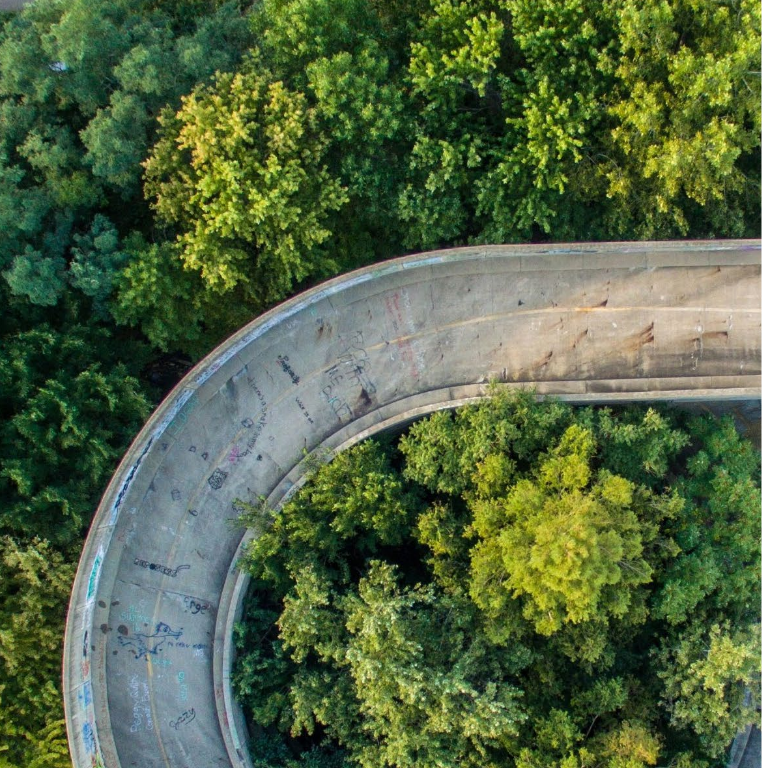
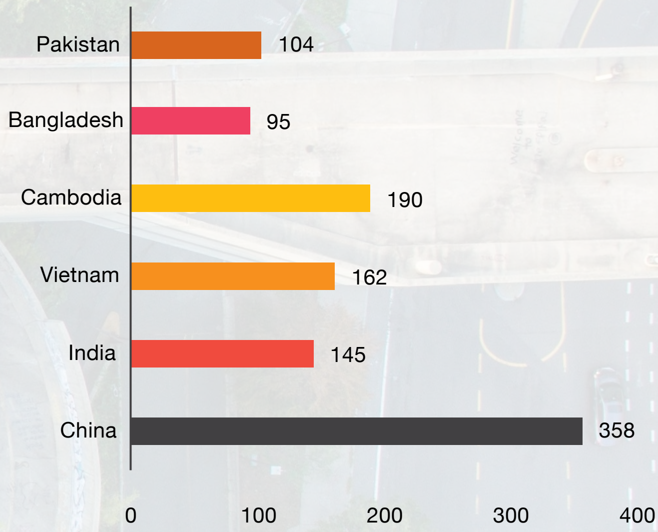


Fig. 1.8: Monthly minimum wage in apparel manufacturing in 2021 (in USD)



Source: World Bank, Statista, Trading Economics, Business Human Rights

The minimum monthly wage for workers in the apparel manufacturing sector in Bangladesh is 74% and 35% less than the minimum wages in China and India respectively. This continues to provide a substantial manufacturing cost advantage as compared to its regional 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 is projected to witness a stable, population structure and growth rate, with a growing demand for consumer durables in the future. Investors may view this phenomenon as a mitigation to the dependency ratio (46 for Bangladesh in 2021) burden for the productive population. 63.5 million people out of Bangladesh’s working age group (15 and above) population, which is 2/3rd of the total population, are participating in the labour force. The labour force participation rate was estimated at 58.2% as of FY16–17. 2.2 million people enter the job market every year, and as per Economist Intelligence Unit’s report[11] the graduate unemployment rate in Bangladesh is estimated at 47%. This surplus skilled labour force along with science, technology, engineering and mathematics (STEM) focused education policies provides a substantial potential for a skilled and motivated labour force.

Bangladesh’s bright future as an outsourcing destination

Bangladesh’s attractiveness as an outsourcing destination for services (following in the paths of India and Philippines) continues to grow due to its capable working-age population. It is demonstrated in its improved ranking by two places to 35th in AT Kearney’s Global Services Location Index 2021. Bangladesh is looking to create over 200,000 direct and 50,000 indirect jobs and earn USD 5 billion a year in the next decade through outsourcing.[12]

With a high proportion of university educated youth under 25 years of age, the outsourcing opportunity is attractive for growth of ICT/outsourcing-tech-savvy sector.[13] Apart from call centers (which only form 10% of the outsourcing in Bangladesh), the business processing outsourcing (BPO) services are a key attractiveness segment for growth.

11 High university enrolment, low graduate employment: https://www.britishcouncil.in/sites/default/files/british_council_report_2014_jan.pdf

12 Bangladesh: next hotspot for outsourcing business: https://www.thedailystar.net/news-detail-225145

13 Bangladesh, the new kid in the world of outsourcing: https://www.thedailystar.net/news-detail-261591

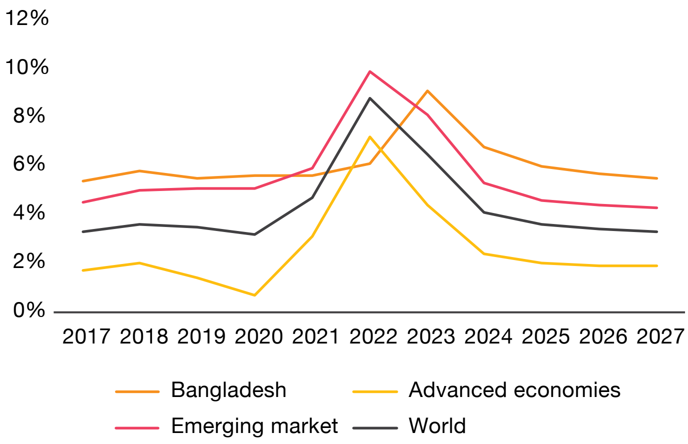
Inflation rate to return towards stability

Maintaining a stable inflation rate has been challenging but Bangladesh achieved a less than 6% annual inflation rate (average consumer prices) from 2016 till 2021.[14] Low food production and weak management caused food inflation to rise from 5.2% in January 2021, to 8.5% in October 2022.[15] The non-food inflation has remained elevated in 2022 as well.

Since 2020, managing inflation has proved to be much more difficult owing to the long and complicated results of the pandemic, the conflict in Ukraine, price-volatility of the fuel market, power crisis in the country and surges in the value of the dollar.

Though the IMF forecasts an elevated inflation rate of 9.1% for 2023 for Bangladesh, it expects the inflation rate to return to 6% by 2025 and then continue to be under 6% in 2026 and 2027.

Fig. 1.9: Inflation rate (%) - average consumer prices from 2017 to 2027

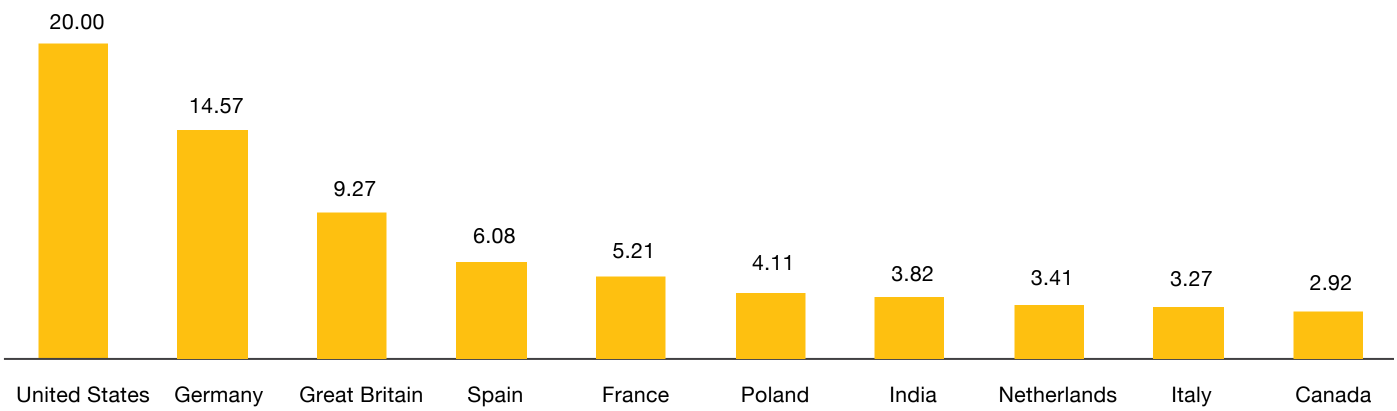


Source: International Monetary Fund (IMF). 2022 Inflation rate, average consumer prices. October

Export-led sectors and remittances continue to support resilience

The country reached a peak in exports worth USD 52.08 billion in FY 2021–2022 (34% increase over USD 38.76 billion exports in FY 2020–2021). The economy exported USD 10.42 billion worth of goods to the US market in 2021–2022 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.[16]

Fig. 1.10: Top 10 export destinations (in %)



Source: Country Wise Export (Goods) For The Month of July-Oct 2022-23, Bangladesh Export Promotion Bureau

14 International Monetary Fund (IMF). 2022, Inflation rate, average consumer prices. Accessed 16 November 2022: https://www.imf.org/external/datamapper/PCPIPCH@WEO/OEMDC

15 Bangladesh Food Inflation: https://tradingeconomics.com/bangladesh/food-inflation

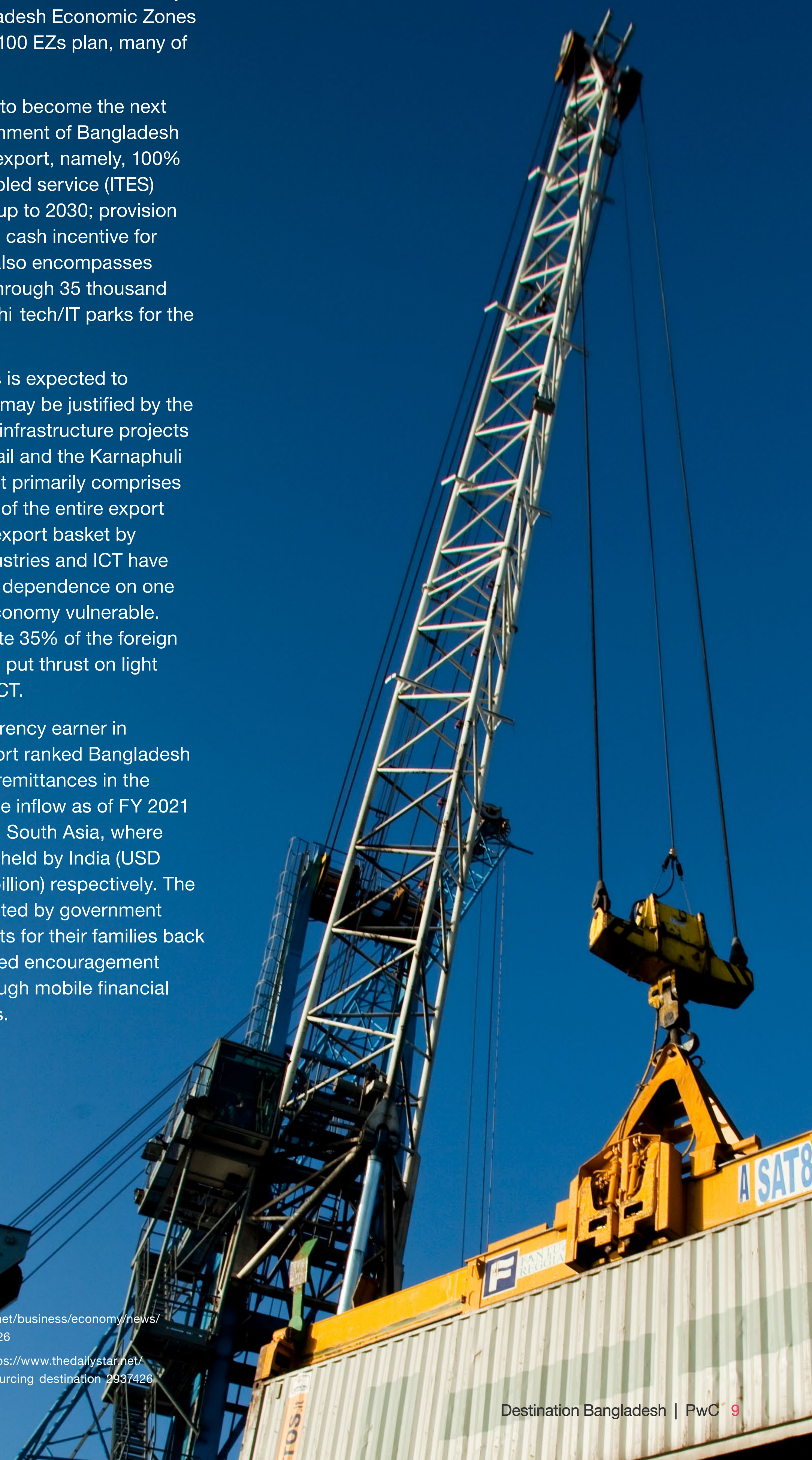
16 Export Promotion Bureau. Statistics Data FY 2021–22

Once again, after the pandemic, Bangladesh managed to be an exemplar of resilience in terms of economic recovery. The economy recorded a 6.9% growth in FY 2020 21 and 7.2% in FY 2021 22. The country is striving to enhance its export on all fronts of production. The very first 100% environment friendly private economic zone is now ready for investments and exports. Bangladesh Economic Zones Authority (BEZA) has undertaken a 100 EZs plan, many of which are already operational.

Bangladesh has immense potential to become the next outsourcing destination. The Government of Bangladesh is heavily investing into avenues of export, namely, 100% tax exemption for the IT and IT enabled service (ITES) companies until 2024 and possibly up to 2030; provision of 100% profit repatriation and 10% cash incentive for IT/ITES export.[17] ICT infrastructure also encompasses a plan to develop IT professionals through 35 thousand Sheikh Russel Digital Labs, and 39 hi tech/IT parks for the investors.

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, metro rail and the Karnaphuli tunnel.[18] Bangladesh s export basket primarily comprises RMG and textiles, with three fourth of the entire export basket. The efforts to diversify the export basket by promoting other manufacturing industries and ICT have been pushed by the government as dependence on one export product (RMG) makes the economy vulnerable. The manufacturing sectors constitute 35% of the foreign investment and the government has put thrust on light engineering, agro processing and ICT.

Remittances are the key foreign currency earner in services. The 2022 World Bank report ranked Bangladesh as the seventh highest recipient of remittances in the world, with USD 21 billion remittance inflow as of FY 2021 22. Bangladesh has third position in South Asia, where the first and second positions were held by India (USD 83.2 billion) and Pakistan (USD 26 billion) respectively. The remittances boost has been supported by government incentives and support from migrants for their families back home. The government has continued encouragement in the forms of cash incentives through mobile financial services and other banking services.



17 The Daily Star, Jan 2022: https://www.thedailystar.net/business/economy/news/bangladesh your next outsourcing destination 2937426

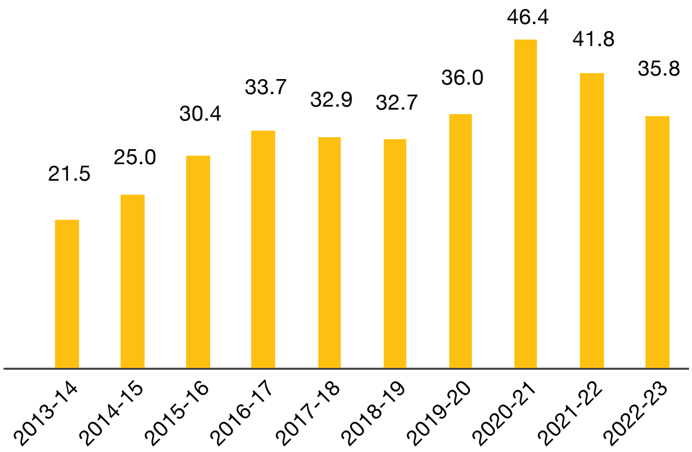
18 Bangladesh: your next outsourcing destination: https://www.thedailystar.net/business/economy/news/bangladesh your next outsourcing destination 2937426

Investment in Bangladesh

Foreign currency reserve

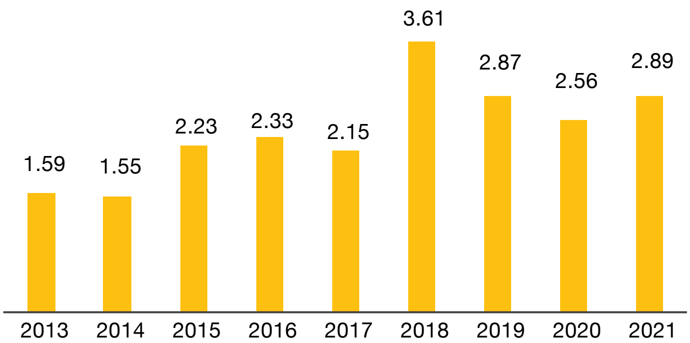
There are challenges to grow the FX reserve in the coming days, but the current account deficit is expected to narrow to 3.0% of GDP in 2023 and 2.3% in 2024, from 4.0% in 2022. The FX reserve is expected to reach an average of USD 34 billion in 2023–24.[19] The pandemic and the geo-political events have had an adverse impact on the country's import bill for essential commodities – food and fuel and capital machinery for vital infrastructure projects, resulting in a more negative current balance over the last 2 years. The balance of payments (BOP) continues to be challenged by geo-political events and an almost total dependence on import of fuels and other raw materials for production. To keep the reserves stable, the central bank devalued the local currency against USD. This weakening of BDT increased the cost of imports and was primarily meant to discourage imports and incentivise exports.

