

# **An Enabling Environment and Economic Zones for Private Sector Development in Bangladesh**

Summary and Proposed Action Plan of  
Two Day Roundtables

Dhaka, Bangladesh  
14-15 December 2004

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A joint service of the International Finance  
Corporation and The World Bank



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# 1 Introduction

A two-day series of roundtables on “Enabling Environment and Free Zones for Investment Promotion and Export Competitiveness in Bangladesh” took place at the BRAC Centre in Dhaka, Bangladesh on December 14-15, 2004. The roundtables were organized jointly by Foreign Investment Advisory Service (FIAS), a joint product group of the World Bank and the International Finance Corporation (IFC), and the Bangladesh Enterprise Institute (BEI). The roundtables were funded by the UK Department for International Development (DFID), the South Asia Enterprise Development Facility (SEDF) of the IFC, and FIAS. They also received technical advice and support from the Canadian International Development Agency (CIDA), Japanese International Cooperation Agency (JICA) and the European Commission (EC).

The main objective of the roundtables was to share basic principles, best practices and experiences, especially from Asia, in:

1. Improving the business environment through regulatory reform at a national level; and
2. Upgrading industrial and free zone strategy at national and local levels.

## 2 Initial Comments by Dignitaries on Day 1

The roundtables were inaugurated by *Dr. Kamaluddin Siddiqui, Principle Secretary to the Prime Minister of Bangladesh*, who initiated proceedings by asking the gathered government officials, donors, and stakeholders to conceptualize and determine next steps for a coordinated implementation of a post- Multi Fiber Agreement private sector development program. He stressed the importance of improving investment climate to tackle various issues of employment, corruption, bureaucratic inefficiencies and inadequate capacity in Bangladesh, and noted the pre-eminence of investment climate over investment incentives. He noted the presence of various donors at the roundtables, and highlighted the importance of their roles as development partners in addressing the challenges of the post-MFA period in Bangladesh. He stressed the need for a unified, broad-based long term-effort to design and implement critical reforms that will unleash the growth potential of the Bangladesh economy, and challenged the participants to start thinking out of the box to reposition Bangladesh’s economy in the post-MFA period.

In his keynote speech as the chief guest, *Mr. Morshed Khan, MP and Minister of Foreign Affairs*, said that the private sector is leading a “silent revolution” but it needs to be given an enabling environment. He said that regulatory reform is necessary and it must proceed with the strong support of the government; he said he believed such reform must occur with a large concerted effort “in one go”. Mr. Morshed Khan expressed appreciation that the same donors that have been Bangladesh’s friends in distress are now serving as its partners in success.

A number of foreign dignitaries also addressed the Inaugural Session. *Mr. Anwar Chowdhury, British High Commissioner*, emphasized the need to address the business enabling environment for Bangladesh to achieve its potential. He especially mentioned the need to look at the potential of Chittagong port and address governance issues.

*Mr. Matsushiro Horiguchi, Ambassador of Japan*, highlighted the need for “concrete action to improve the country’s existing regulatory framework, physical infrastructure, human resources and the relative weakness in governance through various capacity-building measures and sharing of best practices.” The Japanese government, he said, would like to work in a united effort with all the donors to address these issues.

In his speech, *Mr. Anil Sinha, General Manager of SEDF*, spoke on the potential for special economic zones, free zones, and EPZs to be catalysts for industrial development. He mentioned that economic zones were used in China to introduce regulatory reforms and were very successful. Mr. Sinha stressed that for zones to achieve their potential, they must include linkage opportunities with the local economy and with SMEs.

*Mr. Syed Akhtar Mahmood, Senior Private Sector Development Specialist, World Bank*, also addressed the audience, explaining the plans for coordination of a large private sector development program which would include a Government Design Taskforce and the donor agencies.

After listening intently to the various dignitaries make their brief and encouraging remarks, the participants then listened to presentations made on regulatory reform by the gathered experts on regulatory reform.

### **3 Presentation on Link Between SEZs and Streamlined Domestic Policies**

In his presentation on the Link Between SEZs and Streamlined Domestic Policies, *Jean-Paul Gauthier, FIAS*, pointed out that the regulatory interface which businesses face in Bangladesh is severe. This burden on business and private sector needs to be drastically alleviated and the quality of these interfaces needs to be improved. Administrative barriers to investment today can reduce business productivity. With good business regulation, the economic impact is tremendous. The benefits of better business regulation potentially include better market functioning, better allocation of resources, reduced rent-seeking opportunities, greater formal participation in economy, cost and risk reduction for businesses, increased investment, increased firm productivity, and economic growth. Mr. Gauthier highlighted the relevance of SEZs to regulatory reform as related to employment generation (especially for women), higher pay levels and working

standards, higher exports (especially in smaller countries), skills and technology transfer, economic diversification, and increased economic growth. However, as Mr. Gauthier noted, SEZs are not a panacea for economic challenges. They do not substitute for reform; rather, they should be looked at as a catalyst for reform.

