

Workshop Proceedings: Enhancing Economic Zones

7 February 2006, Dhaka
Sheraton Hotel

Foreign Investment Advisory Service
A joint service of the International Finance
Corporation and The World Bank



SouthAsia Enterprise Development Facility
A multi-donor facility managed by the
International Finance Corporation of
The World Bank Group



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1 Inaugural Session

Session Chair **Farooq Sobhan**, President of Bangladesh Enterprise Institute (BEI), opened the session explaining the work to date of the Bangladesh Private Sector Development Support Project (PSDSP). He said that economic zones are important for improving the investment climate in Bangladesh and have been a major focus of the PSDSP under the leadership of Mahmudur Rahman. Mr. Sobhan noted that workshop participants would discuss some findings of key reports on economic zones commissioned by SEDF/FIAS on behalf of the Government of Bangladesh.

Mr. Sobhan introduced the Chief Guest, **Mahmudur Rahman**, Executive Chairman, Board of Investment and Adviser, Energy and Mineral Resources Division.

Highlights from Mahmudur Rahman's address:

- Improvement of economic zones and the reduction of administrative barriers are two different methods to help drive private sector development
- It is necessary to continually upgrade both the physical and governance aspects of Bangladesh's investment climate
- Government is determined to strengthen the country's existing economic zones and commence planning for a special economic zone
- Recent analysis of the economic zones arrangements in Bangladesh carried out by SEDF and FIAS, to be presented at this workshop, provide the Government with an excellent strategic path to move forward
- At the same time, the soft side of the investment climate for business – policies and regulations – also need to be strengthened through the reduction of administrative barriers; crucial to meeting the demands of business in a competitive world
- What we have achieved to date: 7% economic growth, 10% growth in manufacturing, 9.5% industrial growth, and nearly \$800 million in investment
- Government's private sector development vision for 2015: quadruple annual foreign direct investment inflow, achieve a GDP growth rate of 8%, and achieve investment worth 26% of annual Gross Domestic Product (GDP), all of which is aimed at driving per capita annual income up to the equivalent of \$1,000.

2 Session 1: Overview of Economic Zones

This session included presentations from the Chairman of BEPZA, the Chairman of BSCIC, and Fatima Shah of FIAS, as well as closing remarks from Session Chair, Mr. Farooq Sobhan.

Brig. Gen Md. **Zakir Hossain** psc G (Retd) gave the history, objectives and performance statistics of export processing zones (EPZ) in Bangladesh. Performance statistics related to growth rates in terms of enterprises, employment, industries served, countries represented, volumes of goods, and annual contribution to the Bangladesh economy and GoB exchequer. Looking toward the future, the Chairman pointed to plans for physical expansion, as well as capacity-building in terms of human resources and automation.

S.R. Osmani, Chairman of BSCIC, gave a similar overview of the current state of industrial estates in Bangladesh, particularly focused on utilization rates – current allotment rate is 85.36%. He noted that industrial estates have been a success in Bangladesh in terms of promoting industry and contributing to the GDP. However, he acknowledged that physical maintenance is lacking due to insufficient budget allocation, uninterrupted power supply will not be available as long as the estates do not have their own power generation system, and some estates are in unattractive locations due to non-economic factors that played a role in decision-making. Future action to improve industrial estates could include expanding in areas where economic demand exists and current estates are full, establishing monotype estates centered on particular industries to better serve special needs, and handing over management to private sector organization of the relevant industries to ensure greater attention.

Fatima Shah, the Economic Zones task team leader of FIAS, presented the components of the economic zones study and key findings of the assessment to date. The components of the study include: (1) Best Practices Benchmarking Study; (2) Core Functions Review of BSCIC, BEPZA, and EPB; (3) Infrastructure Needs Assessment; (4) Industrial Land Market Study (currently under development); (5) Options for an Economic Zones Strategy. Ms. Shah reported in depth on the policy framework and Core Functions Review as other presenters would address the other study components.

She noted that although the current policy framework was found to appropriately envision private zones under Private EPZ Act, encourage backward and inter-zone linkages, and harmonize labor rights with national standards; the private EPZ framework has not, in fact, been implemented and there are no transparent

procedures for private EPZ licensing, creating a *de facto* public EPZ monopoly. Additional weaknesses she noted were that public EPZs have discretionary licensing procedures rather than “negative list” licensing procedures, minimum export requirements are imposed, and local sales of EPZ products are limited.