Fig. 1.11: Foreign currency reserve



Source: Foreign Exchange Reserve, Bangladesh Bank

Fig. 1.12: FDI inflow (USD billion) in the last 5 years



Source: FDI Survey, 2021, Bangladesh Bank

FDI inflow

The foreign direct investment (FDI) inflow of USD 3.61 billion at the end of 2018 dropped to USD 2.89 billion though it has increased by 12.9% at the end of 2020 to USD 2.56 billion. Although FDI growth has been impacted due to the pandemic, geopolitical tensions, and sanctions, the data exhibits a recovery effort on this front. FDI development continues to face a few challenges such as rigid tax regimes (e.g. profit repatriation), lack of incentives (e.g. tax breaks for new/scaling/priority industries) and additional responsibilities for foreign investors.

Trends in foreign investment

In CY 2021, 35% of the foreign investment came into the manufacturing sector. The country experienced a remarkable 35% YoY growth in this sector in 2021 which industry experts seem confident is sustainable in the coming years. Manufacturing is followed by the trade, and commerce sector in second place (22% of FDI inflows).

Power, gas and petroleum, accounted for 25% of the foreign investment. The power sector has been consistently attracting foreign investments over the years owing to favourable tax incentives and ensured cash flows provided by the government. Agriculture and fishing, and services have lower inflows.

Fig. 1.13: Top sectors for foreign investment (CY 2021)

35%	22%	15%	10%	8%	5%	5%
Manufacturing	Trade and commerce	Power, gas and petroleum	Gas and petroleum	Service	Construction	Others

Source: FDI Survey, 2021, Bangladesh Bank

19 Fitch Affirms Bangladesh at 'BB-'; Outlook Stable: https://www.fitchratings.com/research/sovereigns/fitch-affirms-bangladesh-at-bb-outlook-stable-29-09-2022

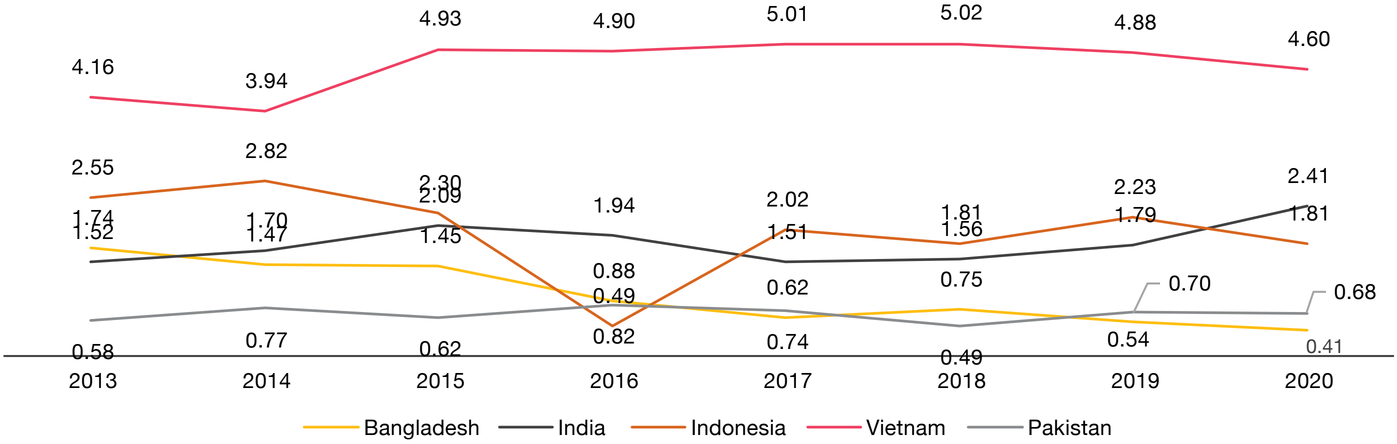
FDI inflow challenges

Historically, Bangladesh's mega projects have been primarily funded by the government and multilateral agencies. Even today, essential infrastructure developments like Rooppur Nuclear Power Plant, Padma Bridge and Mongla Port rely on government funding. As per World Bank's estimates there is a requirement of USD 100 billion in infrastructure investments over the next 10 years and as per IFC's estimates the requirements are higher at USD 320 billion. These investments require significant support in addition to government funding.

To bridge this gap, private sector participation is essential. However, Bangladesh struggles to bring foreign direct investments (FDI) into the country in comparison to its peers – FDI inflow into Bangladesh was the lowest for Bangladesh that constituted only 0.41% of GDP, while Vietnam received the largest FDI of 4.6% of GDP. In order to sustain the projected prolonged economic growth rate, Bangladesh needs to improve trade competitiveness, streamline urbanisation processes and address financial sector vulnerabilities. Trade agreements covering tariff modernisation, increased trade facilitation, and services with the European Union (EU) and India can boost Bangladesh's GDP by 0.4% and investment reforms by 0.5%. These trade agreements and invest exports also have the potential to boost exports by 1.4 and 3.9% respectively.[20]

Private investment is the way to financial infrastructural development. The capital market needs to be leveraged to achieve this aim. The investments from the capital market are equipped with the potential to address this gap of financing in cottage, micro, small and medium enterprises (CMSME) and businesses that will be better off with long-term equity investments rather than traditional debt investments.

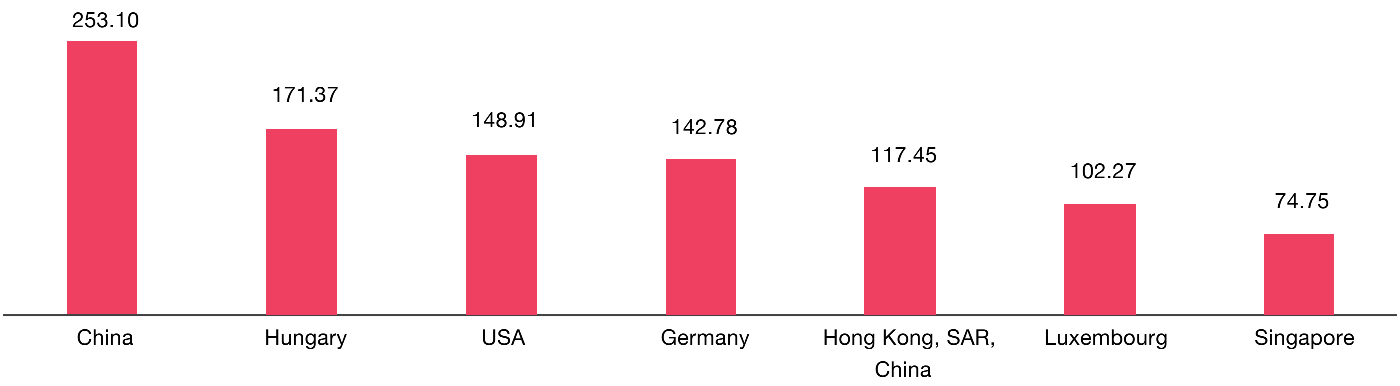
Fig 1.14: FDI inflow country comparison (% of GDP)



Source: Bangladesh Foreign Direct Investment, CEIC Data

20 Strong Trade Competitiveness, Financial Sector, and Well-functioning Cities are Critical for Sustained Growth in Bangladesh: https://www.worldbank.org/en/news/press-release/2022/09/29/strong-trade-competitiveness-financial-sector-and-well-functioning-cities-are-critical-for-sustained-growth-in-banglades

Fig 1.15: FDI net inflow classified by major countries – 2020 (in USD billion)



Source: World Bank Open Data

Bangladesh has been lagging in the PEVC industry while its neighbouring countries have been thriving off this industry for quite some time. In a family-oriented business tradition, intricacies in financial policies and regulations, and unwelcoming condition of the tax policies still make the PEVC-backed growth of economy, capital and infrastructure an uphill journey for Bangladesh.

The standard operating procedure of PEVC makes it a favourable scenario for the investment recipients, providing active management through CXO boards, network benefits, and the obvious access to capital, helping the recipients gain advantages over their non-PEVC backed competitors.

FDI in Bangladesh is lowest in South Asia at USD 1.59 billion compared to USD 58.8 billion in India, USD 12.8 billion in Vietnam, and USD 24.3 billion in Singapore. The way forward for Bangladesh in terms of capital market development and attracting FDIs would be policy and regulation reformation. A look at India's strategy in this regard sheds a lot of clarity on how this can be achieved. For instance, a policy move in Indian financial regulation in 1999 allowed banks to invest 5% of their surplus funds in VC funds. A similar move could potentially change the Bangladeshi market, considering that the country has over 100 banks and financial institutions. Current policies set in place have also been seen to turn away foreign investment on several occasions. Regulations dictate foreign investors to a minimum three-year post-IPO lock-in, whereas the period for local firms is one year. While preferential treatments for local businesses seem understandable, this removes Bangladesh from the consideration of a lot of potential investors.

Energy, utility and power play

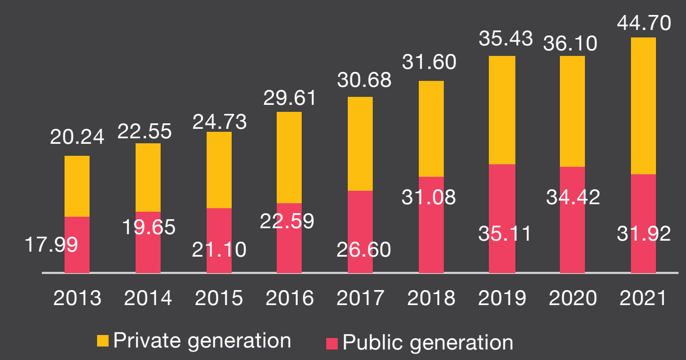
Economic growth and industrialisation has led to an increase in the energy demand. Primary energy demand increased by about 1.5 times over 2000 2017 (IEA 2017). Undisrupted power supply and increasing power generation capacity to 30,000 MW by 2030 have been the twin aims of the country s Power System Master Plan (PSMP). The country is looking away from coal and heavy fuel oil based power production, and more towards renewable energy to meet the promises of the different eco friendly accords. Bangladesh has been relying on domestic natural gas for about 60% of its primary energy sources. Currently, 50% of power is being generated from gas while <10% is from coal and about 30% is generated from imported liquid fuel. Bangladesh started importing liquified natural gas (LNG) in 2018 due to rapid depletion of its gas reserves to meet the increasing energy demand for the growing economy.

Rooppur Power Plant, country s first nuclear plant, is scheduled to be operational from 2023.

Japan International Cooperation Agency (JICA) is preparing the next master plan, the Integrated Energy and Power Master Plan Project (IEPMP), with the goal of a low/zero carbon energy demand/supply system to be established based on the premise of ensuring energy security and economic viability. The project is expected to conclude by Dec 2022 and provide:

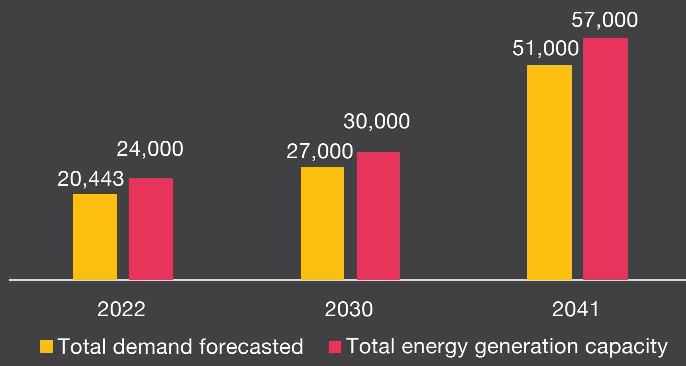
- a plan for primary energy and power supply for target years 2030, 2041 and 2050
- formulation of IEPMP
- formulation of action plans for realising a low carbon/ carbon-neutral society.

Fig 1.16: Engagement of private sector in power generation (in thousand MKwH)



Source: Annual Report, 2020-21, BPDB

Fig 1.17: Forecasted power generation and demand (MW)



Source: Annual Report, 2020-21, BPDB

Infrastructure, the way forward

The connection from the port city of Chittagong to the capital city Dhaka – Dhaka-Chittagong highway – has been renovated and now has four lanes to improve connectivity. Cargo delivery is being supported through additional routes of the inland waterway via construction of container terminals (ICT). New Payra port has also become operational.

Activities	Mongla Port		Chittagong Port	
	FY 2021–22	% growth from previous year	FY 2021–22	% growth from previous year
No. of ships handled	886	-8.66%	4231	4.16%
Total cargo handled (MT)	11,392,000	-4.63%	109,823,840	3.02%
Import cargo (MT)*	10,615,308*	-10.23%*	101,854,474	2.63%
Export cargo (MT)*	119,775*	-0.38%*	7,969,366	8.16%
No. of containers handled	32269	-26.59%	3,255,358	5.11%

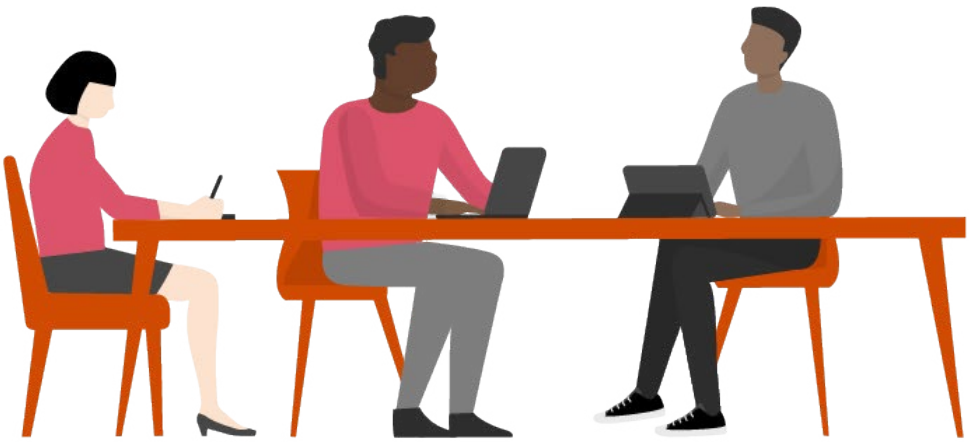
Source: Chattogram Port Authority, and Mongla Port Authority websites

Note: *Import Cargo and Export Cargo values for Mongla port are available till May 2022

The ongoing 8th Five-Year Plan (8FYP) which represents the first phase of the country's Perspective Plan 2041 (PP2041) aims to bring Bangladesh closer to the goals of attaining upper middle-income country (UMIC) status, attaining major Sustainable Development Goal (SDG) targets, and eliminating extreme poverty by FY 2031. The primary focus of the plan is on renewable energy, agriculture and water, rural development, health, population and nutrition, and public-private partnerships. The strategic focus is on having a generation pipeline and ensuring better quality of power supply. Bangladesh has also secured an agreement with the IMF to borrow USD 4.5 billion and the first installment (USD 447.48 million) of a total of 7 installments of this loan is expected to be disbursed in February 2023. This is to preserve the macroeconomic stability with strong, inclusive, green growth while protecting the vulnerable.

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

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



Digitisation

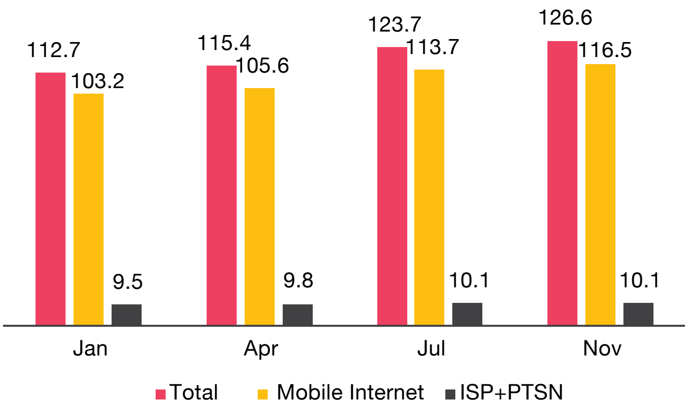
Bangladesh's rising economic and social progress has been driven by improvement in several economic and human development factors. Its rapid economic growth and societal development is influenced by a key factor – digitisation. Bangladesh's digitisation is led by mobile usage as it is the primary means of internet access and the core form of digital technology used by a large share of its population.

The total mobile connections in the country reached 170 million as of 2021 and 90 million of these are unique mobile connections. In 2021, internet usage grew with total internet subscribers reaching 126.6 million in November 2021 from 112.713 million in January 2021. The mobile industry has been a significant contributor during the pandemic as mobile phones became an essential part of social and economic well-being. Internet and mobile usage have enabled the provision of essential services while also engaging the citizens and the government to help alleviate the impact of the COVID-19 pandemic.

Mobile and internet usage will also significantly contribute to implement the objectives of Digital Bangladesh and the UN Sustainable Development Goals (SDGs) and help the country in recovering economically after the pandemic. The mobile industry is also key in enabling digital inclusion in Bangladesh, which is a fundamental step in maximising the impact of digitisation. Among the total internet users in the country, the larger portion of the population are mobile internet users as the CAGR of broadband internet (ISP+PTSN) is only 1.41% whereas the CAGR for mobile internet users is 3.09%.

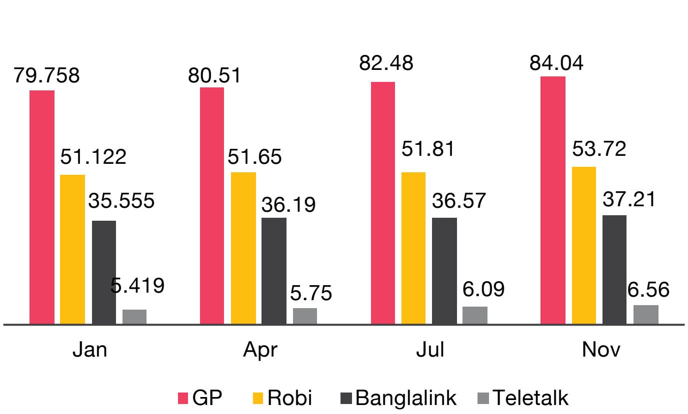
95% of the population is already covered by 4G mobile broadband networks. However, there is a usage gap of 67% which means that a significant amount of the population is living within the footprint of a mobile broadband network but is not using mobile internet. 28% subscribed to a mobile internet service while the remaining 5% did not live within the footprint of a mobile broadband network. Moreover, only one third of the users under the umbrella of mobile internet services are using 4G services.

