

Bangladesh: Piloting Reform Through the Management and Development of Economic Zones

Draft Final Report: Excerpts

January 2005

Background Material for BOI Workshop

Prepared for the Board of Investment and the Prime
Minister's Office of Bangladesh

by:

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



Contents

1	Background.....	1
2	Economic Zones Strategy Options – Excerpts from Draft Final	2
	Options for Upgrading the Zones Program	3
	Option 1: Rehabilitate and commercialize existing properties..	3
	Option 2: Privatize existing properties and implement new BOT projects under current regimes.....	4
	Option 3: Modernize existing regimes and implement new privatization, BOT, and private-sponsor projects	4
	Option 4: Introduce a master-developed, contiguous SEZ regime	6
	Option 5: Introduce a regional, multi-project SEZ program.....	7
	Selecting an Option.....	8
	Identification of Priority Implementation Areas	12
3	Best Practices Benchmarking – Excerpts from Draft Final	14
4	Infrastructure Needs Assessment – Excerpts from Draft Final	16
	Determination of Infrastructure and Institutional Needs.....	16
	BEPZA EPZs	16
	BSCIC Estates.....	17
	Cost Estimates for Upgrading Sites.....	18
	Basis of Cost Estimates.....	18
	Cost for Rehabilitation of Sites.....	19
	Cost of New Developments	20
	Prioritizing Developments	21
5	Core Functions Reviews – Excerpts from Draft Final.....	23
	Bangladesh Export Processing Zones Authority	23
	Bangladesh Small & Cottage Industries Corp.....	23
	Bangladesh The Export Promotion Bureau	24
	A Revised Institutional Framework.....	27
	Rehabilitating, Commercializing, and Modernizing.....	1627
	Creation and Development of a Special Economic Zones.....	17

1 Background

The Foreign Investment Advisory Service (FIAS), in collaboration with the South Asia Enterprise Development Facility (SEDF), and with support from the Development Partners Support Group (DPSG), embarked on a project on “Piloting Reform Through the Development and Management of Economic Zones” in August 2005, at the request of the Chair of BOI and the Principal Secretary to the PM. The project is a core part of the design phase of the proposed multi-donor funded Private Sector Development Support Project (PSDSP).

As part of this Zones project, the team has undertaken the following 5 project components over the last 5 months:

- **Economic Zones Strategy Options:** This document presents options for the Government of Bangladesh to consider in reforming and extending its strategy on economic zones. (Draft completed for discussion).
- **Best Practices Benchmarking Study:** This study benchmarks Bangladesh’s economic zones “core” zone policies, socioeconomic policies, incentives regimes, legal and regulatory frameworks, institutional features and physical characteristics against international best practice principles in each of these areas. (Draft completed for discussion).
- **Infrastructure Needs Assessment:** This assessment reviews existing infrastructure facilities available to investors in Bangladesh’s export processing zones (EPZs) operated by BEPZA and industrial estates operated by BSCIC. (Draft completed for discussion).
- **Core Functions Reviews:** This document reviews the BEPZA, BSCIC, and the EPB and the inter-relationships among them in terms of their structure, mandate, capacity, strategy, etc. (Draft completed for discussion).
- **Industrial Land Market Study:** This study will assess the current system for industrial land allocation, management, and transfer functions and document what the demand for industrial land in Bangladesh looks like. (Work underway).

Drafts of the first 4 of the 5 components listed above have been completed and will serve as the basis for discussion among public and private stakeholders at the Economic Zones Workshop in Dhaka on 7 February 2006. Based on the workshop and follow-up discussions with stakeholders, the Strategy document and supporting analytic documents will be finalized and an Action Plan for implementation of the Strategy will be prepared.