Ms. Shah said that the Core Functions Review was designed to evaluate the capacity-mandate gap for each agency and recommend capacity building roadmaps, as well as assess the inter-relationships among agencies and note any necessary realignment to implement a wholistic and modernized strategy on economic zones. According to the study, BEPZA’s strengths include top level support of the Prime Minister, private sector representation on the Board, autonomy and authority to implement key decisions, higher wages and better working conditions in zones than outside zones, reduced administrative and compliance burden, availability of serviced land, and duty-free privileges. Ms. Shah noted that room for improvement lies in cultivating private developers/operators of zones, with BEPZA moving into a regulator role. She mentioned that BSCIC currently serves small industries well with key advisory and training support, but perhaps a new agency, tasked with all industrial development (small industries as a core, but not exclusive), could better manage the land. Ms. Shah stated that the EPB currently monitors the implementation of export policy well through an appropriate commercial approach and good network with Chambers and exporters. However, the study found that EPB could benefit from greater autonomy with more private sector representation in its governing body, better human resources policies and pay scales, a streamlined and professional structure, and more automation.

Mr. Farooq Sobhan closed the session, noting that more information on the infrastructure assessment and strategy options would follow in the next session.

3 Session 2: Enhancing Economic Zones for the New Millennium

Session Chair, Mahbubur Rahman opened with a brief introduction of the speakers for the session, Craig Wilson of SEDF, Mamdood Hossain Alamgir of BOI, and Kishore Rao of BearingPoint, Inc.

Kishore Rao, Managing Director of BearingPoint, Inc. and Lead Consultant to FIAS/SEDF on the Economic Zones Strategy and Assessment Reports, was the first speaker. He pointed out that economic zones can accelerate FDI inflows, enhance exports, and significantly contribute to the economy, but must be supported by complementary policies. He noted that Bangladesh is not unique in its desire to promote private economic zones and industrial estates. Dominican Republic, Kenya and the Philippines have all instituted similar strategies with success. Major issues in the Bangladesh context include the fact that the current legal and regulatory framework does not fully support private zones, institutional structures lack skills and other resources to promote partnerships, clear policy position is lacking, scarcity of land means requires a public-sector champion who can proactively assemble land and package projects for private zones, and inadequate land use and environment policy and enforcement undercuts private initiatives.

Mr. Rao then presented the four options supported by the findings of the study and discussed the advantages and disadvantages of each:

- Option 1: Rehabilitate and commercialize existing properties
- Option 2: Privatize existing zones and implement new projects on PPP basis under existing regime
- Option 3: Option 2 plus modernization of legal, regulatory & institutional framework
- Option 4: Introduce a large-scale, contiguous SEZ
- Option 5: Introduce regional economic zone area with multiple projects

Craig Wilson, Program Manager of Investment Climate Assessments at SEDF, introduced the work of the PSD Core Group, in particular its role in the assessment of economic zones in Bangladesh and exploration of best practices abroad. He mentioned that the Core Group consists of 37 mid-level government officials from 16 different ministries and agencies. Formed in April of 2005 to contribute to the long-term efforts of the PSDSP, the Core Group has participated in numerous activities to support the project, including:

- April 2005 two-day learning event
- Domestic study tours of economic zones
- SEZ Working Group comprised of several Core Group members
- Overseas study tours to Jordan, UAE, Malaysia, South Korea
- Support to the BearingPoint team
- Presentations at the PSD Task Force
- Proposal for a dedicated SEZ technical committee

Mamdood Hossain Alamgir, Director, BOI and co-coordinator of the Core Group, then presented a more in-depth look at the study tours undertaken by the Group. During October 19-26, 2005, 17 members visited the UAE (Dubai, Ras Al Khaimah, Sharjah) and Jordan (Amman, and Aqaba). During December 11-19, 2005, the rest of the PSD Core Group visited Malaysia and South Korea. Mr. Alamgir recounted each of the sites visited in these four countries and then reviewed the key observations made by members of the Core Group upon their return. Regarding infrastructure and location, members reported the following key issues:

- Strategic location closer to ports, highways, multiple modes of transportation
- Careful selection of land causing minimum re-settlement of people
- Site selection on the basis of feasibility and commercial viability only
- Pre-built infrastructure and facilities to be provided by zones
- More value added services be provided within new zone(s), e.g. professional services, human resources, logistics, recreation, entertainment, schools, residences, etc.
- Provision for effluent treatment and green open spaces
- High quality and reliable power and other utility services

Based on learning from the study tours, the Core Group suggested the following sites for SEZs: Cox's Bazar-Chittagong corridor; Comilla-Feni-Chittagong corridor; Jamuna Bridge-Bogra corridor; Dhaka-Comilla corridor; Dhaka-Tangail Corridor; and, Dhaka-Mymensingh corridor. The Group also recommended that the following options for the authority and organization of SEZs be considered: truly autonomous body/board composed of public and private sector players empowered with full control/authority to make decisions; automated administrative functions resulting in transparent and efficient service delivery;

effective one stop service for all the relevant agencies (customs, immigration, telecommunication, environment, power etc.); and, highly professional, skilled and experienced work force to play a pro-active role in investment promotion and diversification.