Fig.1.18: Total number of internet users in Bangladesh, 2021 (in millions)



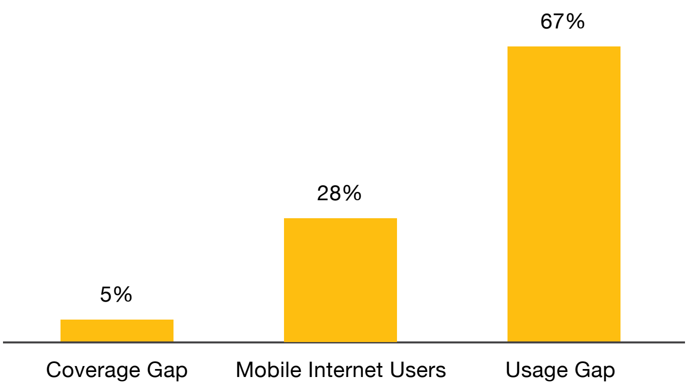
Source: Bangladesh Telecommunication Regulatory Commission

Fig. 1.19: Number of mobile phone users in Bangladesh, 2021 (in millions)



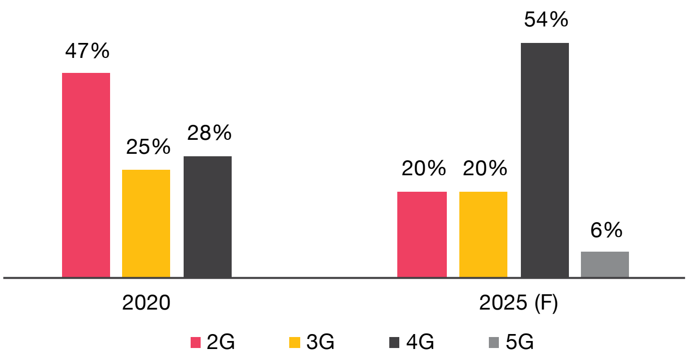
Source: Bangladesh Telecommunication Regulatory Commission

Fig. 1.20: 4G users in Bangladesh 2021 (% of population)



Source: USB Asset Research, Ericsson Mobility Report

Fig. 1.21: Internet users in Bangladesh 2021 (% of population)



Source: USB Asset Research, GSMA Intelligence Country Overview

Mobile phone ownership and internet usage

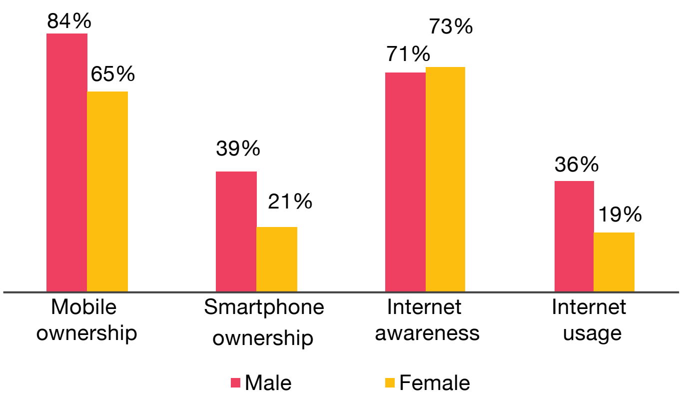
Despite Bangladesh meeting the UN target of 1 for 2, with a 1 GB basket costing 0.84% of income, the high cost of smartphones remains a major challenge in accessing mobile internet for the general masses. Although the country has one of the highest 4G population coverages in South Asia, the adoption of smartphones is relatively low. This further slows down internet penetration as smartphone ownership is essential to expand the opportunities and benefits of internet use.

With the cheapest smartphone priced at USD 30 in the country, it is very difficult for a large portion of the population to afford smartphones, particularly for those in the lowest incomes brackets. Bangladesh also has the highest level of sector-specific consumer taxes (as a share of the total cost of mobile ownership (TCMO) in which smartphones account for a significant share.[21] The high cost of smartphones along with additional charges such as taxes, VAT (15%), customs duty (25%) and SIM card prices further raise the cost of owning a smartphone and using the internet, creating a significant gap in the digital inclusion of the disadvantaged and vulnerable groups.

Apart from affordability, there is a significant gap in the mobile phone, smartphone and internet usage among men and women in Bangladesh. 39% of men own a smartphone in comparison to 21% of women. 36% of men in the country use mobile internet against 19% of the women leaving a gender gap of 48%. Despite this gap, internet awareness among women is at 71% which is almost at par with men at 73%. There continues to be a disparity in the awareness of internet usage among the population living in the urban and rural areas as people living the urban areas are more aware of internet usage.

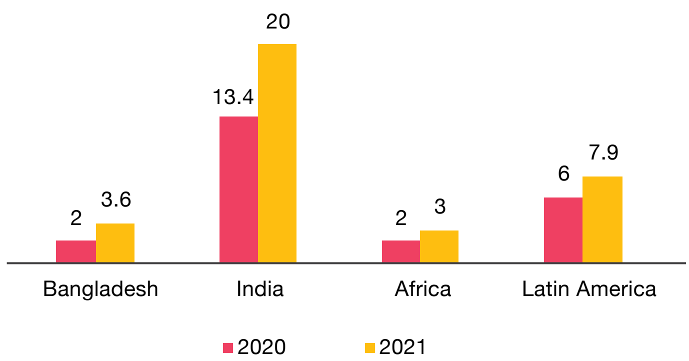
The inconsistencies between internet usage and awareness suggest the presence of other impediments that prevent women, especially in the rural region, from adopting the internet. These barriers often include social, economic and cultural factors, and indicate the need to increase the access of the internet among women to enable the benefits of digitisation to play out.

Fig.1.22: Gender-wise distribution of mobile and internet usage (% of population)



Source: GSMA Consumer Survey 2021, GSMA Mobile Gender Gap Report 2022

Fig.1.23: Mobile data traffic in Bangladesh, India, Africa and Latin America



Source: USB Asset Research, Ericsson Mobility Report

Digital financial services

The digital payment landscape in Bangladesh looks quite promising. Bangladesh's financial landscape has undergone a significant change in the past decade. With the increasing internet usage, consumer behaviour is changing and the financial services landscape is going digital. COVID-19 has been the primary reason for the growth in digital payments in Bangladesh in the last two years.

More than 90% of the consumers paid in cash before the pandemic but digital payments have grown multifold during and post the pandemic. Within two years, mobile financial services (MFS) transactions grew more than 46% while the transaction values in internet banking have increased by 59%. The MFS transactions rose from USD 45 billion in 2020 to USD 66.1 billion in 2021.

However, the use of credit cards in Bangladesh is comparatively lower than that of its peers. The cards market in Bangladesh is dominated by debit cards with a total of 243.1 million cards issued and a total transaction amounting to approximately USD 19.5 billion since 2019. Credit cards, on the other hand, amounted to about USD 1.53 billion with a total of 26.7 million cards being issued since 2019.

21 Bangladesh yet to utilise 67% 4G infrastructure: https://www.tbsnews.net/bangladesh/telecom/bangladesh-yet-utilise-67-4g-infrastructure-224293

Mobile financial services

Mobile financial services (MFS) in Bangladesh have enabled millions of citizens with access to easy and safe methods of transferring money. MFS has made it possible to make contactless payments in innovative ways by consolidating several services into a single platform. Such platforms have previously concentrated on promoting their applications by introducing digital payments utilising QR codes, interoperable payments facilities for e-commerce services and money transfers from financial institutions.

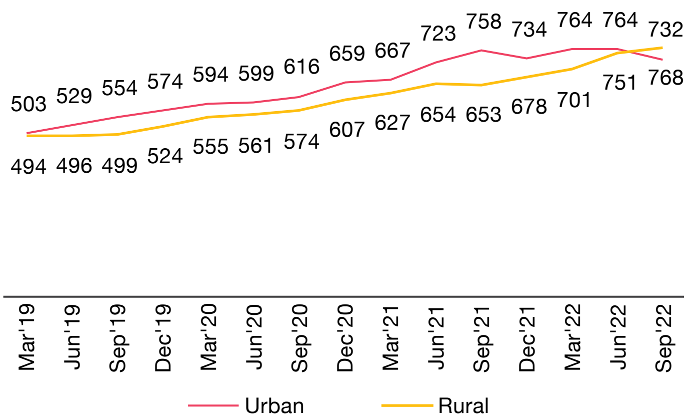
Bangladesh has the perfect environment for MFS to embark on the growth trajectory: lack of reach of formal banking sectors, widespread mobile phone penetration, universal mobile network coverage, and a cash-based economy. It has allowed for the unbanked bottom-of-the-pyramid population to engage in economic activities. By bridging the financial inclusion gap, MFS has provided formal financial services to the unbanked and underbanked. As customers became more accustomed to using digital payments, MFS providers like bKash have teamed up with banks and non-bank to offer their clients nano-lending and micro-savings options. Customers can now use their mobile wallet for purposes other than making payments, giving them access to formal finance with reasonable interest rates.

Through MFS, a wide range of services thrived, namely, education through edtech platforms, telemedicine and other online health services, delivery, and ecommerce and online businesses. MFS has also generated employment through merchants, and agents. These services have also worked as a mechanism for boosting foreign exchange reserves of Bangladesh by facilitating intercountry money transfer. Over 10 million Bangladeshis live abroad and send remittances to their families. bKash, one of the most popular MFS, has introduced a 1% cash incentive on top of a government incentive of 2.5%. This has encouraged remittance flow and boosted foreign exchange reserves.

As of August 2022, a total of 13 banks have been providing MFS services to the consumers (183 million registered MFS clients (up from 67 million in 2019) through 1.5 million MFS agents. There have been 67 million active MFS accounts as of August 2022. There were 3 million average daily transactions in August 2022 with an average daily transaction value of BDT 28 billion.

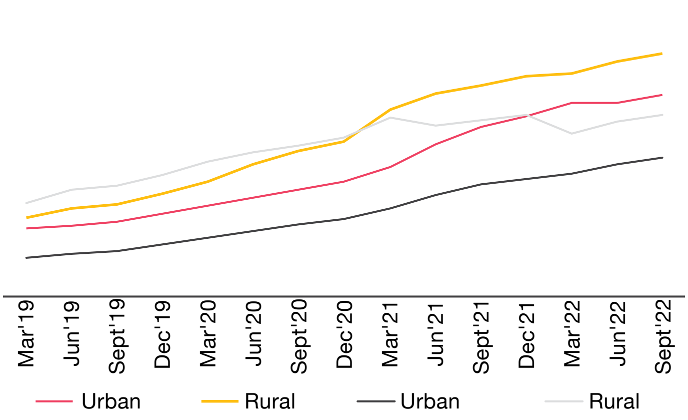
More MFS accounts are created in the rural areas in comparison to the urban regions with a higher number of male users (59.2 million) than the number of female users (48.6 million). This difference is reflected in the gap in mobile ownership among the genders as only 65% of the female population own a mobile phone whereas 84% of the male population own a cell phone.[22]

Fig.1.24: MFS agents in Bangladesh (in thousands)



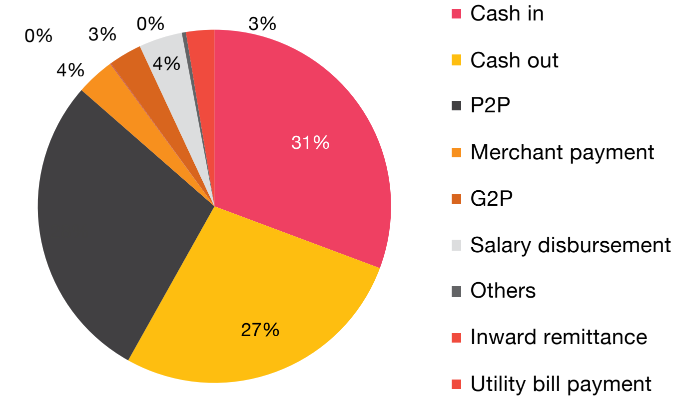
Source: Bangladesh Bank

Fig.1.25: MFS accountholders in Bangladesh (in millions)



Source: Bangladesh Bank

Fig.1.26: Nature of MFS usage in Bangladesh (till Aug 2022)



Source: Bangladesh Bank

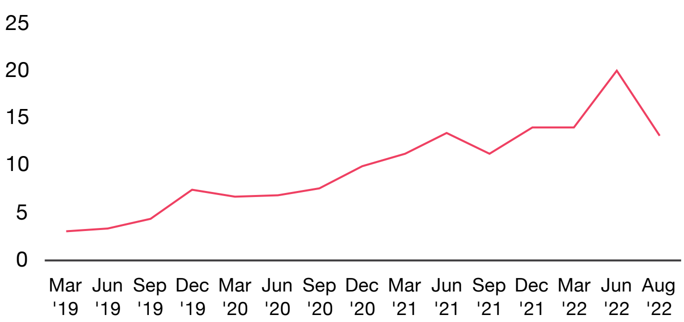
22 Bangladesh Bank: https://www.bb.org.bd/

Agent banking

After the COVID-19 pandemic, digital financial services (DFS) have emerged and developed in Bangladesh. As a result, banks have developed alternative digital channels for financial inclusion. Agent banking is a core pillar (in addition to regulators, financial service provider (FSP), technology solution provider and customer) in catalysing financial inclusion and strengthening DFS in emerging economies. Agent banking is the practice of engaging agents under a legally binding agency agreement to provide financial services outside of regular bank branches. Bangladesh bank introduced agent banking in 2013 with the objective of providing formal financial services to the underbanked and underserved. There are 16.78 million bank accounts related to agency banking as of September 2022, an increase of 30% from September 2021.

As of September 2022, Bangladesh has 31 banks with agent banking licenses. There are a total of 14,663 agents and 20,177 outlets, with 84.72% of agents and 86.16% of outlets being in the rural areas. Agent banking is widely practiced in the rural regions, which positively fulfils the goal of boosting financial inclusion. The agents and outlets have increased by 2.55% and 2.23% in September 2022, respectively, over the previous quarter. This growth not only ensures formal financial services for the rural population but also creates employment opportunities for them as agents deploy skilled and semi-skilled human resources living in the respective areas.

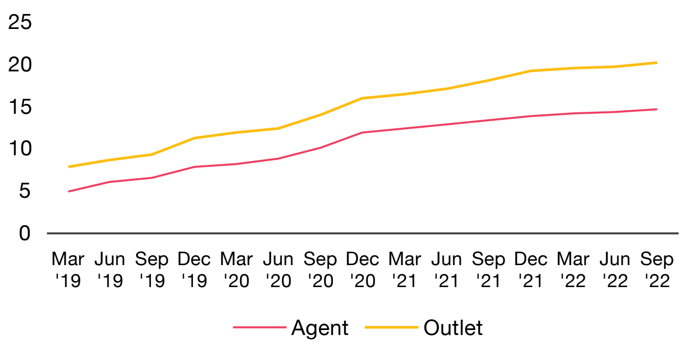
Fig.1.27: Agent banking transaction volume in Bangladesh (in millions)



Source: Bangladesh Bank

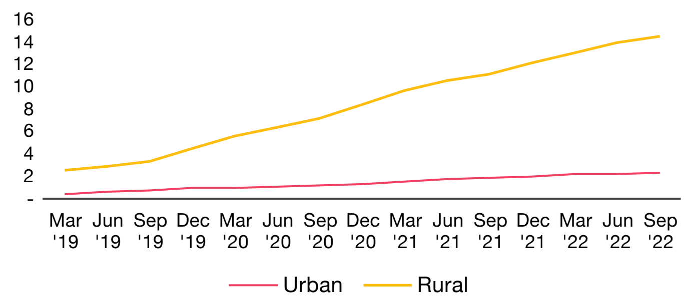
Note: Data is available till August 2022

Fig. 1.28: Number of agents and outlets in Bangladesh (in thousands)



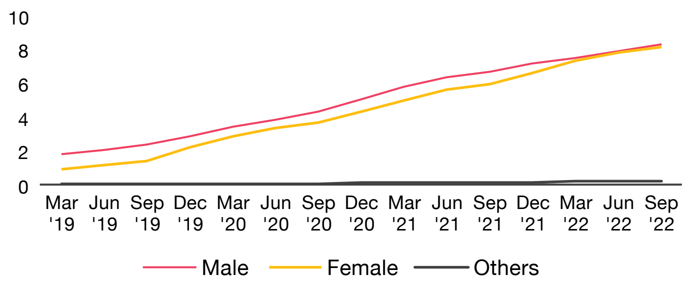
Source: Bangladesh Bank

Fig.1.29: Number of agent-led bank accounts by area (in millions)



Source: Bangladesh Bank

Fig.1.30: Number of agent-led bank accounts by gender (in millions)



Source: Bangladesh Bank

The continued expansion of agent banking accounts during the COVID-19 outbreak and after the pandemic reflects the persistent demand for agent banking services across the different segments of the population. Accounts held with male and female consumers grew by 5.40% and 3.25% in the Jul-Sep 2022 quarter, respectively over the last quarter. This signifies a relative increase in the participation of females in the financial system as the gap between male and female accounts is gradually narrowing down. The volume of savings accounts is growing faster than other accounts, which could mean an increased access to households and smallholders to agent banking than businesses.

The total amount of deposits made through agent banking reached BDT 307 billion for Jun-Sep 2022 quarter, 37% year on year (YOY) and 9% quarter on quarter (QOQ) increase. In terms of deposits, rural areas have contributed the majority (78.95%). Deposit held by male customers (58.50%) is much higher than female customers (34.27%). Additionally, savings accounts comprise 44.68% of the total deposit, while other types of deposit accounts comprise 47.41% of the total deposits. Through agent banking, deposits in rural areas have increased by 9.82% over the previous quarter (11% growth in previous quarter) whereas deposits in urban areas have only increased by 6.82% (2.92% growth in previous quarter).

As of September 2022, lending and inward remittances through agent banking have shown growth. The volume of lending has increased by 16.16% in the September 2022 quarter compared to Jun 2022 quarter. Additionally, inward remittance has increased by 9.87% as the number of inward remittances through agent banking rose to BDT 1066 billion as of September 2022. This rise in inward remittances through agent banking is a possible result of an initiative by the government to offer a 2.5 % cash incentive on inward transfers remittances. Additionally, several banks are providing an additional 1% in cash incentives to promote the remittance inflow using a formal banking channel. A major share of the remittances is going to the rural areas which is expected to rejuvenate the rural economy.