In this context, Bangladesh is an average performer compared to other countries. The solution is to really go in for larger scale economic zones, whose economic benefits are more wide ranging. Mr. Gauthier felt that Bangladesh's EPZ regime needs to be updated, given the needs of investors today. Mr. Gauthier pointed out that opportunities currently exist in this regard for Bangladesh in the Dhaka-Chittagong economic corridor, Dhaka-Tangail economic corridor, Dhaka-Mymensingh economic corridor, proposed Malaysian SEZ, Kanchpur China commercial hub, and in the Korean EPZ in Chittagong.

## **4 Presentation on Public Sector Capacity Building for Enhanced Regulation**

In a presentation on Public Sector Capacity Building for Enhanced Regulation, *Jonathan Smith, Advisor, Nathan Associates in Aqaba, Jordan*, noted the importance of looking at Human Resource (HR) performance management from a systemic, integrated management viewpoint. He further elucidated some basic starting points for capacity building programs for enhanced regulation, some essential points concerning HR performance improvement, how to achieve no-cost in-house solutions for improving performance or personnel, and the "cascade effect" of management for authority, responsibility, and accountability. He pointed out that no single point of change is going to be sufficient by itself.

Mr. Smith also pointed out how to facilitate integrity and basic confidence in systems capacities to allow bad administrations to fall; make public information actually public; how to increase public participation; establish administrative structures which promote transparency; and address HR requirements. He stressed the need to create a continuous performance improvement organization driven by customers' values/needs/demands.

## **5 Presentation on South Asian Regulatory Reform and E-Governance**

Next, *Prof. Subhash Bhatnagar of the Indian Institute of Management, Ahmedabad*, spoke on South Asian Regulatory Reform & E-Governance in the context of a case study in India. He stressed on the fact that in addition to its

governance role, e-government can be used as a tool for promoting investment and export growth. Defining e-government as a process of reform in the way governments work, share information and deliver services to external and internal clients for the benefit of government and the citizens and businesses that they serve, Prof. Bhatnagar noted that the economic benefits of e-government include improved delivery of services, improved rate of tax collection, reduced costs, encouragement of reforms, and the empowerment of people (e.g. when they ask more of their government).

However, as with SEZs, Mr. Bhatnagar pointed out that e-government is not a substitute for regulatory reform, but supplements reform. He went on to cite the successful experience of the state of Andhra Pradesh in India, where land titling, valuation, and registration can now be done online. The result has been a tremendous increase in collections and in transactions. The fact that states such as Maharashtra and Karnataka in India followed next suggests that e-government has “demonstration effect” potential, which is of interest to Bangladesh for the future. Mr. Bhatnagar emphasized that replicability of such results in Bangladesh requires strong leadership by elected executives; an administrative culture oriented to service; clearly articulated programs for online service delivery; strong project management; an ability to delineate scope and negotiate with vendors; mature technical infrastructure; and an enabling legal framework.

## **6 Presentation on Regulatory Reform and Regulatory Impact Assessment**

In the last presentation for the day, *Cesar Cordova, Director, Jacobs and Associates*, drove home the importance of Regulatory Reform and Regulatory Impact Assessment (RIA) for the improvement of investment climate. RIA was described as part of a comprehensive strategy, involving building a regulatory management system, improving the quality of new regulations, and upgrading the quality of existing regulations. Mr. Cordova’s strategy for implementing RIA in Bangladesh involved “starting the small scale rapidly,” and gaining political support. Next, over the course of 2 phases together spacing 18 months, all draft regulatory measures could include a 5 page checklist, a review of the rule making process, followed by development of a template, establishing a national program with a budget for training, and establishing an oversight body to quality control various drafts. In addition to upscaling regulatory management, Mr. Cordova suggested that pilot RIAs could be launched in 2 or 3 ministries and agencies in charge of economic policy, social and environmental policy and administrative procedures. Mr. Cordova also spoke about launching RIA through SEZs. This process, he conjectured, would involve starting with a blank slate and using SEZs as a laboratory for best practices.

## 7 Reflections on the Way Forward for Regulatory Reform in Bangladesh

Next, *Mr. Mahmudur Rahman, Chairman of the Board of Investment (BoI)*, moderated a panel discussion on Reflections on the Way Forward for Regulatory Reform in Bangladesh. Mr. Rahman stated that industrial growth in Bangladesh is now at 5% and that he would like to set a target of \$1.5 billion in investment per year, increase industrial growth by 2-3%, and overall economic growth to 7% or more. He proposed the following strategies:

- Fostering Bangladeshi global export competitiveness at the firm level, on the basis of the Michael Porter model focused on SME-oriented policies;
- Regulatory reforms, with a specific emphasis on SEZs and SME-oriented policies;
- Public and private sector capacity building; and
- Country-level investment promotion.