2 Economic Zones Strategy Options – Excerpts from Draft Final

This document presents options for the Government of Bangladesh to consider in reforming and extending its strategy on economic zones. Based on a review of existing zones in Bangladesh in light of international best practice experience, this strategy is based on the following assumptions:

- ***Zones can accelerate FDI inflows*** if they succeed in offering an investment location that is not subject to the barriers to investment – poor infrastructure, complex regulation, inefficient customs procedures – that characterize the rest of the economy. Modern, adequately-sized, world-class facilities that meet the expectations of foreign investors are currently lacking in Bangladesh.
- ***Zones can benefit the entire economy*** not only through backward linkages with local suppliers, but also by catalyzing economic liberalization and bureaucratic streamlining. This is the “demonstration effect”, where policy reforms are tested within zones and then expanded to the broader economy. The more integrated zones are with the economy, the stronger this catalyzing effect becomes.
- ***Zones are only one tool to support economic growth*** and must be developed with complementary reform efforts in transportation, public administration, and land management.

In Bangladesh, EPZs have been successful in attracting FDI only in the typical labor-intensive, first-generation industries – primarily garments and footwear – that characterize the initial development of many zone programs. These subsidized EPZs offer basic infrastructure facilities and improved customs procedures, but their perhaps greatest advantage is the fact that they offer serviced industrial land at all – development densities and fragmented land ownership in the rest of Bangladesh leave investors (especially foreign investors) with few attractive alternatives to the EPZ regime. As a result, several of the existing EPZs are full despite their infrastructure deficiencies, and new EPZ projects are now under development by BEPZA (though site identification and land assembly remain difficult).

BSCIC’s industrial estate program, by contrast, provides subsidized facilities that are not suitable for foreign or large domestic investors. With their focus on small-scale and cottage industries, these estates are geographically dispersed capital improvements on industrial land that lack adequate maintenance funding or management. While such industrial estates can serve an important SME development purpose if properly implemented, they play only a subordinate role in the kind of economic development that an investment in a national economic zones program should target.

Options for Upgrading the Zones Program

In Bangladesh, the options that have been suggested for enhancing the existing zones regime include the following, starting from the most restrictive and progressing to the most ambitious:

Option 1: Rehabilitate and commercialize existing properties

The most modest and conservative approach is to rehabilitate existing industrial parks and EPZs and to introduce commercial management principles through reliance on performance-based management contracts, service outsourcing, and other commercial mechanisms to improve the industrial property offering for investors.

BEPZA would continue to own its six current EPZs and develop its two new EPZ projects, but would pursue three new initiatives. First, additional investment in existing EPZs would address some of the major infrastructure shortcomings of existing EPZs, including new gate access control, improved bus parking and pedestrian circulation, signage, landscaping, underground power lines, manual-based maintenance, separation of storm water and effluent drains, new water and wastewater treatment facilities, and improved shared services (perhaps including dormitory space). Such improvements would cost between \$10 and \$20 million per EPZ at a minimum. Second, new EPZ development/expansion such as the current projects at Karnaphuli and Adamjee would be developed based on modern planning principles and zoning control, at an estimated cost of \$45 million. Third, BEPZA would cease to operate its EPZs and instead issue one or more management contracts for the operation of the EPZ facilities. Such improvements would of course have to be financed, and likely would require re-negotiation of existing lease terms simply to be able to properly maintain the EPZs.

BSCIC would adopt the same approach to infrastructure rehabilitation, though costs for rehabilitating the small industrial estates would be lower – up to \$5 million per estate. However, commercialization of BSCIC's 67 small properties may not be feasible in all cases, and would concentrate on the 40 or 50 most successful properties. Given the small size of the estates, regional management contracts for multiple properties may be required. While it could also be possible to create cooperative estate management associations, indifferent treatment of estate infrastructure by BSCIC's tenants to date suggests that current tenants may not value the properties sufficiently to form such cooperatives, or to fund better maintenance through increased fees.

Rehabilitating existing properties is a low-risk strategy that also yields few tangible benefits. Concentrating on existing properties limits the potential employment impact, and reliance on public sector development of new properties will not maximize market-driven service and infrastructure provision in these areas. While decision makers should not neglect the maintenance and administration of existing properties, it should be questioned whether they should serve as the focal point of economic zones reforms.

Option 2: Privatize existing properties and implement new BOT projects under current regimes

A more aggressive approach would be to take at least the well-performing properties through some form of privatization process and rely on BOT or similar arrangements to transfer risk to a private developer/operator. This approach expands the role of the private sector and reduces BSCIC and BEPZA's capital investment, but it also creates new challenges, particularly in terms of competition and potential conflicts between private operators and their public-sector regulators.