The startup ecosystem

The Bangladesh startup ecosystem has been developed in the last decade and comprises more than 1200 active startups with 200 new startups coming up every year. This ecosystem further creates over 1.5 million employment opportunities and provides solutions to more than 750,000 SMEs that enables their business environment. Over the past decade, the ecosystem has grown tremendously in industries such as FinTech, logistics, transportation and e-commerce.

Total startups	**1200+**
New startups	200+
Startup investments (USD million), 2013–2021	800+ in last decade across 230+ deals
Startup investments (USD million), 2021	415 across 60 deals
Alternative investment funds (USD million) registered	USD 80+ million
Foreign investment	>95%
Accelerators and incubators	30+
Total employment created (million)	1.5+ (direct and indirect)
SMEs benefitted by digital startups	750+K
Active angels	200+
Total startups	1200+

Source: Bangladesh Angels Network Pitch Deck, LightCastle Partners

With the emergence of ecosystem builders such as angel investments networks, accelerator programs and incubators, the private sector has further boosted the landscape. As of 2021, there are more than 30 accelerators and incubators and more than 200 active angels in the angels network.

The startup ecosystem has generated tremendous impact in terms of providing consumer benefits and employment creation and has positioned itself as a maturing startup hub that is attractive for global investors. More than 96% of the startup investments are generated from foreign investment. In 2021, the largest mobile financial service platform, bKash, received investment of USD 250 million from Softbank which raised its valuation to around USD 2 billion, making bKash the country's first unicorn.[23]

Major sectors of startup activity:

- FinTech
- E-commerce/retail
- Logistics and mobility

Peer comparison

Bangladesh's startup ecosystem is only 0.10% of the current GDP (startup investment as % of GDP), which is quite low in comparison to its peers (Singapore 28.2%, India 1.3%, Vietnam 0.4%). However, between 2020 and 2021, Bangladesh has experienced about a ten-fold increase in startup investments, which is the largest increase among its peers.

Fig.1.31: Startups investments, 2021 (in USD billion)

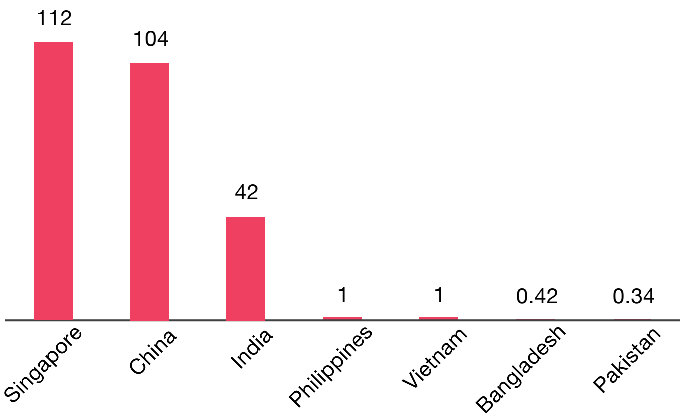
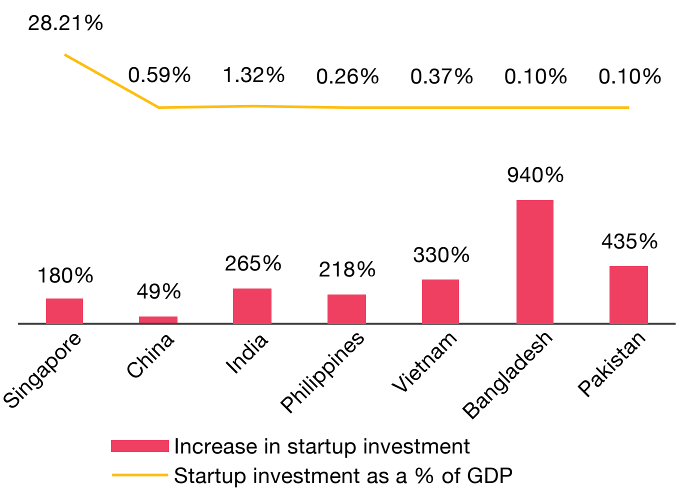


Fig.1.32: Startup investment growth



Source: Startup Bangladesh publicly hosted report titled Bangladesh Startup Ecosystem Update Q'3 2022 published on November 7, 2022

23 Bangladesh Startup Ecosystem 20-21: https://www.startupbangladesh.vc/wp-content/uploads/2022/07/Bangladesh-Startup-Ecosystem-2021-22.pdf

Funding landscape

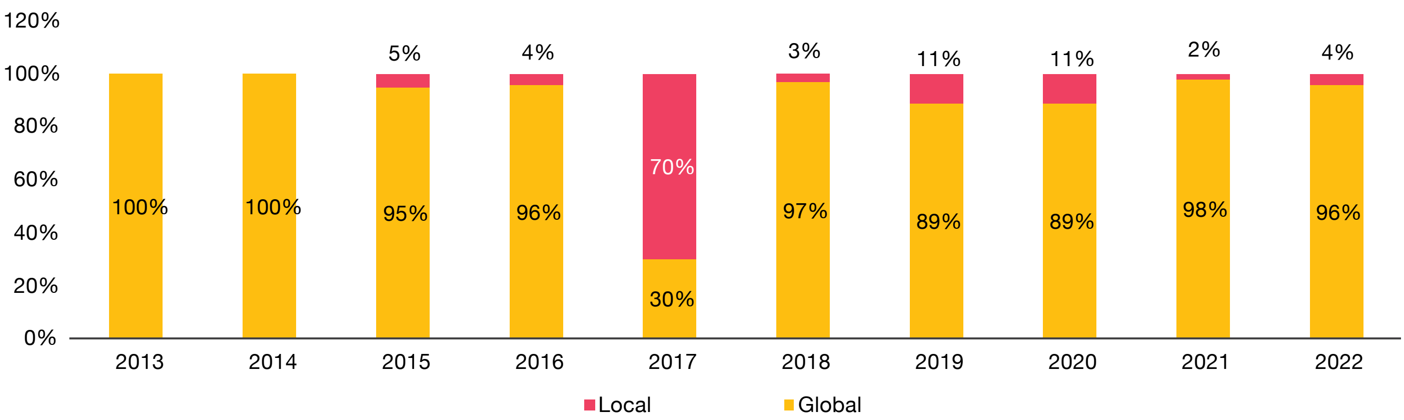
Over the last decade, startups have attracted more than USD 804 million in investments across 232 deals. As of 2021 and the second quarter of 2022, the ecosystem has attracted a total investment of USD 505 million. Besides the support from private and public sectors, the landscape has attracted investments dominantly from the international arena as USD 412 million out of a total of USD 415 million investments raised in the past decade came from global sources. In 2021, nearly USD 415 million was raised in investments across 62 deals with 98% of the total investments being injected by global investors.

The highest investments have been made through venture funds and angel investments as they constitute 70% of the deals, and more than 75% of those deals have been in seed and pre-seed rounds. Since 2013, USD 660 million (82% of USD 804 million) of the total investments has been contributed by venture funds.

The larger investments have been contributed by venture funds and corporate investors in the series A or series B or venture rounds with an average ticket size of USD 3.99 million while smaller tickets are contributed by angels and accelerators in pre-seed and seed stages.

In the past decade, the local investments stood at USD 36 million in pre-seed, seed or pre-series A rounds across 101 deals. The global investments, on the other hand, contributed across 132 deals with a total investment of USD 773 million.

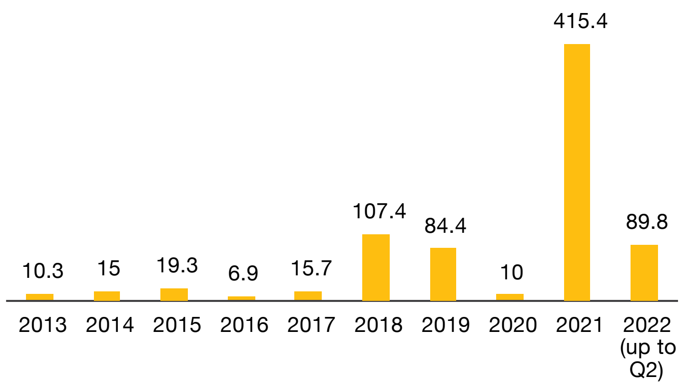
Fig.1.33: Startup investment percentage by local and global investors in Bangladesh (%)



Source: Startup Bangladesh publicly hosted report titled Bangladesh Startup Ecosystem Update Q'3 2022 published on November 7, 2022

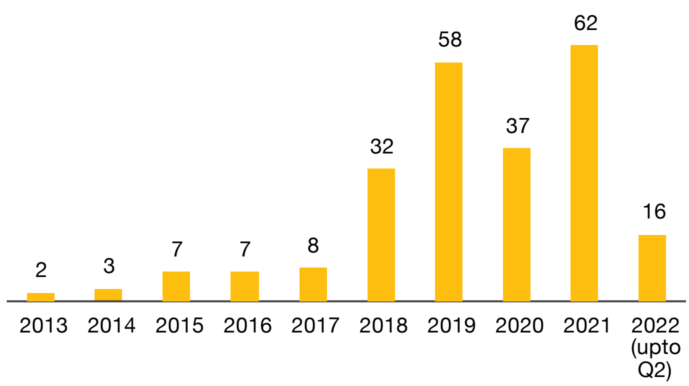
Startup statistics

Fig.1.34: Total investments raised in Bangladesh (USD million)



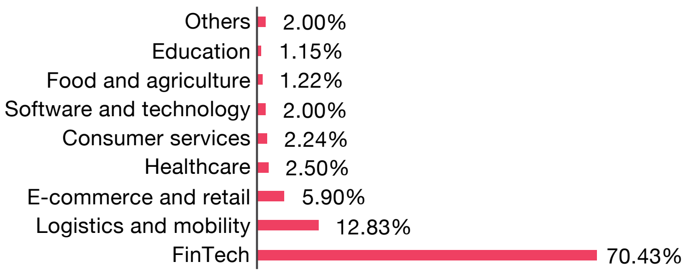
Source: Startup Bangladesh publicly hosted report titled Bangladesh Startup Ecosystem Update Q'3 2022 published on November 7, 2022

Fig.1.35: Total number of deals in Bangladesh



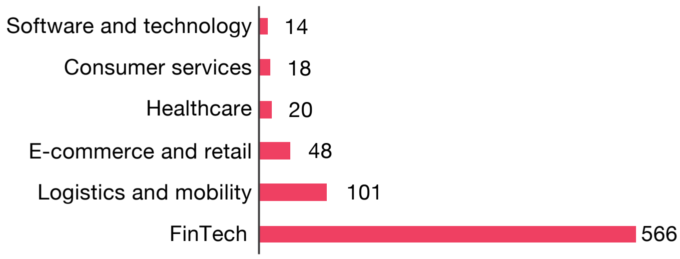
Source: Startup Bangladesh publicly hosted report titled Bangladesh Startup Ecosystem Update Q'3 2022 published on November 7, 2022

Fig.1.36: Sector-wise investment in startups (%)



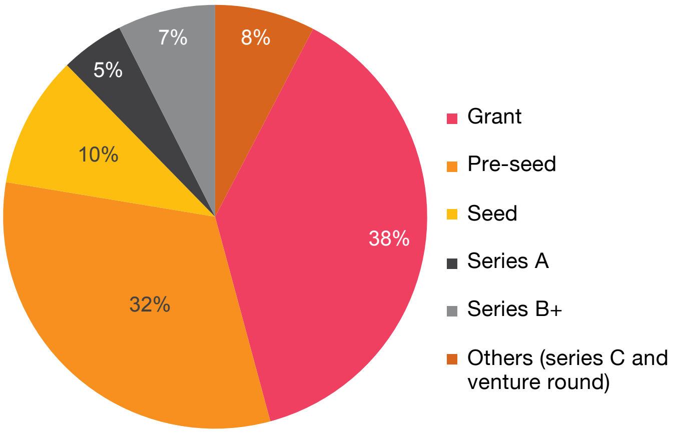
Source: Startup Bangladesh publicly hosted report titled Bangladesh Startup Ecosystem Update Q'3 2022 published on November 7, 2022

Fig.1.37: Sector-wise investment value in the last decade (USD million)



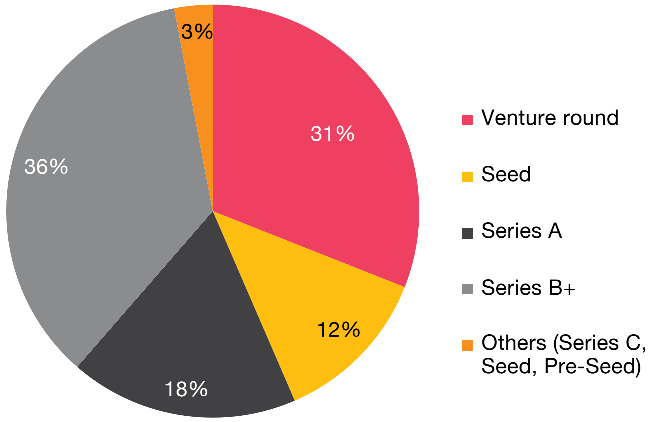
Source: Startup Bangladesh publicly hosted report titled Bangladesh Startup Ecosystem Update Q'3 2022 published on November 7, 2022

Fig. 1.38: Deals by funding stages in Bangladeshi startups (%)



Source: Startup Bangladesh publicly hosted report titled Bangladesh Startup Ecosystem Update Q'3 2022 published on November 7, 2022

Fig. 1.39: Investments by funding stages in Bangladeshi startups (%)



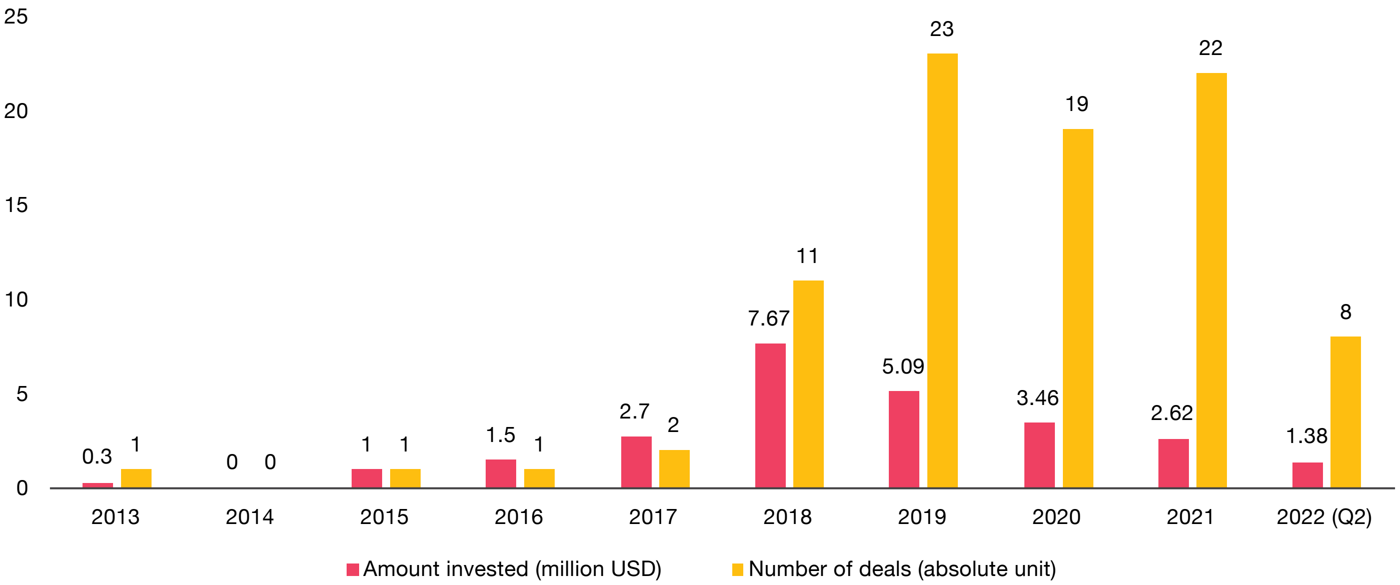
Source: Startup Bangladesh publicly hosted report titled Bangladesh Startup Ecosystem Update Q'3 2022 published on November 7, 2022

Investor participation trends over 2011–2021 in startups

Angel investment

Bangladesh has received an annual average of USD 292,000 investment from angel investors, a total of USD 26 million over a total of 88 deals. In the last decade, 95% of the deals were made in the pre-seed state of companies. Few key companies are Bangladesh Angels Network, SBK Tech Ventures, BYLC Venture, GP Accelerator and YY Ventures.[24]

Fig.1.40: Angel investment

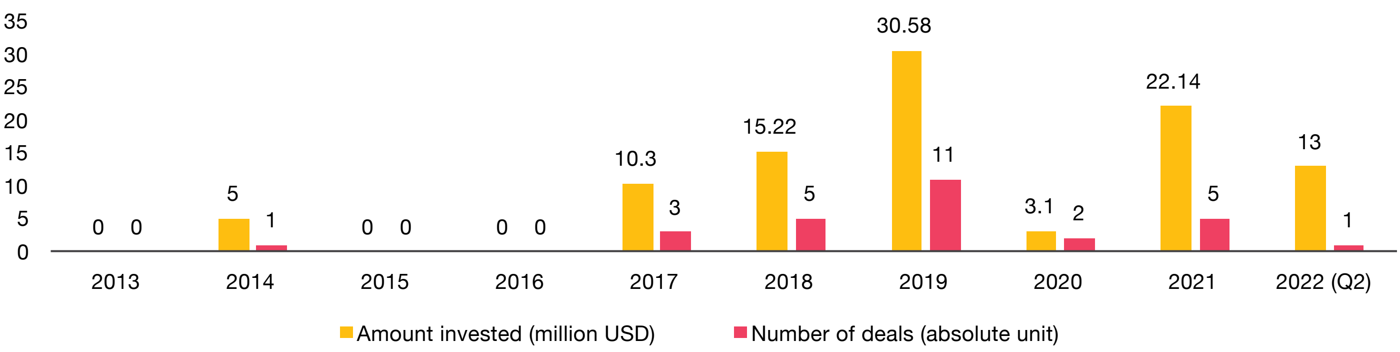


Source: Startup Bangladesh publicly hosted report titled Bangladesh Startup Ecosystem Update Q'3 2022 published on November 7, 2022