Mahbubur Rahman closed the session with optimistic concluding remarks regarding the way forward for economic zones in Bangladesh, and as President of the International Chamber of Commerce in Bangladesh, urged continued private sector involvement in the development of a clear strategy.

4 Session 3: Breakout Groups

Workshop participants were asked to join one of 3 breakout groups on policy and institutional framework, infrastructure needs, and establishment of an SEZ. Based on these discussions, each group presented their main recommendations to the plenary – a record of these is found below.

Breakout Group 1: Modernizing the Policy, Regulatory, Institutional and Legal Frameworks for Economic Zones

Breakout Group 1 discussed options for the necessary framework around SEZs. For the policy framework, the group recommended promulgating one economic zone act that allows for many different types of zones as follows:

- Allow privately owned, developed and operated zones
- Promote greater commercialization of existing government EPZs and move to privatization
- Allow all activities—not just manufacturing (subject to negative list)
- Unify regulations governing BEPZA and the private EPZ act

The group also recommended building one economic zone authority with an appropriate transition plan from the current institutions. The authority should have the following objectives:

- Serve as regulator, with priority given to development/operation of zones by the private sector
- Be autonomous and ensure private sector participation on Board
- Delegate authorities in the Act (all concerned ministries and bodies)
- Encourage private sector participation in zone development and operations
- Combine regulatory functions of BEPZA, Executive Cell, others

Breakout Group 2: Public-Private Partnerships in Infrastructure Provision

Breakout Group 2 began with a brief presentation by **Ajit Kumar** of BearingPoint, Inc. of the findings of the Infrastructure Needs Assessment of current economic zones and industrial estates. Upon site visits to 3 EPZs and 11 BSCIC estates, Mr. Kumar's observations of the issues at current EPZs included: lack of general environmental quality awareness, poor aesthetics, mixing of storm

water and effluent discharge, no water treatment, minimal signage, minimal security surveillance, and absence of maintenance manuals. The BSCIC estates presented the following weaknesses: small size of estates, small plot sizes, poor roads, drains etc., budget and staff constraints, absence of maintenance program, long term leases, and enforcement issues. Mr. Kumar went on to discuss the basic upgradation requirements. Group discussion focused on how to address these issues presented and public-private partnership solutions. The group suggested that public-private partnerships could provide efficient management and reduced capital/budgetary provisions from Government. Potential sectors for partnership identified were estate development, estate management, power generation, common effluent treatment plant (CETP), water treatment and supply, and security/surveillance. Looking towards establishing new estates, the group suggested that public-private cooperation could expedite the process if Government provided land for basic infrastructure, the private sector invested and developed high quality infrastructure and marketed the sites.

Breakout Group 3: Establishing a Special Economic Zone in Bangladesh

This group produced the following recommendations and next steps for establishing a new SEZ and SEZ authority in Bangladesh:

- PSDSP Development Partners to put recommendations to the GoB on the creation of an SEZ
- Creation of a small SEZ coordination office in PMO, or maybe BOI, headed by a high-ranking and influential official and professional staff (PSD Core Group members could join the coordination office along with other professionals)
- Firsts tasks include designing legal authority of a future BSEZA and short-listing SEZ locations
- Examine feasibility of different mixes of public-private approaches
- Site selection: prime consideration of site should be commercial viability
- SEZ could be an area of several hundred square kilometers
- Create dedicated and new SEZ Authority (under PMO or BOI)
- BEPZA can share experience with BSEZA, initial lien of professional staff (set up initial coordination office)
- Small staff of BSEZA to begin, 10-15 personnel

Timeframe

- 3 months after receiving recommendation to set up SEZ coordination office
- 6 months for site-selection
- Government could then approve a pre-feasibility study (three months)
- 1 year, complete full feasibility study
- Creation of BSEZA legal mandate, closure of initial coordination office

5 Closing Session

After the above recommendations were presented by breakout group moderators, **Khurshid Alam** of the World Bank Dhaka Office, spoke about the continuing process. He noted that the outcomes of the breakout groups were in line with the PSDSP development partner's ideas on SEZs. The key will now be to account for the political process and ensure that locations decisions are based on economic and not political reasons. World Bank can support these recommendations, he said, but the GoB has the final say over the next steps. He also commented that the full PSDSP will begin this year.

Chief Guest **Mahmudur Rahman** closed the day with a few comments. He stated that three Acts already exist to cover SEZs: (1) BOI Act of 1989; (2) BEPZA Act of 1980; and, (3) Private BSCIC Act of 1986. The breakout group topics and recommendations have adequately captured the issues and provided a basis from which to move forward. He noted that the geographical issue will be very important in order to ensure that economic development is equitable. Coal zones help in the North, but if the South is left out, there will be political fallout.

Mr. Rahman thanked all participants and co-sponsors and closed the workshop.