*Mirza Azizul Islam, Chairman of the Securities Exchange Commission (SEC)* noted that currently, there are poor relations between the public and private sectors, and this needs to change. There is also a need to prioritize Government action and determine the extent to which investment constraints are the result of administrative barriers; competitiveness issues; or infrastructure. Lastly, Mr. Azizul Islam mentioned the need to know which policies are considered barriers and what action was to be taken on these, as he has received no specific information from business and industry on these matters.

*Suhel Ahmed Chowdhury, former Commerce Secretary*, spoke next and noted that there have been improvements in business registration, through IFC's SEDF assistance, but that problems remain in terms of customs, port congestion, trademark registration, as well as in inter-ministerial process-level coordination.

*Mr. Rouf Chowdhury*, in his remarks next, felt that in addition to the problems already enumerated, there are problems with land titles and commercial dispute resolution. On the issue of Mr. Mahmudur Rahman's stated goal of achieving 7% economic growth in Bangladesh, Mr. Chowdhury affirmed that this would not be possible through the mere institution of SEZs and general e-government but that this required efforts on multiple fronts. He proposed the following focus:

- Given Bangladesh's natural endowments, effective agricultural value chain policies;
- A sustainable, bipartisan political economic agenda, building on the new but promising BoI Public-Private Partnership;
- E-government, particularly focused on land registration, reporting, and utilities payments; and

- Fast-paced and **immediate** government reengineering of the way Bangladesh does business through competitiveness-aimed regulatory reform and the establishment of a credible business environment.

## 8 Breakout Session to Discuss Presentations

Later in the afternoon, all four international presenters served as facilitators for some very spirited discussions on establishing some points of action that could be followed up on and made actionable and accountability-driven. Each presenter assisted four distinguished moderators in kick-starting the discussion and later steering the discussion towards an action-oriented agenda, which has been attached as an Appendix in matrix form in Table 1.

## 9 Concluding Remarks on Day 1

The common thread on Day 1 seemed to be the emphasis of establishing an operational apparatus for reform through cells created in the Prime Minister's Office (PMO), given the instant credibility and high visibility for the benefit of potential investors, as well as the sign of political will and "vision" that it would demonstrate to domestic stakeholders. In his remarks, *Syed Akhtar Mahmood* of the World Bank noted this very point and noted that it was very likely that the PMO was already overburdened with various cells and responsibilities and would perhaps not be able to handle the creation of any additional cells. In the final speech for the day, *Dr. Kamal Siddiqui* wholeheartedly concurred with this viewpoint, suggesting perhaps that the post of a Special Private Sector Advisor to the Prime Minister be created within the PMO.

Separately, while praising the quality of the recommendations that had been developed, *Dr. Siddiqui* also added the need to have realistic and actionable goals prioritized based upon the human and financial resources required, and within timeframes specified. This tied in well with break-out group recommendations, which stressed the need for a great degree of specificity, whether in terms of instituting new systems, targeting policy and promotion efforts, or piloting reforms. *Dr. Siddiqui* noted that, to the extent that policy reforms were required to implement the program of actions recommended by the Roundtable, the required policy reform advocacy strategy should also be considered. Lastly, he stressed that the government was very committed to improving the investment climate, and offered all necessary support from the government.

## 10 Initial Comments by Dignitaries on Day 2

Day 2 of the Roundtables began with *Dr. Kamal Siddiqui* restating certain conclusions regarding SEZs reached during the Day 1 Roundtable. Specifically, he noted that:

- Bangladesh’s EPZs have done adequately, but not exceptionally, by world performance standards for zone programs;
- Bangladesh’s EPZs are small and do not generate the same level of benefits as modern SEZ mega-zones do.

He then asked the participants, in conjunction with the international experts, to “undertake the hard work” of determining optimal solutions in taking Bangladesh EPZs forward.

Dr. Siddiqui’s remarks were followed by remarks by *Christine Wallich*, *Country Director of the World Bank in Bangladesh*. *Ms. Wallich* began by stressing the fact that the Multi-Fiber Agreement was due to expire at the end of December 2004, and that Bangladesh was going to face a very competitive and very different environment in the post-MFA scenario. However, she pointed out the tremendous capacity of Bangladeshi firms to be cost-effective, deliver goods rapidly, maintain high standards of quality, adhere to social and environmental standards, and be proactive in product development and marketing.