Corporate investment

Corporate investors have funded USD 3.5+ billion over 28 deals, in 2013–2022. Most of them were made as series A, and seed stage investments. This area was mostly dominated by global players Ecom Express, Go-Jek, and SEEK. Key active local investors include BRAC, ACI, and Robi.[25]

Fig.1.41: Corporate investment



Source: Startup Bangladesh publicly hosted report titled Bangladesh Startup Ecosystem Update Q'3 2022 published on November 7, 2022

24 https://www.startupbangladesh.vc/wp-content/uploads/2022/07/Bangladesh-Startup-Ecosystem-2021-22.pdf

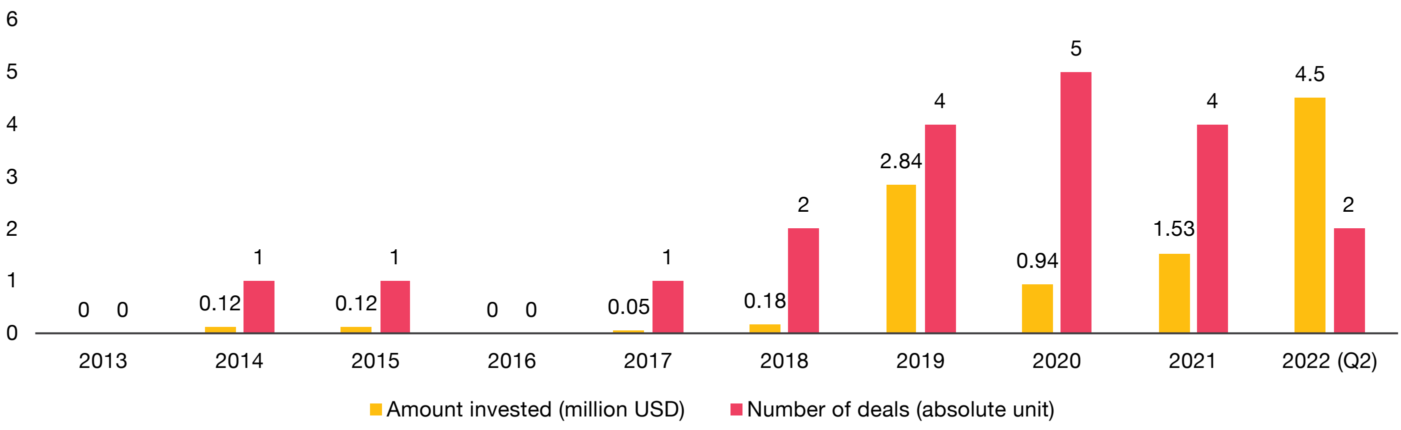
25 https://www.startupbangladesh.vc/wp-content/uploads/2022/07/Bangladesh-Startup-Ecosystem-2021-22.pdf

Investor participation trends over the decade in startups

Accelerator and incubator Investment

Accelerator and incubator investment has averaged at USD 500,000+ in 20 deals between 2011–2021. Except 5% of the investments which were made in the pre-seed stages, the rest were made in the seed stage. Global investors in this space include Surge, Accelerating Asia, and ODX Flexport.[26]

Fig.1.42: Accelerator and incubator investment

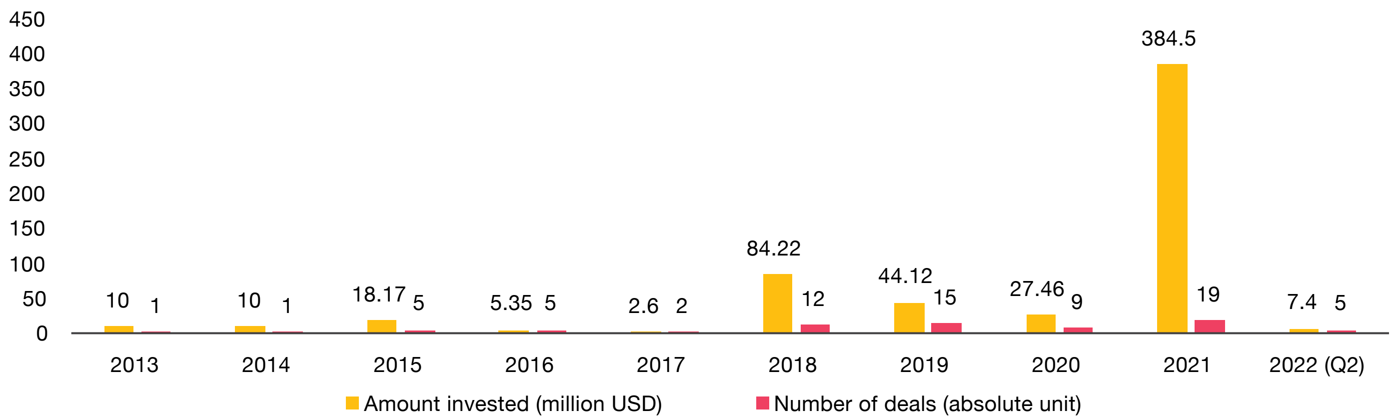


Source: Startup Bangladesh publicly hosted report titled Bangladesh Startup Ecosystem Update Q'3 2022 published on November 7, 2022

Venture capital fund investments

Except the bKash-Softbank deal of USD 250 million in 2021, venture capital investments count up to 74 out of the total 231 deals since 2013, totaling up to USD 5.58 million. Most of these were made in Series A and B+ rounds dominated by investors such as Anchorless Bangladesh, SBK Tech Ventures, Softbank, Valar Ventures, and Wavemaker Partners.[27]

Fig.1.43: Venture capital fund investment



Source: Startup Bangladesh publicly hosted report titled Bangladesh Startup Ecosystem Update Q'3 2022 published on November 7, 2022

26 https://www.startupbangladesh.vc/wp-content/uploads/2022/07/Bangladesh-Startup-Ecosystem-2021-22.pdf

27 https://www.startupbangladesh.vc/wp-content/uploads/2022/07/Bangladesh-Startup-Ecosystem-2021-22.pdf

Impact of COVID-19

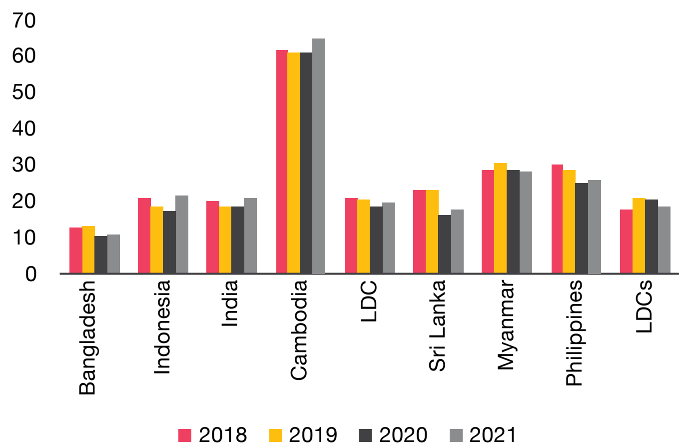
The COVID-19 outbreak arrived late in Bangladesh compared to most of the countries and the first case was identified in March 2020. Following the steps taken by most of the other countries, the Government of Bangladesh quickly responded to shut down the economy. The simultaneous responses of shutting the economies of almost all nations resulted in a partial shutdown of the global economy. As a result, organisations such as the World Bank and Asian Development Bank (ADB) predicted the potential of a global recession. The World Bank predicted the major and developing economies to contract by 7% and 2.5% respectively which were the steepest growth projections predicted since the 1990s. On the other hand, ADB predicted that the global economy would reduce by about 0.25% of its GDP.

Due to the global economic shutdown, Bangladesh also faced a major economic downturn in most sectors and industries. Since the country heavily relies on the global supply chains, especially for RMG and foreign remittance, the global shutdown severely affected these sectors. With the closing of local and international businesses, most companies faced negative profits which resulted in layoffs and business shutdowns. However, certain industries have been able to profit from this crisis due to the necessity of their products or services to cope with the current circumstances. Such industries include online grocery stores, retail chain stores, mobile financial service providers, and IT firms.

Impact on businesses and exports

Bangladesh has seen a 6%+ GDP growth rate since 2014 except for the pandemic year 2020, which the country has also been resilient in tackling, getting right back up to 6.9% in 2021, with total GDP being USD 416.26 billion. This positive trajectory may be attributed to a favourable demographic dividend and growing infrastructure projects, facilitating commerce and businesses, and creating employment. Overall, both GDP per capita and consumption expenditure have been increasing.

Fig.1.44: Exports of goods and services (% of GDP) and growth



Source: World Bank

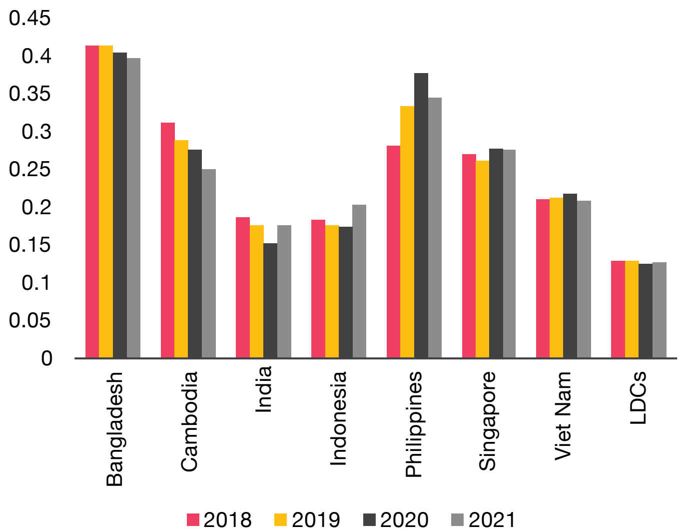
According to the impact assessment survey by United Nations Industrial Development Organization (UNIDO), one of the biggest challenges for businesses in Bangladesh was the shortage of cash flow. This was mainly caused by the countrywide shutdown and the consequent decline in sales and obtaining financing. With the roads and borders being closed, movements of supply chains and logistics went on halt and the businesses further faced a shortage of inputs. This in turn lowered their output and further created employee and worker layoffs.

The exports basket of Bangladesh is heavily reliant on a limited range of products and is more concentrated than most of the other developing and low-income nations. RMG comprises more than 81% of the 98 categories (two-digit level products) in Bangladesh's export basket as of FY 2021. This puts Bangladesh at a disadvantage in terms of comparative advantage. As per UNCTAD, the export concentration index of Bangladesh in 2021 was 0.38, which is the highest among its main competitors in South Asia and South-east Asia (India, Vietnam, Cambodia, and Indonesia) in the exports market.

According to the IMF, a concentrated export market and export basket increases an economy's susceptibility to outside shocks. With a concentrated export system, which is significantly higher than most of its peers, Bangladesh's vulnerability to this external shock was confirmed during the COVID-19 shutdown. Due to weak external demand, the pandemic outbreak significantly decreased global export. In 2020, global exports declined by 8.98%, but Bangladesh experienced an even sharper decline of 16.23% in its export revenues. During the pandemic, Bangladesh's export loss was significantly more than the average export loss for LDCs (4.32%), according to Bangladesh Bank.

According to Bangladesh Bank, it has been observed that countries with a higher export concentration index have faced more adverse effects in their overall exports.[28] Both Bangladesh and Philippines have a higher export basket concentration and consequently faced a larger decline in their exports while India faced a relatively smaller loss in exports due to its less concentrated exports basket.

Fig.1.45 : Export concentration index (USD)



Source: UNCTAD statistics

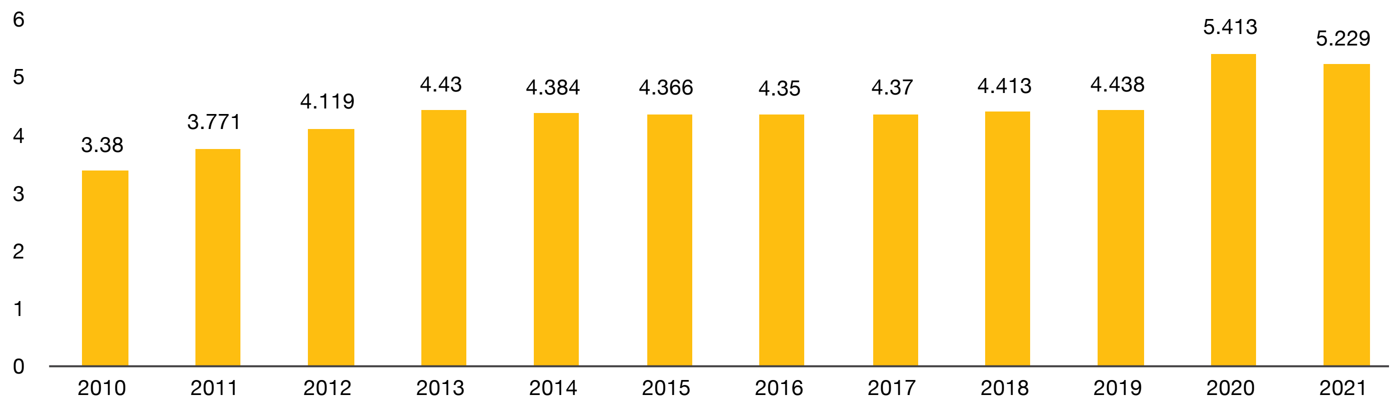
The pandemic and its impact on employment

The COVID-19 pandemic had severely affected the labour market because of different factors such as the repercussions relating to the country-wide lockdown and the global economic recession. According to the Organisation for Economic Co-operation and Development (OECD), the COVID-19 pandemic resulted in one of the biggest job crises since the Great Depression. It can further increase poverty and widen inequalities, and its impact is likely to be felt for years to come.

In 2020, the unemployment rate increased to 5.4%, which was 0.98% more than 2019. According to the World Bank[29], around 68% of the people working in Bangladesh's urban areas (Dhaka and Chittagong) were estimated to have lost their jobs in the early impact of pandemic in 2020. The job losses in Dhaka were estimated at 76% and Chittagong at 59%.

The Bangladesh government implemented various measures to help protect the jobs of its citizens. It announced incentives and stimulus packages of USD 22.1 billion (equivalent to 6.2% of the GDP in FY 2021).[30] These programmes and the assistance of development organisations (e.g. the World Bank provided USD 1.7 billion support for employment-related areas in the pandemic response for Bangladesh[30]) supported the additional expenditures and stimulated the economy to reduce unemployment.

Fig.1.46: Unemployment rate in Bangladesh (% of total labour force)



Source: World Bank

28 Export Performance of Bangladesh during the Pandemic: the Impact of Export Concentration: https://www.bb.org.bd/pub/research/policynote/pn2201.pdf

29 Losing Livelihoods - The Labor Market Impacts of COVID-19 in Bangladesh, World Bank Group 2021: https://documents1.worldbank.org/curated/en/475551600152674960/pdf/Losing-Livelihoods-The-Labor-Market-Impacts-of-COVID-19-in-Bangladesh.pd

30 The World Bank in Bangladesh: https://www.worldbank.org/en/country/bangladesh/coronavirus#:~:text=The%20Bangladesh%20government%20responded%20fast,resumed%20on%20a%20limited%20scale

Post-lockdown scenario

In 2021, Bangladesh displayed strong economic recovery amidst the global pandemic. By increasing vaccinations and limiting movement restrictions, the country was able to gradually restore its economic stability, despite the onset of the Delta and the Omicron waves in August 2021 and January 2022, respectively. Household income also increased in FY 2021, decreasing the estimated poverty rate. According to the World Bank, the estimated poverty declined to 11.9% in FY 2021 from 12.5% in FY 2020 based on the international poverty line of USD 1.9 a day in 2011 PPP.

As of FY 2021, the GDP of Bangladesh rebounded to 6.9% and is expected to continue further growth in FY 2022 based on the high frequency indicators of industrial activities and trade, according to the World Bank. Bangladesh continued to experience a robust post-lockdown recovery in FY 2021 the first quarter of FY 2022.

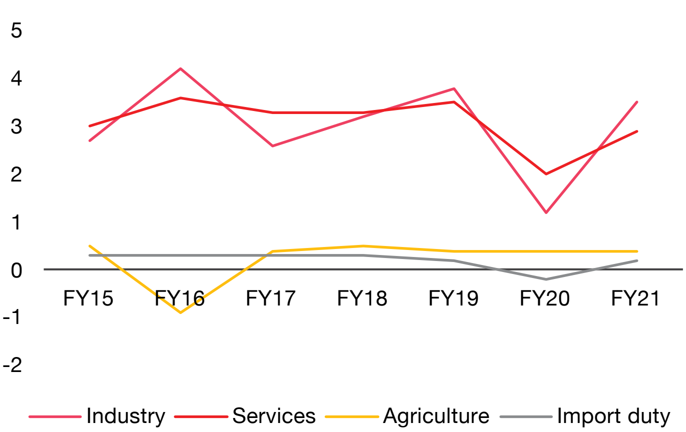
However, there is a rise in global commodity prices induced inflation in FY 2022 after remaining consistent in FY 2021. In the second half of 2021, global energy prices started to increase as demand rose, but supply remained tight, especially for coal and natural gas. Due to the geo-political situation and its impact, commodity prices increased across the world and as a result the prices of oil, food, and agricultural goods hiked even further in the first quarter of 2022. Energy commodity prices increased by 66.4% (YoY) by February 2022, while non-energy commodity prices increased by 22.7%.