BEPZA would incorporate its existing properties, carry out an analysis of their financial position, and prioritize them based on their financial viability. Individual EPZs would then be packaged for privatization. This process would require a number of issues to be dealt with, including assignability of existing leases; legal basis of the transaction; jurisdictional issues between BEPZA and the Executive Cell; and improvements and service standards required of the acquiring party. New projects – including Karnaphuli, Adamjee, and the Comilla extension – would likely be structured as BOT projects and could be designed based on modern design, zoning, and management principles. Such projects would be more attractive to private developers if the legal basis and design/award framework for the transaction were clear and predictable.

BSCIC would adopt much the same approach for its properties, but would have to identify its project opportunities more carefully. Many of the existing industrial estates would not be sufficiently attractive to private developers due to their modest size, uneven occupancy, and low willingness-to-pay for services. The small-scale and cottage industry user base simply has fewer financial resources and is less likely to represent a market for value-added services. In these cases, BOT development of new properties also represents a greater opportunity than privatization of existing estates.

Again, *privatizing existing properties and developing BOT projects under the current regime will not capture the full potential of new developments*. While this approach will result in an improved and expanded supply of serviced industrial property, the substantial resultant physical improvements will be subject to the same competitive constraints as the current regime. Decision makers should consider whether a focus on private infrastructure provision without a parallel policy reform effort would reduce the return on scarce public investment in this area. However, depending on the amount of time required for a more comprehensive economic zone reform program, *it may be advisable to accelerate private development by launching one or more pilot BOT projects* under the current regime while the broader reform effort is formulated.

Option 3: Modernize existing regimes and implement new privatization, BOT, and private-sponsor projects

The next option would be to reform the legal and organization basis for industrial park and EPZ development to allow a broader range of medium-sized economic zone activity to develop in Bangladesh. This could include development of different forms of industrial parks as well as the introduction of more liberal free zones to replace the current EPZ regime. The main emphasis of this option would be to develop new greenfield zones in

the most promising locations available aimed at new investors. Dealing with existing properties through privatization or commercialization efforts would be a distinctly secondary activity, aimed more at reducing the public sector's operational responsibilities than as a discrete development goal in itself.

Physically, new developments would continue to fall into the traditional industrial park-type category, through the new regime would encourage more value-added services, increased investment in infrastructure (especially water/wastewater and electricity), and modern planning and design standards. The policy regime would be liberalized to create greater integration between free zones and the customs territory through the removal of export requirements or limitations on domestic sales. Administrative procedures should be streamlined as part of this process, including customs procedures. In the new free zone regime, accountability for duty-free inventories and production processes should shift from the current input/output controls to post-audits of inventory and in-process stocks – combined with stringent penalties for any violations. Opening up the zone to a broader range of users would in turn create greater opportunities for fee-for-service arrangements, different types of pre-built space offerings, and greater pricing power by zone developers. On the other hand, this liberalization would require a careful revision of the EPZ incentive regime, preferably in line with the recommendations of the FIAS incentive review.

The new regime would also include a more credible mechanism for developing private industrial parks and free zones that are established without government initiative or planning. In this regard, Bangladesh will have to overcome the negative experience of the Korean EPZ, which has helped to create the impression that industrial property projects without formal government backing will not be actively supported. Initiatives such as the pharmaceutical industry's proposed API Park¹ could be an early success for a revitalized private zone/industrial park project.

The government's main role would be to regulate economic zone activity, promote the zone regime, and aggressively identify, assemble, and make available land suitable for industrial development. The most difficult challenge under this option is to design an institutional framework that supports this development without losing the considerable existing capacity within BSCIC and BEPZA or creating uncertainty for current industrial park and EPZ tenants. This will require careful transition planning, but the institutional end-state will have to clearly separate regulatory and development responsibilities. Important issues to resolve in this context include whether multiple regulators are required, or whether one single entity can oversee all zones. In addition, some projects may not be attractive to private operators under any reasonable public-private partnership configuration, in which case these facilities should either be closed or transferred to some form of public-sector holding company that is separate from the regulatory entity.