In this context, she stressed the need to identify a critical mass of high performing Bangladeshi firms which could make breakthroughs in export markets and establish “Made in Bangladesh” as a global brand. *Ms. Wallich* asserted that this group of firms could be the catalysts of foreign investment, including through joint ventures. She noted that while improvements in infrastructure and regulatory regime would take time, SEZs could speed up the process of attracting new high value firms and partners from abroad, and of stimulating domestic firms’ potential. She stressed that SEZs are a good tool for regulatory reform and creating “hassle-free” regulatory environments. They are also a good way to capitalize on dead assets (such as the Adamji Jute Mills), as demonstrated by the World Bank Group’s experience in Subic Bay, Philippines. However, she pointed out that SEZs need to be designed well, with private sector participation, and looked at as a top priority item in terms of developing the appropriate policy framework to encourage and sustain investment.

*Ms. Wallich*’s remarks were followed by some brief remarks by *Frank Matsaert*, *Enterprise Development Advisor, British Department of International Development*. Mr. Matsaert emphasized the point that in the post-MFA world, Bangladesh’s challenge was not just the retail manufactured garments (RMG) sector but the broader challenge of how to diversify Bangladesh’s export basket. This underlies the need for increased competitiveness. Mr. Matsaert outlined the

need for a comprehensive, as opposed to a piecemeal, approach towards improving investment climate, looking into infrastructure and logistics; labor and management issues; financial and non-financial services provision; and the use of e-governance. He noted that Bangladesh has to improve investment climate for all businesses, while involving the private sector, the government, and donors such as DFID and JICA. He stressed the importance, for economic development and dynamism (and thus also in designing the appropriate business enabling policy environment), of creating linkages between SMEs, large domestic firms, and foreign investors. He further stressed the importance of political will in the process of regulatory reform. Mr. Matsuert concluded by noting that a regulatory reform program, scoping and design activities would occur over the following three months.

Subsequent to Mr. Matsuert's remarks, *Mr. Mirza Azizul Islam*, as Chair of the December 15<sup>th</sup> morning session, began the day's discussion reminding participants that they should bear in mind that SEZs are always "second best" solutions which should not be used to avoid economy-wide regulatory reform. In this context, participants considered:

- What the gestation period is before a SEZ becomes successful;
- How one establishes Zone linkages with the domestic economy, both backward and forward, through both national and SEZ-specific policies;
- What sectors need to be targeted by SEZs in Bangladesh;
- The required government expenditures in terms of allocation of land and infrastructure, and port upgradation work; and
- The political difficulties surrounding the issue of labor policy.

## **11 Presentation on Global Experience and Best Practices in SEZs**

The first presentation of the day was delivered by *James Crittle*, *South Asia Regional Program Coordinator, FIAS*. In his presentation on Global Experience and Best Practices in SEZs, Mr. Crittle described the role that zones have played in spurring economic growth, given the right policy, institutional and regulatory framework. At the outset, he noted that foreign investment can result in doubling of per capita in 20 years, and then proceeded to speak about the role of zones in spurring that investment. Zones today are evolving towards large, integrated economic communities. Modern zones are now seen as catalysts for reform not enclave safety valves. Mr. Crittle noted that dynamic, successful zones are largely private sector developed and administered. However, he cautioned, zones should not be seen as a panacea to economic development challenges.

Mr. Crittle pointed out that zones are not only for the developing world. In fact, the United States has the most SEZs (266) and it is not coincidental that the U.S. has the best business enabling environment in the world. Mr. Crittle noted that FIAS, through its world-wide experience, has determined zones have failed in

areas where there has been public sector development of zones, uncompetitive policies, bureaucratic procedures and controls, inadequate institutional structures, and lack of an integrated development approach. The key questions, therefore, to ask so as to prevent such failures in the future are the following:

- How to ensure zones do not distract from reform?;
- How to ensure government capacity?;
- How to ensure that the zone is catalyst for economic reform?;
- How to maximize linkages between enterprises inside and outside the zone?;
- How to facilitate zone integration with the domestic economy, from a physical planning perspective, and ensure that zones serve as a growth catalyst rather than as enclave?; and
- How to maximize economic benefits and ensure competitiveness of zones?

## 12 Presentation on Best Practices in Public-Private Free Zones in Mauritius

Next, there was a presentation made by *Mr. Raj Makoond, Director, Joint Economic Council, Mauritius*, on Best Practices in Public-Private Free Zones in Mauritius. Mr. Makoond began by tracing the growth of public free zones in Mauritius, contrasting Mauritius' poor economic situation in the early 1970s with its healthy economic situation in the 1980s after the adoption of a public-private EPZ solution to economic challenges. He noted that the EPZ sector regime provided full corporate tax exemption, duty free entry of inputs, a flexible labor regime, fast track clearances, industrial estates (public and private), and concessionary loans. This model was well supported by the Development Bank of Mauritius and other financial institutions. However, Mr. Makoond was quick to point out that the success of the Mauritian economy in the 1980–2000 period also depended upon appropriate macro-economic policies, in the context of a Structural Adjustment Program between 1979-1984, Preferential Trading Agreements with Europe and the U.S., and increased FDI arriving in through events surrounding the transfer of power to China in Hong Kong.