Recovery in the manufacturing and service sectors propelled the GDP growth. As both domestic and international demand bounced back, the Quantum Index for large and medium scale manufacturing increased by 14.6% (YoY) in FY 2021 and by 27.8% (YoY) in July–October of FY 2022. As movement restrictions were relaxed, the service sector saw a revival in retail sales, hotel and restaurant activity. Food output increased by 2.8% in FY 2021 as a result of a good rice harvest.[31]

Meanwhile, exports and private consumption accelerated on the demand side. After a decline in FY 2020, exports increased by 9.2% in FY 2021 and 28.4% in the first quarter of FY 2022 as a result of a revival in demand for RMG globally. Bangladesh increased its market share in Europe and the US as consumers diversified their purchases throughout global supply chains. Along with RMG, there was a significant increase in the export of goods for the home, medicines, engineering and agricultural products.

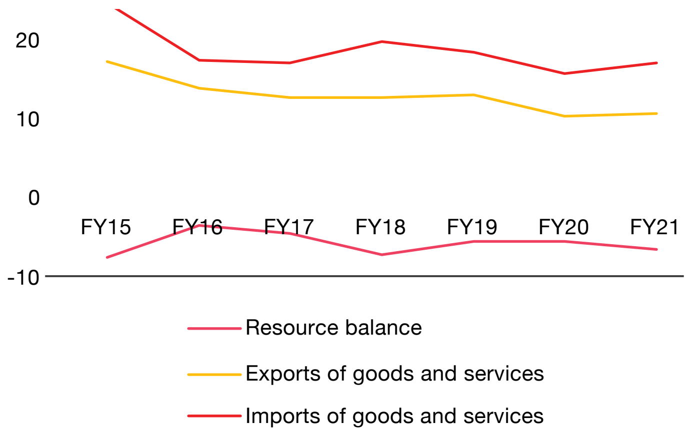
A substantial recovery in private consumption was observed due to a 55.8% increase in consumer goods imports in the first quarter of FY 2022. As government infrastructure megaproject implementation advanced, public investment increased by 9% (YoY) in FY 2021. However, early statistics from FY 2022 suggest a slower rate of expenditure growth. The gradual growth in private sector credit and the increase in capital goods import indicates the improvement of private investments.[32]

Fig.1.47 : GDP contribution sectors (%)



Source: Bangladesh Bureau of Statistics (BBS) public information

Fig.1.48 : Balance of payments (% of GDP)

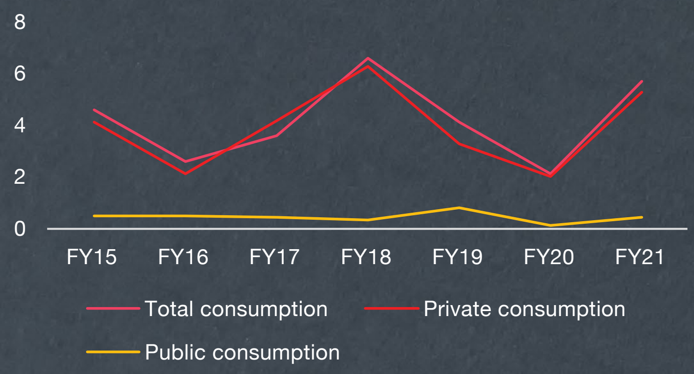


Source: World Bank Open Data

31 Ministry of Finance: https://mof.portal.gov.bd/sites/default/files/files/mof.portal.gov.bd/page/ed9e8b19_ccba_4cca_94b1_c40013f7a760/MTMPS&sa=D&source=docs&ust=1671036761148091&usg=AOvVaw163OEAm_sM6TI_-IS-eLqB

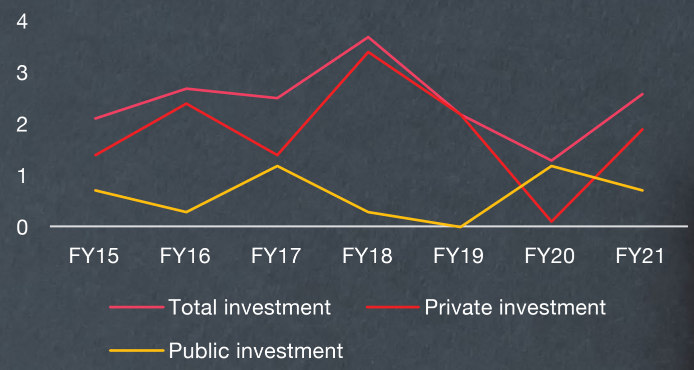
32 Ministry of Finance: https://mof.portal.gov.bd/sites/default/files/files/mof.portal.gov.bd/page/ed9e8b19_ccba_4cca_94b1_c40013f7a760/MTMPS&sa=D&source=docs&ust=1671036761148091&usg=AOvVaw163OEAm_sM6TI_-IS-eLqB

Fig.1.49 : Contribution of expenditure components (% of GDP)



Source: Bangladesh Bureau of Statistics (BBS)

Fig.1.50 : Contribution of investment components (% of GDP)



Source: Bangladesh Bureau of Statistics (BBS)

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 LDC.

Due to inexpensive labour and overhead costs, manufacturers of low-cost products have been able to earn more revenue. The apparel sector has successfully harnessed this competitive advantage and made Bangladesh the second largest global apparel manufacturer after China. Other sectors – leather and leather goods, jute products, agro processing and frozen fish – have also 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 greater involvement of women in the workforce. In 2005, 26.8% of the total population lived in urban areas, which increased to 34.3% in 2015. By 2025, it is estimated that over 42% of the population will be living in urban areas.[33] Urbanisation level is expected to grow further in the next ten years with a growing middle and affluent class (MAC) population. Additionally, 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 set up a 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, subject to limitation in certain sectors.

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 an existing Bangladeshi company, subject to limitation in certain sectors.

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 5.

33 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 a liaison office. The activities of the branch office or liaison office should be approved by the Bangladesh Investment Development Authority (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. It is not, however, permitted to carry out any manufacturing activities.

A liaison office is allowed to be set up for limited activities and can serve only as a communication channel for the parent entity and quality control activities. A liaison office in Bangladesh cannot engage in any income generating activity.

Generally, for branch and liaison offices, outward remittance from Bangladesh is permitted only if specifically permitted by BIDA and aligned to the 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 for meeting the establishment and regular operational costs. Such offices require security clearance from the Ministry of Home Affairs, Government of Bangladesh.

The documentation requirements for setting up an office are fairly simple and require documents such as Memorandum of Association (MOA) and Articles of Association (AOA) and certificate of incorporation of the principal or parent company, details of directors of the parent company, details of the activities which will be performed through the proposed branch or liaison office. A government fee of BDT 25,000 is to be deposited. Upon submission of all requisite documents along with the application for approval, documents are placed before the inter-ministerial committee of BIDA for necessary approval. For any queries raised by the committee the same has to be responded to by the applicant or their representatives in Bangladesh. The requirements of BIDA may change from time to time based on the dynamic business environment and hence it is advisable to check the latest requirements prior to applying for the approval.

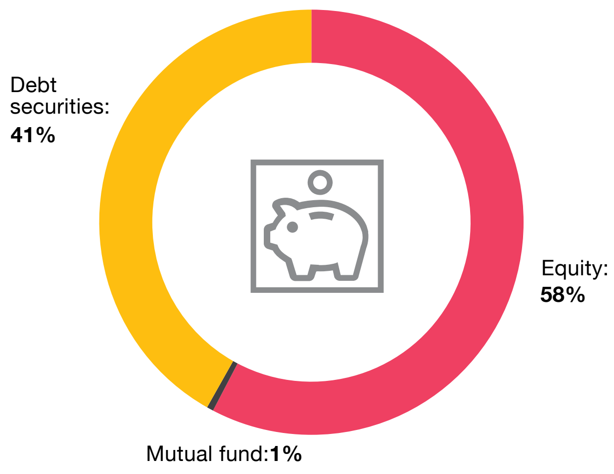
Funding opportunities in Bangladesh

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

Currently, the financial sector has 61 scheduled commercial banks as well as a host of nonbank 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. The Bangladesh Securities Exchange Commission (BSEC) has also activated the trading of treasury bonds from October 2022. 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. 2.1: Capital markets in Bangladesh (November 2022)



Source: Dhaka Stock Exchange

Capital markets in Asia

Name of capital market	Indices name	Month-end indices (Oct 2022)	Listed companies	One-year change (as of Oct 2022)
Colombo Stock Exchange	CSE All Share	8,602.2	294	-27.73%
Dhaka Stock Exchange	DSEX	6,307.3	625	-10.77%
Pakistan Stock Exchange	KSE 100	41,264.7	100	-6.16%
Philippines	PSEi Composite	6,153.4	281	-11.71%

Source: Bangladesh Bank, CEIC Data, Bangladesh Dhaka Stock Exchange, Investing.com

Formal sectors

Fig. 2.2: Formal sectors in Bangladesh

Commercial banks

Total: 61 Scheduled

- 6 state-owned commercial banks
- 3 specialised banks
- 43 private commercial banks (10 Islamic shariah-based)
- 9 foreign commercial banks

Non-bank financial institutions

Total: 35

- 2 State-owned
- 1 Subsidiary of state-owned commercial bank
- 19 domestic private
- 13 joint ventures

Insurance companies

Total: 62

- 18 life insurance (1 state-owned, 1 foreign)
- 44 general insurance (1 state-owned)
- Listed: 55

Micro finance institutions

Total: 599

- Geared toward rural financial markets
- 87% of total savings and 81% of total loan outstanding captured by the top 10

Other sectors

Fig. 2.3: Other sectors in Bangladesh

Capital market intermediaries

- Dhaka Stock Exchange (DSE) – 658 listed securities
- Chittagong Stock Exchange (CSE) – 370 listed securities
- Stock dealers and brokers – 291 under DSE and 158 under CSE
- 58 asset management companies
- 67 merchant banks
- 8 credit agencies
- 8 alternative investment funds

Specialised Financial Institution and Cooperatives

- Karmashangosthan Bank
- Palli Karma-Sahayak Foundation PKSF (rural cooperative)
- Jubilee bank
- Grameen bank
- Ansar VDP development bank

Major regulatory authorities

The National Board of Revenue (NBR) is the apex authority for tax administration in Bangladesh. The NBR is responsible for formulation of tax policies and tax laws, negotiating tax treaties with foreign governments on economic issues, and collecting tax revenues.

Bangladesh Bank 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 Bangladesh Bank through commercial banks.

Bangladesh Securities and Exchange Commission (BSEC) is operating as the regulator of the capital market of Bangladesh under the provisions of Bangladesh Securities and Exchange Commission Act, 1999. The capital market in Bangladesh comprises two stock exchanges – DSE and CSE. The Commission is a regulatory authority associated with the Ministry of Finance.

Insurance Development and Regulatory Authority (IDRA) is the government body for regulating and developing the insurance sector of Bangladesh since 2010.

The chief authority for supervising and monitoring microfinance operations of non-government organisations (NGO) in Bangladesh, is the **Microcredit Regulatory Authority (MRA)** which was established by the Microcredit Regulatory Authority Act, 2006. A licence from the MRA is required for NGOs for carrying out microcredit operations.[34]

Funding options

Equity capital

Foreign-owned companies can start raising capital from the equity market, subject to compliance with the applicable regulations. The government is eager to increase the number of listed companies in the local bourse and is providing regulatory incentives for encouraging profitable companies.

For listed companies, the fund-raising process from the public would require clearance from the 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 an appointed merchant bank to prepare a prospectus with indicative pricing. The company in contention then hosts a series of roadshows where institutional investors are invited for bidding on their stocks. IPO share price is set based on the feedback and interests of other institutional investors. The requirements of listing in the DSE have a mandatory requirement of hiring or appointing an issue manager (approved by the DSE). 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.

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. Bangladesh has a high number of state and commercial banks (as mentioned in the previous section), and bank loans may be obtained against a secured collateral.

Private foreign commercial borrowing

Private foreign commercial borrowing can be availed for installing new capacity or upgrading/expanding existing capacity for production of goods/services. For securing long-term foreign currency loans, private sector industrial enterprises must apply to BIDA, which subsequently forwards the application to Bangladesh 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 governor of Bangladesh Bank including members from BIDA, the Prime Minister's Office and the Ministry of Finance for assessment and decisions.

Bridge financing for working capital may be availed by manufacturing as well as service entities from their foreign parent/shareholders, subject to conditions. It can be availed/renewed within six years from the date of inception of manufacturing/services output activities by the borrower. Interest on such funding is capped at 3% p.a. and is repatriable on deduction of due taxes.

Bonds

The bond market is at a nascent stage with only a few bonds available for investors. Policymakers are pushing to promote the market.

34 Microcredit Regulatory Authority: http://www.mra.gov.bd/site/page/e5502593-c19d-4893-af38-30b685971741/-

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. 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) 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.

Bangladesh Economic Zones Authority (BEZA) plans to establish economic zones across potential areas in Bangladesh including backward and underdeveloped regions of the country to spur economic development through the expansion and diversification of industry, employment opportunities, production and export.

Bangladesh Export Processing Zone Authority (BEPZA) has been established by the Bangladesh Government to promote, attract and facilitate foreign investment in an Export Processing Zone (EPZ). The primary objective of an EPZ is to provide special areas where potential investors would find a congenial investment climate free from cumbersome procedures.

Bangladesh Hi-Tech Park Authority (BHTPA) is established with the objective of creating an investment-friendly environment and creating employment through the development and growth of high-tech industries in the country. The BHTPA works for socio-economic development by establishing Hi-Tech parks/software technology parks/ IT training and incubation centres in different parts of the country to encourage employment for the country's youth and develop skilled human resources.

Major trade bodies and chambers

Federation of Bangladesh Chambers of Commerce and Industry (FBCCI)[35] is a trade organisation which plays an essential role in safeguarding the interest of the private sector in Bangladesh, in a consultative and advisory capacity. The FBCCI maintains close relations with trade and industrial associations abroad. It is a member of international bodies such as International Chamber of Commerce (ICC), Islamic Chamber of Commerce and Industry, Confederation of Asia-Pacific Chambers of Commerce and Industry (CACCI), and SAARC Chamber of Commerce and Industry (SAARC CCI).

Dhaka Chamber of Commerce and Industry (DCCI)[36] is a non-profit organisation focused on providing services for the development of business and industry in Bangladesh. It acts as the initial 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 to facilitate trade and commerce. It also has a dedicated training facility for supporting capacity development of professionals working with the member organisations.

Foreign Investment Chamber of Commerce and Industries (FICCI)[37], established in 1963, comprises over 200 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).

Large local and international firms are members of the **Metropolitan Chamber of Commerce and Industry (MCCI)**[38], a leading chamber organisation, the oldest and the pre-eminent trade organisation of Bangladesh. Its membership comprises leading commercial and large industrial organisations of the country, including public sector corporations as well as local and multinational companies.

35 http://fbcci.org/?page_id=2418]

36 https://www.dhakachamber.com/about-us

37 https://ficci.org.bd/page/About-FICCI

38 https://mccibd.org/brief-history-of-the-chamber/

Online portals

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

Purpose	Entity	Website Link
Foreign direct investment (FDI)	BIDA	www.bida.gov.bd
Investing in economic zones	BEZA	www.beza.gov.bd
Investing in export processing zone	BEPZA	https://www.bepza.gov.bd/
Investing in Hi-Tech Park	BHTPA	http://bhtpa.gov.bd/
Trade-related Information	Bangladesh Government	https://www.bangladeshtradeportal.gov.bd/
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	https://vat.gov.bd/
Issuance of certificate for using standard mark	Bangladesh Standards and Testing Institution (BSTI)	http://www.bsti.gov.bd
Comprehensive list of licences	Bangladesh Government	http://www.forms.gov.bd/
For import and export related policies, documents, licences	Chief Controller of Import and Export	http://www.ccie.gov.bd/ https://olm.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/

One Stop Solution (OSS)

The investment promotion agencies (BIDA, BEZA, BEPZA and BHTPA) have introduced a web-based One Stop Service (OSS) for assistance with necessary licences and permits required for international investment in Bangladesh, depending on the location and operations of the business entity.

Trade licence

Depending on the location of place of business, local city corporation or municipal corporation or union parishad are the competent authorities for issuance of trade license.

National Industrial Policy

The Ministry of Industries has recently notified the National Industry Policy (NIP), 2022 with the main objectives of creation of entrepreneurship, diversification of exports and accelerating local and foreign investments.

The NIP designates the following priority sectors with the intention of encouraging more investments for further development of these sectors which have the potential to generate even greater export revenues:

Priority sectors

1. Foreign employment (Manpower supply)
2. Environment-friendly ship recycling industry
3. Tourism industry
4. Home textile industry
5. Windmill
6. Herbal medicine industry
7. Hospital and clinic
8. Manufacturing of LED, CFL bulbs
9. Tea industry
10. Seed industry
11. Cosmetics and toiletries
12. Cement industry
13. Logistics industry sector
14. Hi-tech industry
15. Medical equipment and device industry sector
16. Agricultural machinery manufacturing industry
17. Rice bran oil industry sector

The NIP has also identified certain special development industries which would require further growth and development through investment in order to realise their export-revenue generating potential in the future. The current list of special development industries is as follows:

Special development industries under NIP, 2022			
Electric and electronic industry	Paper and paper products	Solar energy	Halal meat and meat products and other halal products
Ceramic industry	Rubber industry	Cashew nuts (raw and processed)	Recycled products
Fishing industry	Silk industry	Live and processed crabs	Activities suitable for the Fourth Industrial Revolution such as artificial intelligence (AI), blockchain, the internet of things (IoT), big data analytics, quantum computing, cloud computing, advanced robotics, 3D printing, augmented reality (AR)
Printing and packaging industry	Handicrafts and crafts	Toy industry	
Printing and packaging industry	Handloom industry	Agar industry	

Chapter 3: Regulations for operating in Bangladesh

Investment friendly FDI policies

The 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 and 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 for freely repatriating proceeds of profits and divestments. In addition, there are several bilateral investment treaties in place which also provide additional safeguards to investments from such countries.

Some of the benefits for foreign investors are as follows:

- 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.
- Multiple entry visas, i.e. E1 visa and E visa are issued to expatriates for up to one year and can be extended through the appropriate application process. Business visas are issued to foreigners for travel to Bangladesh for limited purposes only, i.e. business meetings (but not for income generating activities).
- Exemption from capital gains on sale of listed securities may be claimed by foreign investors in case similar exemption is available in their home country.
- Exemption from income tax on interest with respect to certain government securities.
- Multiple layer taxation on dividends has been removed to eliminate the cascading impact of dividends taxed at first level.