¹ Several members of the Bangladesh Association of Pharmaceuticals Industries have proposed a PPP-based park dedicated for manufacturers of Active Pharmaceutical Ingredients, who have specific environmental and operational requirements that are difficult to accommodate in mixed-use parks.

At a minimum, a new zone regulatory entity would have to be created, most likely based on BEPZA's administrative apparatus. A new, separate independent development entity would then be required to take over BEPZA's physical assets and assume the responsibility for identifying new land for development, based on market demand. The Government of Bangladesh would provide the development entity with land ownership, and the development entity in turn would use this land bank to support economic zone development. The regulatory entity would thus regulate a) existing zones whose ownership has been transferred to the development corporation, b) new BOT zones on land assembled by the development corporation, and c) purely private zones developed on private land. Under this configuration, the Executive Cell would become redundant. BSCIC's industrial estates, with their limited size and mandate, would probably not operate under this regime, though a separate effort to improve industrial estate planning, development, and maintenance would certainly be advisable.

Private developers would be licensed by the regulator and, in the case of privatized or BOT properties, would be accountable to the development corporation for complying with performance standards developed as part of these transactions. Private investor tenants of zones would also be licensed by the regulator, but many routine permits would be issued and enforced by the private developers rather than through a government agency.

This approach represents the minimum requirement for an economic zone regime that seeks to bring private investment into industrial property in a significant way. It sets the stage for a market-driven approach to economic zone designation (including single-factory zones), modernizes the incentive and duty-deferral regimes, creates a more vibrant industrial property market, and rationalizes the institutional framework. It does, however, require a significant commitment to re-engineering the development and regulatory functions that are currently spread across BSCIC, BEPZA, the Executive Cell, and related government entities.

Modernizing the policy regime while enabling new privatization and BOT transactions offers significant economic potential, but requires substantial government commitment. While this approach balances the infrastructure and competitive elements of an improved economic zones regime, policy makers must be committed to improving public administration (in tendering, customs, physical planning) if the benefits from private sector participation are to be realized. However, this option requires broad reforms of Bangladesh's zone policies, institutions, laws, and physical development framework and as such will take time to implement. In this context, combining this option with initial BOT pilot projects under the previous option should be considered.

Option 4: Introduce a master-developed, contiguous SEZ regime

This approach differs from the previous option primarily in the scale of the development to be undertaken. It is intended to allow for the development of a large-scale Special Economic Zone that, unlike the industrial free zones anticipated above, allow for multiple uses, to be implemented on a single property by a master developer. A single private master developer would be responsible for developing a large property (for example,

1,000 hectares) that could include industrial, commercial, residential, and recreational/tourism uses. The master developer could in turn work with sub-developers to implement individual components of the SEZ. However, the master developer would be responsible for the entire project vis-à-vis the government regulator.

This type of SEZ may require some adaptations to the policy regime, especially in terms of whether the entire SEZ is duty free and, if so, whether duty-free consumption or retail sales are to be allowed within the SEZ. However, the main difference in terms of the enabling regime for such a development concerns the institutional framework, which must be able to support a broader range of regulatory and support functions. For example, either the regulatory entity itself or cooperating government entities will have to be responsible for building codes, health and safety, security, inspections, labor issues, and related matters for many different activities and in a multi-use environment that may include residents and visitors in addition to investors and workers. As in the previous option, the SEZ tax regime would require a careful revision of the EPZ incentive regime, preferably in line with the recommendations of the FIAS incentive review.

This kind of project could be regulated by the same kind of entity envisioned under option 3 above, through the regulator would have to acquire a greater range of regulatory expertise, either directly or by serving a coordinating role with other government entities.

Development of a master-developed contiguous SEZ may offer important advantages but would have to overcome a significant legacy and create substantial regulatory capacity. Unlike dedicated free zones and industrial parks, large multi-use SEZs have broader policy objectives and must be configured to serve different user categories. This type of development may make sense in Bangladesh if the feasibility of such a development on a suitable site can be established, but such a project would have to overcome the political and bureaucratic obstacles that have plagued the Korean EPZ project for the past decade.