Mr. Makoond continued by noting that Mauritius' challenges today were very similar to those faced by Bangladesh: textile and clothing sector decline; loss of preferential trade quotas; and increased competition (including from Bangladesh) in the post-MFA scenario. As such, these issues raise questions as to the long-term sustainability of the current EPZ regime even in Mauritius, despite its early success.

To deal with these issues, Mr. Makoond mentioned that Mauritius had created a Textile Emergency Support Team (TEST) which is involved in doing enterprise

assessments and in restructuring various enterprises. Mr. Makoond strongly felt that such a framework would have much applicability in the context of Bangladesh. TEST restructuring has involved productivity improvement, and assistance in financial management, international marketing, productivity planning and budgeting, and technical skills upgrading. This process has also involved corporate debt restructuring by the Central Bank.

## 13 Presentation on Best Practices in Public Free Zones in U.A.E.

The third presentation of the day on Best Practices in Public Free Zones in U.A.E., was made by *Santosh Hejmadi, Marketing Director, Dubai Technology and Media Free Zone*. Mr. Hejmadi began his presentation by emphasizing the role of UAE's strategic location in spurring economic growth. He noted the role of free zones in spurring such economic growth, while realizing UAE's goals of reducing economic dependency on oil, attracting FDI, and creating employment. Citing the example of the Crown Prince of Dubai, Mr. Hejmadi's main emphasis was on the importance of having similar leaders with strategic vision championing the cause of good business regimes. As a reference, he pointed out that Dubai had developed short-term, medium-term and long-term goals to determine what sort of investment it needed. Its 2010 vision focuses on Dubai becoming the "hub of hubs."

The critical point of acceleration and growth of free zones in the UAE, Mr. Hejmadi pointed out, was the development of the Dubai Technology and Media Free Zone in 2000. This was the world's first telecom and media free zone, and had specifically targeted market segments in ICT, Media and Knowledge. Set up as a Free Zone, this project has nevertheless spearheaded a whole-scale transformation of Dubai. In just 3 years, this project has attracted 1800 companies; 21,000 knowledge workers; 15 universities and several training institutes; \$2 billion of investment; and involves several global initiatives with countries such as India, Pakistan, and Russia. The UAE Free Zones have contributed not only to the knowledge economy but also to development of all UAE non-oil sectors.

The key factors for the success of this enterprise were:

- UAE's focus on industry 'clusters' of companies;
- Visionary leadership and sustained political support;
- Technical infrastructure designed to world-class standards;
- Quick decision making and low levels of red tape;
- Sustained and focused marketing efforts;
- Quality/change management in governance; and
- A dedicated, talented and energetic workforce.

## 14 Presentation on Best Practices in Public-Private Free Zones in Jordan

The fourth presentation was made on Best Practices in Public-Private SEZs in Jordan by *Anwar Harahsheh, Change Management Advisor of Nathan Associates to the Aqaba Special Economic Zone (ASEZ) in Jordan*. As with Mr. Hejmadi, Mr. Harahsheh also emphasized the importance of location for SEZs. He further emphasized the importance of good infrastructure in the operations of the SEZs. Similar to Dubai, Jordan has received tremendous support from the highest authority in the land, the King of Jordan. It has therefore been able to provide extremely business-friendly policies and incentives to investors, including:

- Duty-free customs entry;
- 100% foreign ownership;
- Flexible labor policies, with up to 70% foreign workers allowed;
- Low 7% sales tax on goods and services sold in ASEZ;
- Low 5% flat income tax for enterprises;
- 6% national tax on land purchases;
- Full income tax exemption on dividend transfers;
- Sales tax exemption on imported goods; free capital repatriation;
- Full ownership and management rights;
- Free share transfers; and
- Very credible international dispute resolution measures.

These factors have resulted in the spectacular economic performance since 2001. To date, there have been \$450 million investments to date, with 2 mega tourism projects, 310 land sale/lease agreements, 800% cumulative increase in licensed construction, 4 grand shopping malls opening in the 2004-2005 period, and 1,500 additional hotel rooms to be opened by 2007. During this period, employment had also increased by 63%. There has been a revenue increase to the government from ASEZA as well.

Mr. Harahsheh stressed that key success enablers, with potential replicability in Bangladesh, were:

- Availability of a qualified labor pool;
- Macroeconomic planning and strategic vision;
- Capacity building initiatives directed at the highest levels;
- Legal business enablers;
- Marketing partnerships; and
- High quality of life afforded by Jordan.