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 on the date of sale. Other capital repatriations (i.e. private limited companies and unlisted public limited companies) are generally subject to clearance by the Bangladesh Bank. Exception from prior approval is provided in certain special cases based on the value of transaction, valuation methodology used, etc. Market valuation of the company is necessary to determine the fair market value of the company on the date of the transaction. It is examined on a case-to-case basis depending on factors such as company profile, market dynamics and transaction model.

Other repatriation

Generally, BIDA approval is required for outward remittance of royalty, fees for technical services, franchise fees, payment to EPC contractors, etc., by private sector industrial enterprises registered with them. However, according to a recent BIDA circular, if contracts are pre-endorsed by BIDA then remittances up to certain thresholds (e.g. 6% of revenue for royalty and technical fees) may be repatriated without having to obtain BIDA's permission on each instance. Payments exceeding such thresholds would require specific approval from BIDA. Where outward remittances to foreign group entities are involved, the private sector industrial enterprises are mandatorily required to conduct an arm's length analysis of such payments irrespective of their quantum of remittance. Therefore, it is imperative for the applicants to substantiate the arm's length price of such transactions/payouts for repatriation of outward remittance.

Entities not falling under the scope of private sector industrial enterprises may approach the Bangladesh Bank for clearances on account of such repatriation.

Taxation in Bangladesh

Financial Year:

The generally acceptable tax year in Bangladesh for companies is from 1 July of one year to 30 June of the following year. An application can be filed before the Tax Authorities requesting for a change in the fiscal year.

The Union Budget in Bangladesh is generally announced in the first week of June.

Major types of taxes in Bangladesh

- Direct taxes
  - Tax on income
  - Branch Profit Tax on Repatriation
- Indirect taxes
  - Import duties
  - Value Added Tax
  - Excise duty for banks/airlines
  - Supplementary duty

Direct tax rates - corporate

Description	Tax rates
Publicly traded company (>10% of paid-up capital issued publicly)	20%
Publicly traded company (<=10% of paid-up capital issued publicly)*	22.5%
Non-publicly traded company*	27.5%
One person company*	22.5%
AOP, artificial juridical person, other taxable entities*	27.5%
Publicly traded bank, insurance or financial institution, merchant bank	37.5%
Non-publicly traded bank, insurance or financial institution	40%
Tobacco including cigarette, bidi, chewing tobacco, gul manufacturing companies	45%
Publicly traded mobile operator company	40%
Non-publicly traded mobile operator company	45%
Specific SRO- Export of goods/services**	12%/10%

*All receipts and income must be transacted through bank transfer, and all expenses and investments over BDT 0.5 m individually (BDT 3.6m, if aggregated annually) must be made through bank transfer. The tax rates would increase by 2.5% if these conditions are not met.

**As per the last circular - SRO 158/2022 the exemption covers the period 01 July 2022 to 30 June 2028.

Note: surcharge @ 2.5% of income 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 Income Tax Ordinance, 1984. The income is subject to tax at the rates as mentioned above.

Capital gains

For Company

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

For a person other than Company

The following paragraph to be inserted after 'resident'

Capital Gains:

a. Transfer of capital assets held for 5 years or less: As per applicable rates for resident/non-resident individual

b. Transfer of capital assets held for more than 5 years:

Lower of -

i. Tax payable as per applicable rates for resident/non-resident individual

ii. Tax payable on capital gains @15%

Personal income tax

Taxability of individual

Resident	Non resident
Taxed on global income earned during the year	Taxed at the rate of 30% only on income earned in Bangladesh during the year

Total income (Bangladesh Taka)	Tax rate
First 300,000	0
Next 100,000	5%
Next 300,000	10%
Next 400,000	15%
Next 500,000	20%
Balance	25%

The first threshold of BDT 3,00,000 is extended for:

- women, senior citizen (aged 65 years and above) and third-gender taxpayers to BDT 3,50,000;
- people with disability to BDT 4,50,000;
- gazetted war-wounded freedom fighter to BDT 4,75,000."

Resident:

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

Rates of surcharge applicable to individuals

Net wealth	Rate
Up to BDT 30m	Nil
(a) Above BDT 30m to BDT 100m; or (b) Ownership of more than one motor car; or (c) Ownership of house property having an aggregate area of more than 8,000 sq. ft. in a city corporation	10% of tax payable
Above BDT 100m to BDT 200m	20% of tax payable
Above BDT 200m to BDT 500m	30% of tax payable
Above BDT 500m	35% of tax payable

Bilateral Double Taxation Avoidance Agreements (DTAA)

For foreign investors, double taxation may be avoided on the basis of DTAA. NBR is authorised to negotiate DTAA with foreign countries to promote foreign direct investment (FDIs) in Bangladesh. The DTAA 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. DTAAs enable exchange of information between treaty partners regarding evasion of tax. The list of bilateral signatories of DTAA are presented below:

Bangladesh's DTAA

Sl	Country	Sl.	Country
1	Belgium (effective 1 July 1997)	21	Poland (effective 1 July 2000)
2	Canada (effective 1 July 1982)	22	Romania (effective 1 July 1989)
3	China (effective 1 July 1998)	23	Saudi Arabia (effective 1 July 1012)
4	Denmark (effective 1 January 1997)	24	Singapore (effective 1 January 1980)
5	France (effective 1 January 1988)	25	Sri Lanka (effective 1 July 1989)
6	Germany (effective 1 January 1990)	26	Sweden (effective 1 July 1984)
7	India (effective 1 July 1993)	27	Switzerland (effective 1 July 2009)
8	Indonesia (effective 1 July 2007)	28	Thailand (effective 1 July 1998)
9	Italy (effective 1 July 1980)	29	Turkey (effective 1 July 2004)
10	Japan (effective 1 July 1992)	30	The United Arab Emirates (effective 1 July 2012)
11	Korea (effective 1 July 1983)	31	The United Kingdom (effective 1 July 1978)
12	Malaysia (effective 1 January 1982)	32	The United States of America (effective 1 October 2006; withholding tax 1 January 2007 – other taxes)
13	Mauritius (effective 1 July 2011)	33	Vietnam (effective 19 August 2005)
14	Netherlands (effective 1 July 1995)	34	Belarus (effective 1 June 2014)
15	Norway (effective 1 July 2006)	35	Kuwait (effective 25 December 2018)
16	Pakistan (effective 1 January 1980)	36	Bahrain (effective 9 October 2017)
17	Philippines (effective 1 July 2004)	37	Czech Republic (effective 1 July 2021)
18	Bhutan (effective 28 November 2017)	38	Nepal (effective 05 March 2019)
19	Myanmar (effective 01 July 2012)	39	Morocco (effective 01 July 2021)
20	Maldives (effective 01 July 2022)	40	Iran (effective 1 July 2023)

Transfer pricing in Bangladesh

Transfer pricing (TP) in Bangladesh

The National Board of Revenue, the apex tax policy making body in Bangladesh, has adopted transfer pricing regulations/ rules, in line with OECD regulations, by incorporating a chapter on transfer pricing in its Income Tax Ordinance, 1984 (Chapter XIA) through Finance Act 2012. The aim of the provisions is to ensure that all transactions undertaken between group entities (associated enterprises) will have to follow the arm's length principle, adjudged through the methods stated in the rules.

Transfer pricing regulations in Bangladesh have been made effective from 1 July 2014 by SRO 161-Law/Income Tax/2014. As per the provisions, any international transaction is required to reported in statement of international transactions and filed along with the return of income. Further, any international transaction exceeding BDT three crore is required to maintain TP documentation and file a report from a chartered accountant. Not maintaining the proper documentation or filing the required documents would lead to the imposition of a penalty by the NBR.

The NBR has simultaneously established a transfer pricing cell to start TP audit and it is expected that the TP cell will start audit proceedings soon. In case the TP cell finds that the transactions are not at arm's length, they can reject the transaction value and impute an estimated value for levying tax .

The penalties for not complying with the provisions are given below:

Default	Nature of penalty
Failure to keep, maintain or furnish documents as prescribed in the Income Tax Ordinance	Up to 1% of the value of the international transaction(s)
Failure to comply with the notice or requisition issued by the Deputy Commissioner of Taxes	Up to 1% of the value of international transaction(s)
Failure to furnish report from Chartered Accountant as prescribed by the Ordinance	Up to 300,000 Taka
Failure to furnish Statement of International transaction as prescribed by the Ordinance	2% of the value of international transaction(s)

New draft Income Tax Act issued by the National Board of Revenue (NBR)

NBR has issued Draft Income Tax Act 2022 with the aim of aligning the tax laws with the present market dynamics. The NBR invited views of various stakeholders on the draft law and the same is under deliberation.

How to file tax returns

The process of submitting the return of income involves filling out prescribed information in the prescribed format and submission of the same before the jurisdictional income tax officer, generally in the rank of Deputy Commissioner of Taxes (DCT) in the prescribed format . Each income tax payer or person required 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 government exchequer through a pay order or a treasury challan and submit duly signed and verified return form along with the necessary documents to relevant tax circle. Non-resident companies, irrespective of having a permanent establishment in Bangladesh is required to file an income tax return.

Below the above line, a separate heading is to be created as below:

e-TIN registration

Tax Identification Number (e-TIN) may be considered as a prerequisite for filing of income tax return in Bangladesh.

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 DCT 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 7th month following end of income or 15 September following the income year when the due date of filing falls prior to the said date. Tax Day for an individual is 30 of November following the end of the income year. The timeline for filing return of income for an individual who is a first-time filer of return of income is 30 June following the end of the income year.

Indirect taxes

Value Added Tax (VAT)

A standard VAT rate of 15% is applicable on supply of both goods and services in Bangladesh. For certain prescribed goods and services, the VAT rate is 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 with standard VAT rate of 15%. Recipient of service is liable to pay VAT under reverse charge in respect of import of service.

Types	VAT registration
Prescribed goods and services	Mandatory
Other business units: • Annual turnover more than 30 million • Annual turnover between 5 million to 30 million • Annual turnover less than 5 million	Mandatory • VAT registration is not mandatory but 'Enlistment' for turnover tax is mandatory (Turnover tax rate is 4%) • No VAT/no turnover

In terms of Section 26 of the Value Added Tax and Supplementary Duty Act, 2012, 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. The VAT return is filed manually or in the online portal.

VAT payable on electronics service

Non-resident electronic service provider providing service to B2C customers are required to obtain VAT registration and discharge VAT in Bangladesh by appointing a VAT agent.

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.

The present custom regime is governed under the Customs Act, 1969. Thereafter various issues have been settled through litigations and representations and numerous circulars has been issued to cater the changing business dynamics. In order to bring all such aspects into the legislation with the objectives to bring certainty for investors, the legislation has issued a draft of the new Customs Act with the expectation to have the same implemented in due course.

Supplementary duty (SD)

Supplementary duty ranging from 10% to 500% is levied on luxury and non-essential goods imported into Bangladesh.

Supplementary duty ranging from 5% to 65% is imposed on non-essential or demerit goods produced and supplied in the country. The rates vary depending on the nature of the goods.

Introduction of national single window (NSW)

NBR is in the process of rolling out a national single window in Bangladesh to facilitate all foreign trade related customs procedures through a single interface. This is a World bank funded project aimed at facilitating ease of doing business by transforming international trading operations through the adoption of a user-friendly system.

Merger and Acquisition (M&A) framework for Bangladesh

M&A of companies can be undertaken as per the specific provisions of the Companies Act, 1994. Generally, approval from the court is required for such transactions.

Preferential trade policies

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

- Bilateral free trade agreements: Bangladesh has signed a preferential trade agreement with Bhutan which has taken effect from 1 July 2022.
- Ongoing negotiations for bilateral/multilateral FTAs: Brazil, Sri Lanka, Turkey, China, India, Thailand, Malaysia, Pakistan; Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC); Trade Preferential System of the Organization of the Islamic Conference (signed but not in effect),[39] Nepal
- Investment treaties in force: Belgium-Luxembourg Economic Union, France, Germany, Iran, Italy, Japan, Malaysia, Philippines, Poland, Republic of Korea, Romania, Switzerland, Thailand, the Netherlands, Turkey, the UK, the US, Indonesia, Denmark, India, Singapore, Austria, Uzbekistan, China
- Investment treaties signed but not yet in force: Cambodia, the UAE, Vietnam, the Democratic People's Republic of North Korea, Pakistan[40]

Additional policies for protecting foreign investments

- Bangladesh is a signatory to the Multilateral Investment Guarantee Agency (MIGA) which insures investors against political risks. MIGA is an investment guarantee agency of the World Bank 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 the International Centre for Settlement of Investment Disputes (ICSID), an organisation that settles investment disputes between states and nationals of different countries. The ICSID seeks to encourage greater flow of international investment by providing facilities for the conciliation and arbitration of disputes between governments and foreign investors.

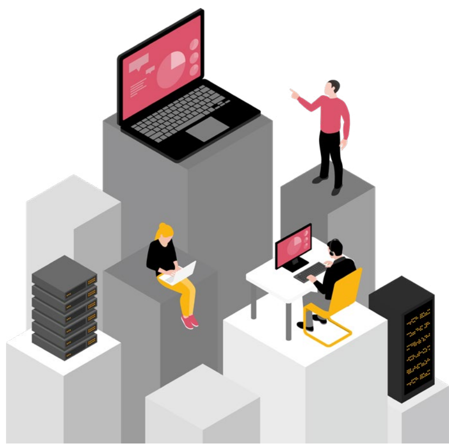
Multilateral trade agreement

Preferential import duty exemption is available under the following trade agreements:

- South Asian Free Trade Area (SAFTA): Member countries are Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka
- Asia-Pacific Trade Agreement (APTA): Member countries are Bangladesh, China, India, Republic of Korea, Lao People's Democratic Republic and Sri Lanka

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.



39 https://aric.adb.org/fta-country

40 https://investmentpolicy.unctad.org/international-investment-agreements/countries/16/Bangladesh as on 14 November 2022)

The European Union

Bangladesh benefits, being an LDC from the EU's Generalised 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 Cooperation Agreement between the European Community and the People's Republic of Bangladesh concluded 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 exports to the EU are dominated by apparel, which contributes 90% of the total exports. The benefit under the EBA scheme will be available for Bangladesh till 2029, i.e. for three years after its graduation to the developing country status.

The United States

The US is the single largest export destination for Bangladesh and in FY 2021–22, the latter exported goods worth USD 10.41 billion. Bangladesh used to enjoy Generalised System of Preferences (GSP) in the US market till 2013. In response to the US's cancellation of GSP, Bangladesh is currently negotiating a new trade agreement with the US, under the Trade and Investment Facilitation Agreement (TIFA) arrangement. The agreement provides a platform for discussing trade and investment-related issues and other areas of common interest.

Chapter 4: Tax incentives for encouraging investments

Manufacturing /trading/service sector

Exporter of goods/services

Corporate tax:

- Reduced corporate tax rate of 12% for export of goods and services
- Tax rate of 10% applicable, in case of Leadership in Energy and Environmental Design (LEED) certified factories for export of goods
- Above benefit is applicable subject to fulfillment of specified conditions.

Automobile

Corporate tax:

- 100% tax exemption for 10 years on manufacture of three and four wheelers
- Reduced tax rate of 10% for 10 subsequent years
- Benefits are subject to conditions and specified percentage of value addition in Bangladesh.

Indirect tax:

- Exemption for local manufacture of certain vehicles up to 2500cc on:
  - 0% to 5% Output VAT
  - VAT, SD and AT on import/local procurement of RM and spares
- Import duties on raw material imported by motorcycle manufacturers

Light engineering/Home and kitchen appliances

Corporate tax:

- 100% tax exemption for 10 subsequent years on manufacture. Benefits are subject to conditions and specified percentage of value addition in Bangladesh.

Indirect tax:

- VAT incentives on local manufacture and supply of home appliances
- An exemption on VAT, SD and AT on import/local procurement of raw materials and spares by home appliances manufacturers.

Infra and services sector

Power sector/PPP projects

Corporate tax:

- Income-tax exemption for power producers
- Additional benefits applicable for non-coal-based power producers
- Exemption from income of expats for three years
- Interest, royalty, fees for technical services (FTS), capital gains exempt

Indirect tax:

- Specified services supplied to PPP projects exempt from VAT
- Import duty exempt on import of equipment and spares for power plants
- Electricity generation exempt from VAT

ITES services/ICT manufacturing

Corporate tax:

- 100% income tax exemption on a host of ITES services
- 10-year tax exemption of 100% on manufacture of specified ICT hardware
- Benefits are subject to conditions and specified percentage of value addition in Bangladesh.

Indirect tax:

- Reduced VAT rate of 5% applicable on ITES services
- Exemption of output VAT and import duty on raw material for manufacture of:
  - computer and computer related equipment,
  - cellular mobile phones.

Healthcare/educational services

Corporate tax:

- 10-year tax exemption of 100% on income of hospital/ vocational training.
- Benefits are subject to specified conditions.

Indirect tax:

- Medical services exempt from payment of VAT
- Import duty exemption on import of medical equipment
- Private medical institutions and private university are exempt from VAT.

Location specific tax incentives are also available for various sectors

Economic Zone – BEZA

Corporate tax:

- 10-year graded tax exemption for companies/units in EZs engaged in:
  - Manufacturing (except edible oil, sugar, wheat, flour, cement, Iron and Iron related products);
  - Services
- Tax exemption on dividends, capital gains and payment of royalty, service fees for 10 years
- Expatriates working for a company incorporated in BEZA to get 50% tax exemption for prescribed years.