Option 5: Introduce a regional, multi-project SEZ program

This approach is the most complex and would require the highest degree of public investment of effort and resources in creating the supporting infrastructure, regulatory reform, and institutional oversight. Rather than establishing a single development, this approach designates a large contiguous geographic area – hundreds of square kilometers in size – as a special pilot area for liberalized economic development and creates a dedicated policy regime and institutional framework to support this liberalization. These SEZ initiatives represent a different order of magnitude from option 4 in terms of their physical development and administration. The underlying rationale is generally that while such market-oriented reforms are too ambitious to introduce at the national level, the SEZ can act as a “test bed” to experiment with liberalization and demonstrate success, thus building momentum for future national reforms.

Unlike option 4 above, these regional SEZs do not have a single developer, but provide a liberalized environment in which many different developers and investors can operate. Such regional SEZs often host one or more free zones such as the ones described under

option 3 or can even include one or more mixed-use, master-developed project described under option 4.

In general, the SEZ policy regime would establish some form of duty-deferred treatment of activities within the zone (again, this could include duty-free consumption within the zone), liberalize the SEZ's investment climate, radically streamline administrative procedures within the zone, and actively promote privatization and private investment in all aspects of the SEZ's development. This is usually achieved through significant consolidation of authority and decision-making power in a dedicated authority, such as the Subic Bay Metropolitan Authority, the Aqaba Special Economic Zone Authority, or the Penang Development Corporation. Given the large area and multiplicity of uses, such SEZs could have different tax and incentive regimes for individual project, but the trend is towards simplified and unified tax treatment for all activities (e.g. low flat tax) within the zone.

This type of SEZ regime has been a powerful catalyst in areas where existing public infrastructure assets have under performed and where national-level administrative inefficiency and lackluster privatization efforts have constrained economic development. However, in such environments it requires a concerted high-level effort to create an SEZ regime that truly overcomes national-level obstacles and does not simply replicate them in the SEZ. ***A regional, multi-purpose SEZ program would require sweeping administrative reforms that may not meet the GOB's immediate objectives and capacities.*** A regional SEZ program would still have to develop individual industrial property projects. Policy makers should consider what specific objectives they wish to achieve with such a program that could not also be achieved under more conservative programs that may be easier to implement politically.

Selecting an Option

Which of these options should Bangladesh pursue in reforming and expanding its economic zones regime? In developing an appropriate economic zones strategy, these options must be evaluated against their economic development potential, implementation cost, and political feasibility. This interrelationship of potential impact, resource requirements, and likelihood for success will ultimately guide Bangladesh's decision makers in selecting a "future state" for economic zones that is to be pursued and developing an action plan to achieve that future state.

Option 3, an aggressive development of new PPP projects under a revised zones policy regime, may be the most appropriate in light of reform objectives as well the difficulties inherent in pursuing economic policy reform in Bangladesh. If designed flexibly, such a regime could also accommodate many aspects of the kind of regime required to accommodate developments anticipated under Option 4, master-developed contiguous SEZs, if suitable properties for such development can be identified either by public sector sponsors or private sector developers.