These factors were further enhanced by Preferential Trading Agreements with the EU, the US, and the Greater Arab Free Trade Area (GAFTA).

## 15 Presentation on Lessons Learnt in South Asia SEZ Implementation

The fifth presentation of the morning was delivered by *Rajendra Singh, Executive Chairman of Mumbai integrated Special Economic Zone (MiSEZ)*, and focused on the Lessons Learnt in South Asia SEZ Implementation. MiSEZ is India's largest Special Economic Zone and is privately operated. Given its South Asian location, this presentation generated significant interest among participants. Mr. Singh, similarly to previous speakers, emphasized the importance of location and infrastructure provision to the success of an SEZ. He asserted that the new Indian SEZ framework provides the boldest policy framework in 55 years in India, and would serve as a ready reference to Bangladesh on how to move towards implementing a "hassle-free operating environment." The new SEZ Act, he said, would consolidate and provide permanence to all incentives and enablers; provide a comprehensive policy framework for zone administration; and delegate powers to the Zone Developer to implement the same. However, Mr. Singh cautioned, much work still needs to be done on labor laws and land acquisition, which tends to be a complicated process, resulting in delays and cost overruns associated with re-settlement and other issues.

Mr. Singh urged the Bangladesh authorities to use SEZs as a laboratory for economic reform. He pointed to the experience of MahaMumbai SEZ, and noted how, due to certain exigencies, it was forced into a public-private partnership with nearby Navi Mumbai SEZ, creating MiSEZ. This partnership eventually has done very well. Mr. Singh mentioned that for any SEZ to succeed, one needs:

- Finest connectivity;
- The best consultants;
- Appropriate financial and economic feasibility studies;
- Good infrastructure provided by the government; and
- Proximity to a financial center to take care of all financial needs.

As with other speakers, Mr. Singh then emphasized the need for a strong vision oriented towards wide-scale transformation of the regional economy. Only then could the SEZ truly be called a success in Mr. Singh's view. He noted the wide-scale transformation that has occurred in China as a result of such vision, and encouraged Bangladesh to "think big."

## 16 Presentation on Evolving Business Needs in Bangladesh Free Zones

During the subsequent afternoon session, *Hideki Kagohashi of the Japan International Cooperation Agency (JICA)* presented on Evolving Business Needs

based upon field work done with local focus groups and stakeholders in Bangladesh to determine what the challenges are in Bangladesh. These stakeholders, Mr. Kagohashi said, are located in places such as Chittagong, Mongla, Comilla, Bogra, Khulna, Bagerhat, Benapole and Hilli, and Dhaka. They include local chambers of commerce and industry.

Through this survey, it was found that Dhaka and Chittagong are the two growth centers where they could build upon the success of the EPZs. While mentioning that the Dhaka-Tangail and Dhaka-Mymensingh roads are already crowded, Mr. Kagohashi mentioned the potential of the Dhaka-Comilla-Chittagong corridor, noting Comilla's locational advantage for those businesses which import materials from Chittagong port and export finished goods from Dhaka airport. In addition, there is much available land in that area.

Mr. Kagohashi noted that currently firms outside Dhaka have to go to Dhaka for business registration, various permissions and licenses, accessing buyers and input suppliers, and exporting goods. This has to change if Bangladesh intends to build itself into a sub-regional hub given the inordinate delays that this process takes. In this context, he pointed to the infamous case of the Korean EPZ for which all paperwork was submitted in 2000, but for which an operating license has still not been granted.

Lastly, Mr. Kagohashi re-iterated the well known fact that there are major bottlenecks in the transportation network in Bangladesh, which themselves create bottlenecks in agro-exports and garment exports. Without improvements in this area, an EPZ/SEZ strategy would not prove sufficient in of itself.

## **17 Presentation on Trends in Bangladeshi Free Zones**

*BEPZA Executive Chairman Brigadier General (Retd.) Zakir Hossain* presented on Trends in Bangladeshi Free Zones and focused on the role that BEPZA has played so far in promoting EPZs in Bangladesh, and on the role that it could play in the future as well. In describing the contribution that BEPZA has made through its zones towards exports, Mr. Hossain noted that the total percentage in the past six years has never been higher than 18.33% as a percentage of total Bangladeshi exports. Mr. Hossain described the following challenges and issues for the program, offered on the basis of his personal analysis:

- Cumbersome continued requirements of Import and Export Permits;
- Lengthy customs procedures;
- Delays in visa issuance procedures;
- Restrictions and unnecessary distinctions on access to foreign exchange accounts;
- BEPZA Human Resource capacity limitations;
- EPZ locations determined on a political basis;

- The lack of sufficient value-added EPZ services and infrastructure facilities;
- The inadequacy of connections between the EPZs, ports, airports, and Inland Container Depots;
- The absence of facilities to train EPZ workers;
- Unsatisfactory Law & Order situation; and
- Inadequate Investment promotion efforts

## **18 Breakout Session to Discuss Presentations**

Later in the afternoon, four of the five presenters served as facilitators (Mr. Makoond was unable to attend) to establish an action plan. It was decided to merge groups originally established to discuss Best Practices in Public and Private Zones, so as to facilitate synergies in the discussion. The Action Plan that was developed by the three groups has been attached as an Appendix in a matrix form in Table 2.