Indirect tax:

- VAT exempt on specified services locally procured by EZ units
- Import duty exempt on raw material imported under bonded warehouse facility
- Import duty exemption on import of capital machineries, vehicles

Economic Zone – BEPZA

Corporate tax:

- 5/7-year graded tax exemption for companies in EPZs, based on location

Indirect tax:

- VAT exempt on specified services locally procured by EPZ units
- Import duty exempt on raw material imported under bonded warehouse facility
- Import of capital machineries, vehicles

Specified industrial undertakings

- Tax exemption to specified industrial undertakings (covering varied sectors) established between 1 July 2019 and 30 June 2024
- Set-up in Dhaka, Mymensingh and Chattogram: 5 years at reducing rate of 90% to 20%
- Other specified areas: 10 years at reducing rate of 90% to 10%
- NBR and BIDA approval required

Specified infrastructure projects

- Tax exemption to specified infrastructure projects established between 1 July 2019 and 30 June 2024 for 10 years at a reducing rate of 90% to 10%
- NBR and BIDA approval required

Startups

Tax benefits given to newly set up start-ups for 5 years (subject to certain conditions) :

- Disallowances of specified expenditure will not be applicable during growth years
- Losses incurred during growth years may be carried forward up to nine assessment years
- Minimum tax rate is 0.1% (instead of 0.6%) of gross receipts in growth years
- No reporting (other than return filing), if permanent access to systems/ books allowed

Chapter 5: Steps to set up business operations

There are several steps involved in setting up business operations in Bangladesh. Given below is a brief overview of the steps:

Company registration documents

A foreign investor planning to operate in Bangladesh would need to register the company with the Registrar of Joint Stock Companies and Firms (RJSC). While other company documents such as Tax Identification Number (TIN) and VAT certificates and trade licences are equally important for business operations, company incorporation is the first step of the process.

The company incorporation process requires obtaining a name clearance application with the RJSC for the proposed name of the new company and is generally allotted within 2–3 days of making the application. With effect from 1 October 2021, the requirement of obtaining a name clearance certificate for private companies has been withdrawn and the incorporation process has been simplified by introducing a one-step application mechanism, where at the time of filing the incorporation application the name of preference would be approved based on the availability. Hence, prior name clearance is now required only for the incorporation of public companies.

It may be noted that the share application money for the initial capital investment is required to be remitted to a temporary bank account (e.g. provisional or local lawyer's bank account) in Bangladesh by the investing/holding company prior to making the application with the RJSC. The encashment certificate issued by the local bank certifying the receipt of funds is a mandatory supporting document for filing the application for incorporation.

Once the funds are received, other necessary documents (e.g. copy of board resolution of the parent company, incorporation documents of the parent company, copy of passports of proposed directors of the new company, copy of encashment certificate, copy of name clearance certificate, receipt of payment of RJSC fees, draft MoA and AoA of the new company, etc.) are required to be submitted to the RJSC along with the application of incorporation of the new company. It takes around 6–8 weeks for preparing and arranging all the required documents and another 10–15 working days after filing of the application form to obtain the incorporation certificate.

Thereafter, the new company is required to proceed with applications for the following:

- e-TIN which is the income tax registration with the NBR. The documents required generally include copy of MOA and AOA along with the Certificate of Incorporation of the company, photographs and other particulars of the directors of the company, Deed of Rent for the Bangladesh office address, etc. The e-TIN is generally allotted within 4–5 working days, subject to submission of all relevant documents.
- A trade licence is issued by the respective city corporation/municipal corporation for conducting business. A prescribed form along with the necessary documents such as a copy of the rental deed for the office in Bangladesh, photograph and copy of passport of the applicant in whose name the licence will be issued, company incorporation documents, copy of e-TIN, etc. Trade licence is generally issued within a period of 10–15 working days subject to submission of all relevant documents.
- BIN is the VAT registration number obtained from the NBR. An online application needs to be filed with NBR through the VAT online portal along with supporting documents/details like bank account details, director details, copy of passport/national ID of the authorised signatory along with the necessary details, copy of e-TIN of the company, copy of trade licence of the company, estimated annual turnover, details of machineries (if applicable), etc. VAT registration certificate is generally provided within a period of 7–15 days, subject to submission of all relevant documents.
- The Import Registration Certificate (IRC)/Export Registration Certificate (ERC) is required for undertaking imports or exports, respectively, is obtained from the Office of the Chief Controller of Imports and Exports by filing separate online applications on the Office of Chief Controller of Imports and Exports (CCI&E) website. Documents required generally include bank solvency certificate (to be issued by the concerned banker in Bangladesh), copy of trade licence, copy of e-TIN of company, copy of MOA and AOA along with incorporation certificate of the company, membership certificate from a recognised chamber/trade association, copy of updated Form XII, Form X, etc. An IRC 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: BDT 200 for each of the proposed names.

Registration fees

Private company

Stamp fees

i For the Memorandum of Association: BDT 1,000.00

ii For the Articles of Association:

For authorised capital	Fee (BDT)
Up to 10,00,000.00	2,000.00
> 10,00,000.00 up to 3,00,00,000.00	4,000.00
> 3,00,00,000.00	10,000.00

Registration fees

i. For filing 6 documents (5 filled in forms plus 1 memorandum and articles of association, with a fee of BDT 200.00 per document): BDT 1,200.00

ii For authorised share capital:

For authorised share capital	Fee (BDT)
Up to 10,00,000.00	0.00
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

Note: The fees provided herein are as per the RJSC website (http://app.roc.gov.bd:7781/psp/RJSC_Fees) are as on 11 November 2022 and are exclusive of applicable VAT. It is advisable to check the latest requirements prior to application.

Fees for trade licence

For limited company

Paid up capital	Annual fees (BDT)
Up to 1,00,000.00	1,500
1,00,000.00 to 5,00,000.00	2,000
5,00,000.00 to 10,00,000.00	3,500
10,00,000.00 to 25,00,000.00	4,500
25,00,000.00 to 50,00,000.00	5,500
50,00,000.00 to 1,00,00,000.00	7,500
1,00,00,000.00 to 5,00,00,000.00	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. In addition to the above, AIT of BDT 3,000 and applicable signboard tax are payable at the time of obtaining trade license.

Source: The fees provided herein are as per the “City Corporation Ideal tax Schedule, 2016” It is advisable to check the latest requirements prior to application.

Registration with the Bangladesh Investment Development Authority (BIDA)

The documents generally required include the application duly filled in the prescribed form, copy of trade licence, copy of certificate of incorporation along with the MOA/partnership deeds, copy of deeds of the proposed land, background of the proprietors in official letterhead pads, pay order/bank order for applicable registration fee in favour of BIDA, copy of e-TIN certificate.

Registration fee for foreign Investment	
Investment amount (BDT)	Required fee (BDT)
Up to 10,00,00,000.00	5,000.00
10,00,00,001.00 to 25,00,00,000.00	10,000.00
25,00,00,001.00 to 50,00,00,000.00	25,000.00
50,00,00,001.00 to 1,00,00,00,000.00	50,000.00
More than 1,00,00,00,000.00	100,000.00

Note: The fees provided herein are as per the BIDA website (https://bidaquickserv.org/) as on 11 November 2022 and are exclusive of applicable VAT. It is advisable to check the latest requirements prior to application.

Fees for Import Registration Certificate (IRC)

Registration fee for IRC			
Category	Ceiling value of annual import	Registration fee (BDT)	Renewal fee (BDT)
First	BDT 5,00,000	5,000	3,000
Second	BDT 25,00,000	10,000	6,000
Third	BDT 50,00,000	24,000	10,000
Fourth	BDT 1,00,00,000	40,000	15,000
Fifth	BDT 5,00,00,000	50,000	22,000
Sixth	BDT 20,00,00,000	60,000	24,000
Seventh¸	BDT 50,00,00,000	70,000	28,000
Eight	Above BDT 50,00,00,000	80,000	32,000

The IRC is to be renewed within 30 June of each year. In addition to the above fee, 15% VAT is payable at the time of application for IRC.

Source: The fees provided herein are as per the CCIE website (https://www.ccie.gov.bd/site/page/7cca82fe-393f-4f40-a7e1-8e814c656fd1/%E0%A6%A8%E0%A6%BF%E0%A6%AC%E0%A6%A8%E0%A7%8D%E0%A6%A7%E0%A6%A8-%E0%A6%93-%E0%A6%A8%E0%A6%AC%E0%A6%BE%E0%A7%9F%E0%A6%A8-%E0%A6%B8%E0%A6%82%E0%A6%95%E0%A7%8D%E0%A6%B0%E0%A6%BE%E0%A6%A8%E0%A7%8D%E0%A6%A4) as on 9 January and are exclusive of applicable VAT. It is advisable to check the latest requirements prior to application.

Fees for export registration certificate

Export Registration Certificate is to be applied upon payment of BDT 7,000 and 15% VAT on such fees. ERC is to be renewed within 30 June of each year upon payment of renewal fees of BDT 5,000 and 15% VAT on such fees.

Fees for tax and VAT registration certificate

No fees are payable for obtaining Tax Identification Number (TIN) and VAT registration certificate (BIN).

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 Office of Chief Controller of Import and Exports (CCI&E).

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 matters have been made mandatory. Companies established in EZs and EPZs have separate guidelines for import.

Types of importers

- Direct commercial importers: Import of goods for sale without further value addition.
- Industrial undertaking: 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.
- Industrial undertaking located at EZ and EPZ: These entities are eligible to import plant & machineries without payment of import duties. IRC is not required for units located in EZ or EPZ.

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 DCCI) and MCCI.

Chapter 6: The way forward

In 2021, the GDP of Bangladesh increased by 6.9%. The nation has persisted in making progress towards achieving its social development goals for its 167 million citizens. The private sector, which benefited from the demographic dividend and the increasing middle and affluent class population, has been at the forefront of the nation's historic growth. Bangladesh has benefited from an increasing population of young people since it has created a large labour force to facilitate industrialisation and contributed towards a rapid shift in the consumption pattern. It is expected that this demographic dividend will continue till 2045 which will enable more businesses and rapid expansion of industrialisation. The government has also significantly strengthened its efforts to ease some of the impediments to business operations to facilitate the country's objectives of becoming a developed nation.

Transitioning to a developing middle-income economy

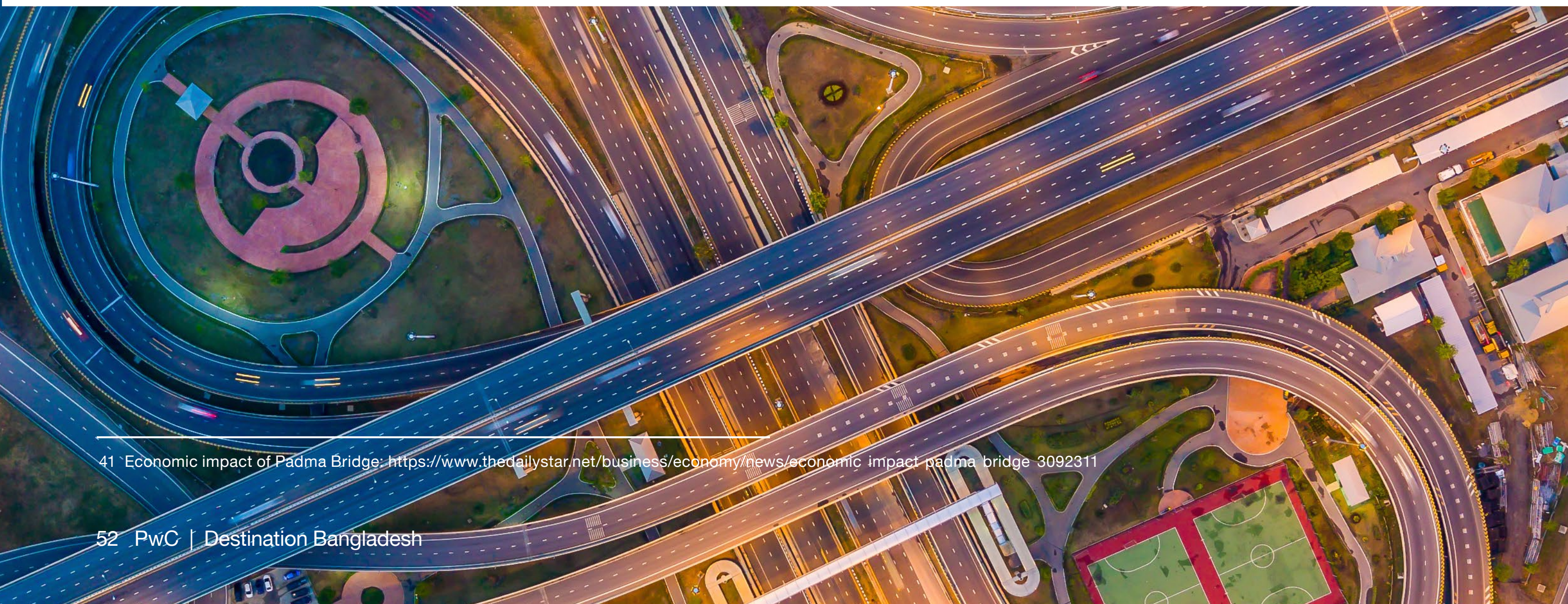
In March 2018, Bangladesh got the nod from the UN and graduated to the status of a developing country upon meeting the three graduation criteria – gross national income (GNI) of USD 1,272 (required USD 1,230), human assets index (HAI) of 72.8 (required greater than 66) and economic vulnerability index (EVI) of 25.2 (required 32 or below). The country must maintain the required threshold till 2024 in order to graduate to the middle-income status.

The incremental growth of the economy will be beneficial for the country in terms of its global economic standing. Investment in higher education, training, and healthcare from both the public and private sectors will rise as a result of this graduation. The government has already started working on many mega projects, including the construction of high-tech parks and special economic zones which will enable further facilities for foreign entrepreneurs.

The construction of the new terminal at the international airport will aid in attracting more international players and investors, enabling competitive trade across borders after graduating to middle income status. Besides, the sovereign rating is also expected to lower risk premiums while making investments in debt and equity-based instruments.

Bangladesh will have until 2027 to build the necessary infrastructure to remain competitive following the withdrawal of duty-free and quota-free (DFQF) market access. Significant progress has been made in terms of infrastructure development after the launch of the Padma Bridge in June 2022. The Padma Bridge is expected to increase the GDP growth of the southwestern part of the country by 2.5%, along with an annual overall GDP increase of 1.23%.[41]

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.



41 Economic impact of Padma Bridge: https://www.thedailystar.net/business/economy/news/economic impact padma bridge 3092311

The road ahead

Bangladesh has the vision of reaching upper middle-income status by 2031. In order to achieve the vision, the country needs to focus on creating a competitive business environment, increasing human capital and skilled labour force, building effective infrastructure, and creating a policy environment that encourages private investments.

Diversifying exports beyond the RMG sector, deepening the financial sector, enhancing the sustainability of urbanisation, and bolstering governmental institutions are among the top development priorities of the country. By addressing its vulnerability to natural disasters and climate change, Bangladesh can continue to develop its resistance to such contingencies. Making the switch to green growth will help ensure the long-term viability of development for future generations.

The government investment in the power sector resulted in the rise in electricity access that has gone up from 5 GW in 2009 to around 25.5 GW in 2022, and the government claimed in March 2022 that 100% of the population had access to electricity, although the quality and reliability of the electricity supply requires major improvements.

Given the rapid expansion of the Bangladesh economy, continuous investments are required for meeting the energy demand of 50,000 MW by 2040. Greater private sector participation is imperative for scaling up the power sector, apart from the government-to-government (G2G) based investments and more power and natural gas import. Incentives provided to foreign investors in the energy sector include:

- Tax exemptions on royalties, interest paid on foreign loans, and capital gains of foreign investors
- Exemptions from double taxation for foreign investors based on bilateral agreements
- Exemption to expatriate personnel employed in approved industries on tax payments for up to three years
- Relaxed restrictions on the issuance of work permits for project-related foreign nationals and employees
- Facilities for repatriation of invested capital, profits, and dividends.

The infrastructure development of the country has been driven by both national and international (G2G and multilateral agencies) funding. China has invested USD 465 million in FDI as of FY22 while India invested USD 107 million.[42] These investments have been mainly designed for road, rail, and port infrastructure development.[43] Further investments are in the pipeline to build and repair new highways, expand existing port capacities, build a deep-sea port and establish new power plants in Bangladesh.

The digital edge

The government intends to digitise the investment process by making government services more accessible. As part of the process, the Government of Bangladesh has already digitised the tax payment procedure introducing e-TINs for simplifying the payment cycle.

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, namely signing memorandums of cooperation (MoCs) with high-interest groups such as Japan, to expedite FTAAs. The economic impact of the government's initiatives to establish diplomatic ties will bear fruit in the coming years.

The rapid growth of emerging sectors such as RMG, consumer staples and durables, and ICT 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. The existing tax regime, bureaucratic processes, and business environment for foreign businesses and investors are areas that require major reforms, which the government recognises and is working towards.

Bangladesh has opportunities emerging across sectors and investor classes. Understanding the logistics and regulations for operating in Bangladesh would ease the process for the potential investors and then the opportunities would be ripe for the picking.

42 Foreign Direct Investment and External Debt, Bangladesh Bank: https://www.bb.org.bd//pub/halfyearly/fdisurvey/fdisurveyjanjun2022.pdf

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Contributors

This report was prepared by Mamun Rashid, Manpreet Kaur Dhanoa, Shamsul Nawed Nafees, Ashraful Rashid Roman, Fairuz Sadaf Joyeeta and Hironmay Paul. Sushmita Basu, Kapil Basu and Prabir Mitra have contributed commentaries in the tax and regulatory sections of the report.

Editorial support: Rubina Malhotra

Design: Shipra Gupta and Faaiz Gul

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Contact us

Mamun Rashid

Managing Director
PwC Bangladesh
Email: mamun.r.rashid@pwc.com

Sushmita Basu

Member of the Board of Directors
Leader - Bangladesh Tax and Regulatory Services
PwC Bangladesh
Email: sushmita.basu@pwc.com

Manpreet Kaur Dhanoa

Director,
PwC India
Email: manpreet.dhanoa@pwc.com

Kapil Basu

Managing Director, Tax and Regulatory Services,
PwC India
Email: kapil.basu@pwc.com

Ashish Chaturvedi

Executive Director,
Deals - Transaction Services
PwC India
Email: ashish.chaturvedi@pwc.com

Arijit Chakraborti

Director and Office Managing Partner,
PwC Bangladesh
Email: arijit.chakraborti@pwc.com

For macroeconomic insights and transaction related queries, please contact:

Sanjeev Krishan

Chairperson,
PwC India and Bangladesh
Email: sanjeev.krishan@pwc.com

Dinesh Arora

Leader, Deals,
PwC India
Email: dinesh.arora@pwc.com