Table 1: Economic Zone Development Options

Option	Main Attributes	Economic Development Potential	Development Cost	Political Feasibility
<p>1. Rehabilitate and commercialize existing properties</p>	<p>Reliance on performance-based management contracts BSCIC/BEPZA retain investment and service delivery responsibility Policy regime unchanged</p>	<p><u>Pros:</u> Improved infrastructure quality and service levels Potential to attract higher value-added tenants with improved infrastructure <u>Cons:</u> Limited expansion potential in current property portfolio; main beneficiaries are existing investors Retains existing policy regime; no improvement in zones' competitive positioning</p>	<p><u>Pros:</u> Private-sector efficiencies realized primarily against pre-defined service targets <u>Cons:</u> Expensive, continues to rely on public infrastructure funding Experience to date with public-sector maintenance funding is not encouraging, especially in the case of BSCIC estates</p>	<p><u>Pros:</u> Not controversial, only constituency to oppose change are current BEPZA and BSCIC employees whose jobs may be at risk High-level Board of Governors could support project <u>Cons:</u> Few visible benefits of limited reform effort</p>
<p>2. Privatize existing properties and implement new BOT projects under current regimes</p>	<p>Privatize existing properties where possible (aim to package marginal projects) Develop new projects on BOT basis, following market demand Policy regime unchanged</p>	<p><u>Pros:</u> Broader range of private-sector efficiencies can be realized (value-added services) <u>Cons:</u> Competition issues between private investors and public developers/regulators Retains existing policy regime; no improvement in zones' competitive positioning Reliance on government to identify</p>	<p><u>Pros:</u> Reduces public sector infrastructure financing responsibility <u>Cons:</u> Public-sector financing remains to be defined case-by-case (especially off-site infrastructure requirements) Unproven market, few precedents in Bangladesh</p>	<p><u>Pros:</u> Reform effort to generate visible results and improved projects High-level Board of Governors could support project <u>Cons:</u> Unproven concept, mixed PPP experience in Bangladesh Negative experience with private participation in zones (Korean EPZ), highly politicized process</p>

Option	Main Attributes	Economic Development Potential	Development Cost	Political Feasibility
		new projects		
3. Modernize existing regimes and implement new privatization, BOT, and private-sponsor projects	<p>Create liberal free zone regime to replace current EPZ regime</p> <p>Remove export and local sales restrictions</p> <p>Diversify zone user base and permissible activities</p> <p>Rationalize investment incentives</p> <p>Switch to post-audit duty-free compliance and penalties</p> <p>Better support for private zone projects and single-factory zones</p>	<p><u>Pros:</u></p> <p>Broader range of private-sector efficiencies can be realized (value-added services)</p> <p>Greater integration with domestic economy</p> <p>True alternative to duty deferral regime</p> <p>Increased confidence for private zone projects; private investors can identify projects</p> <p><u>Cons:</u></p> <p>Competition issues between private investors and public developers/regulators</p>	<p><u>Pros:</u></p> <p>Reduces public sector infrastructure financing responsibility</p> <p><u>Cons:</u></p> <p>Public-sector financing remains to be defined case-by-case (especially off-site infrastructure requirements)</p> <p>Greater investment in regulatory capacity (concession monitoring)</p> <p>Unproven market, few precedents in Bangladesh</p>	<p><u>Pros:</u></p> <p>Focus on new projects limits opposition by entrenched interests</p> <p><u>Cons:</u></p> <p>Unproven concept, mixed PPP experience in Bangladesh</p> <p>Negative experience with private participation in zones (Korean EPZ), highly politicized process</p> <p>Potential conflicts with government agencies and municipalities</p> <p>Land acquisition difficult</p>
4. Introduce a master-developed, contiguous SEZ regime	<p>Builds on Option 3. with broader range of uses</p> <p>May deal with duty-free consumption (visitors/residents)</p> <p>Site-specific evaluation</p>	<p><u>Pros:</u></p> <p>Expands scope of Option 3 to allow for integrated planning and realization of synergies</p> <p><u>Cons:</u></p> <p>Few projects concentrate risk; little room for balancing project portfolio between conservative and speculative developments</p>	<p><u>Pros:</u></p> <p>Focus on one or two transactions concentrates public-sector administrative requirements</p> <p><u>Cons:</u></p> <p>Greater investment in dedicated regulatory capacity</p> <p>Significant public investment in</p>	<p><u>Pros:</u></p> <p>Focus on new projects limits opposition by entrenched interests</p> <p><u>Cons:</u></p> <p>Unproven concept, mixed PPP experience in Bangladesh</p> <p>Negative experience with private participation in zones (Korean EPZ),</p>