## **19 Concluding Remarks on the Roundtables**

In the final session of the day, *Dr. Kamaluddin Siddiqui* thanked all the presenters and moderators for the work they had undertaken in arriving at an Action Plan. He acknowledged the role of the government in developing a clear policy and institutional framework for zones. He noted the need to eliminate specific regulatory barriers for business, and the establishment of a clear economic vision as to where the country needs go (including by benchmarking its performance with competitor countries). More pragmatically, he urged that as a next step, the roundtable organizers should help to prioritize the various initiatives, sequencing the need for ‘quick wins’ required to build a reformist constituency with the budgetary and political investment on structural transformations for the long term. Lastly, he once again re-iterated the government’s commitment to improving the investment climate, while noting the strides made in this direction in the previous three years.

## APPENDIX

**Table 1 -- Summary of Recommendations**

Issue	Key Recommendations on Regulatory Reform	Nature of Proposed Measure <sup>1</sup>	Phasing <sup>2</sup>
<b>New Institutions</b>	<b>Immediate establishment of a task force under the PMO over the next 4-6 months</b> , which would include local members, supported by external experts and business sector participants.	ADMN/CB	ST
	<b>Assess the setting up of a permanent commission</b> (such as in India and Pakistan) to initiate regulatory reforms, oversee regulatory reforms, and facilitate ex-post assessment once the reforms are in place.	ADMN	ST
	<b>Initiate a customer-focused study on creating new institutions for regulatory reforms</b> , including a national acquisition board and national certification body, so as to allow for international acceptance of the Bangladesh system.	CB	ST
<b>Regulatory Impact Assessment (RIA)</b>	<b>Use of administrative barriers system diagnosis</b> , including a detailed mapping exercise for 5-6 investment-related processes (e.g. undertaking an IPO, obtaining a particular license, agencies to be assessed) to be discussed and streamlined.	ADMN	ST
	<b>Piloting of RIA in a maximum of two regulations</b> to be specified by the task force.	ADMN/REG	ST
<b>E-Government</b>	<b>Conducting an e-government readiness assessment for all regulatory agencies covered in 2 phases</b> , focusing first over the next 2 months on a detailed e-readiness assessment of each agency, then focusing on projects prioritized on this assessment. Phase 1 should look at 2-3 key industrial corridors and consider current and future possibilities for on-line business registration and tracking, on-line filing of tax returns, cyber laws, and methods of electronic transfer. Phase 2 prioritization should begin with land records and land registration system to demonstrate success, and then move to computerization of customs at all points of entry and container terminals.	ADMN	ST/MT
	<b>Better issuance, renewal and extension of visas, along with on-line tracking.</b>	ADMN/TECH	MT
	<b>On-line tracking of Board of Investment (BoI) registration.</b>	TECH	MT
	<b>Tracking of consignment for multi-modal transport systems.</b>	TECH	MT
	<b>On-line business registration.</b>	ADMN/LEGL/ REG/TECH	MT
	<b>On-line filing of tax returns.</b>	TECH	MT
	<b>Create databank of all existing regulations especially those related to industries/commerce/finances.</b>	CB	LT
	<b>Automation of handling of cargo and also interlinking with the customs authorities.</b>	TECH	LT
	<b>Development of a “Trade Net” to link all the agencies with which an exporter/importer needs to transact business</b> so that information can be shared between the agencies. Agencies to be involved include customs, ports, NBR, CCA, Bangladesh Bank, and BEPZA.	ADMN/CB/ TECH	LT
<b>Building of e-government capacity within the agencies, particularly of officers who will champion the projects.</b>	CB	LT	
<b>Capacity Building</b>	<b>Create appropriate pay structure, based upon skills and market demand.</b>	CB	LT
	<b>Create performance indicators that must be agency and job-specific.</b> Performance-based position description for functional areas be developed in regulatory agencies.	CB	ST
	<b>Regulatory laws and rules must be appropriately amended</b> so that legal procedures are expedited.	LEGL/REG	LT

**Table 2 -- Summary of Recommendations**

Issue	Key Recommendations on Economic Zones	Nature of Proposed Measure <sup>3</sup>	Phasing <sup>4</sup>
Core Team / Study Tour	<b>Form core team and study tour</b> to study Mumbai, Aqaba, and Chinese SEZs, among other economic zones. The core team should be headed by a senior PMO official, and should include other senior government officials from the Ministries of Finance, Communication, Shipping, BoI, BEPZA, and private sector representatives.	ADMN/CB	ST
	<b>Core team must by itself, and along with other business bodies, donors, civic organizations (such as BEI), advocate the benefits of involvement of the private sector in establishment and operation of EPZs.</b>	ADMN/CB	ST
Vision Strategy Report	<b>Present vision strategy report, including existing situation report</b> , after the study tour, proposing a roadmap for future economic zones at a higher scale of economic operation, along with a commensurate resource plan.	ADMN/CB	ST <sup>5</sup>
	<b>Look into transforming Chittagong and/or Moheshkali islands into a regional hub.</b>	ADMN/CB	
	<b>Focus upon diversification of export basket and industries, including the diversification of supply chain.</b>	ADMN/CB	
	<b>Focus upon efforts to train vendors to the EPZs.</b>	ADMN/CB	
	<b>Focus upon the roles of the government in imparting education and training to all eligible workers so that multi-national corporations can have a pool of qualified people for recruitment.</b>	ADMN/CB	
Macroeconomic Strategy for Zones	<b>Determine macroeconomic strategy for zones</b> to be included with overall Bangladesh macroeconomic plan and Poverty Reduction Strategy Paper.	ADMN	ST
Business Strategy / Sector Targeting Study	<b>Formulate business strategy/sector targeting study</b> of target industries for further industrialization/diversification, and industries likely to locate in planned economic zones. The study must be guided by <u>one</u> entity, similar to the Singapore Economic Development Board.	ADMN	MT <sup>6</sup>
	<b>Promote targeted sectors to foreign investors for them to invest into Bangladesh.</b>	ADMN/CB	
	<b>Orient investment promotion efforts to highlight recent improvements in labor laws and conditions.</b>	ADMN/CB	
	<b>The study must also consider preferential trade agreements</b> - bilateral, regional and multilateral; the concessions Bangladesh has received in the past, and that Bangladesh is likely to get from SAFTA and other regional agreements.	ADMN/CB	
Policy Framework	<b>Determine Policy framework</b> for new economic zones, avoiding distortions between incentive policy, and revenue collection and fiscal policy.	ADMN/LEGL/ REG	MT
	<b>Amend the existing private sector EPZ Act to define a specific timeframe of sixty days within which a private sector entity receives a positive or negative decision, and an explanation of the decision.</b>	LEGL	MT
	<b>Reconstitute the existing private sector EPZ board so as to have one-third non-official membership</b> , either from the private sector or just independent members, maybe from academia.	LEGL	LT
	<b>Approve policy framework and strategies</b> after giving consideration to developers' and investors' interests.	ADMN	LT
	<b>Liberalize and further open up entry/exit of requirements</b> relating to domestic customs areas to enhance linkages with product/labour markets.	LEGL	LT
	<b>Create a policy framework for adoption of social/environmental standards in corporate practices in EPZs.</b>	LEGL	LT
	<b>Improve EPZ legislative framework to make it more enabling to ICT sector.</b>	LEGL	LT
	<b>Adopt policy to institutionalize productive linkages between EPZ investors, MNCs, and SMEs.</b>	LEGL/REG	LT
Infrastructure Master Plan	<b>Create an Infrastructure master plan</b> , after looking at location, size, and other infrastructure needs of new/existing economic zones.	ADMN/LEGL/ REG/CB	LT

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<sup>1</sup> ADMN = administrative, LEGL = legal, REG = regulatory, CB = capacity building, TECH = technical.

<sup>2</sup> ST = short-term (3-6 months), MT = medium-term (6 to 18 months), LT = long-term (18 months or more). Please note that the phasing here indicates a proposed start-to-finish timeframe, as opposed to a uniquely start or a uniquely finish time-frame.

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<sup>4</sup> ST = short-term (3-6 months), MT = medium-term (6 to 18 months), LT = long-term (18 months or more). Please note that the phasing here indicates a proposed start-to-finish timeframe, as opposed to a uniquely start or a uniquely finish time-frame.

<sup>5</sup> It should be noted here that all the recommendations here are areas that need to be focused upon in the study the short term, although the actual efforts are more likely to be medium-to-long term in nature.

<sup>6</sup> The Business Strategy / Sector Targeting Study has been indicated as medium term in nature so as to first allow for the Vision Strategy Report and the MacroEconomic Strategy for Zones to be completed. The focus areas of these studies, through medium term in the study, are likely to be medium-to-longer term in terms of actual efforts.