Option	Main Attributes	Economic Development Potential	Development Cost	Political Feasibility
		(geographic distribution)	infrastructure and administrative capacity required even if master developer takes on bulk on-site development	highly politicized process Potential conflicts with government agencies, regional government units, and municipalities Land acquisition very difficult
5. Introduce a regional, multi-project SEZ program	<p>Designation of large contiguous area as SEZ</p> <p>Creation of dedicated SEZ authority with substantial delegated powers</p> <p>Implements wide-ranging economic liberalization and privatization not possible in national context</p> <p>Extensive administrative reform/simplification</p> <p>Often located at important transportation nodes</p> <p>Enables multiple sub-projects (industrial, commercial, residential, tourism)</p>	<p><u>Pros:</u></p> <p>Enables aggressive liberalization and privatization not possible in national context</p> <p>Increases efficiency of existing and new infrastructure</p> <p>Introduces good spatial and infrastructure planning at regional level; avoids site-specific infrastructure “patches”</p> <p>Increases economic potential through improved infrastructure and governance</p> <p>Broader range of project beneficiaries (e.g., residents)</p> <p><u>Cons:</u></p> <p>High-risk approach; will fail if new administrative regime is bureaucratic and not efficient and investor-friendly</p>	<p><u>Pros:</u></p> <p>Brad-based enabler of private investment in public infrastructure</p> <p><u>Cons:</u></p> <p>Greater investment in dedicated regulatory capacity</p> <p>Longer lead time</p> <p>Significant public investment in infrastructure and administrative capacity required even if private developers takes on bulk on-site development</p> <p>Development may be large enough to have fiscal implications</p>	<p><u>Pros:</u></p> <p>Opportunity for ambitious demonstration of improved governance for business and existing population</p> <p><u>Cons:</u></p> <p>Ambitious project, requires sustained high-level support</p> <p>No obvious project sponsor; requires broad regional alliance of public-sector supporters</p> <p>Potential conflicts with government agencies, regional government units, and municipalities</p> <p>Potential for regional jealousies</p> <p>Failure to implement SEZ successfully can create negative publicity</p>

Identification of Priority Implementation Areas

An Action Plan will be developed as part of the Workshop. It is anticipated that this Action Plan will address the following areas:

Strategy	Action	Responsible	Timing	Indicator
Policy				
	Assemble public-private reform coalition			
	Resolve Korean EPZ issue			
	Agree on final incentive regime			
	Design duty deferral mechanism			
	Design licensing regime			
	Adapt free zone labor regime			
	Design free zone PPP regime			
	Define policy regime transition framework			
	Identify pilot project implementation mechanism			
	Develop supporting communications campaign			
Institutional				
	BEPZA financial assessment			
	Define workload requirements			
	Define service delivery requirements			
	Define organizational roles and responsibilities			
	Design new Economic Zones Agency			
	Design new Economic Zones Development Corporation			
	Reorganize BSCIC's			

Strategy	Action	Responsible	Timing	Indicator
	industrial estates program			
	Develop institutional transition plan			
	Implement capacity building program			
	Implement supporting IT			
Legal/Regulatory				
	Select appropriate level of autonomy			
	Draft Economic Zones Law of 2006			
	Draft implementing regulations			
	Develop lobbying strategy			
	Draft transaction documents for pilot projects			
Physical				
	Market demand analysis			
	Assess attractiveness of existing EPZ properties			
	Identify available government land			
	Assess feasibility of pilot projects			
	Design industrial property development program			
	Design medium-term infrastructure development program			
	Develop environmental standards and monitoring			
	Develop planning, zoning, and design guidelines			
	Design industrial estate improvement program			

3 Best Practices Benchmarking – Excerpts from Draft Final

The Bangladesh zones regime excels in some respects, in terms of best practices, but falls short in many other areas, particularly in terms of physical development and operations:

Summary of Findings on Bangladesh Zones

Policy Area	International Standards	Bangladesh Zones
CORE POLICIES		
Extra-territoriality	<ul style="list-style-type: none"> -Extra-territorial status, i.e. outside domestic customs territory -Eligible for national certificates of origin -Eligible to participate in national trade agreements/arrangements 	-EPZs meet international standards in principle
Linkages with Domestic Economy	<ul style="list-style-type: none"> -Sales to the Domestic Market: liberalized; provided on a blanket basis rather than case-by-case; treated as import into domestic market, subject to payment of import duties and taxes -Purchases from Domestic Market: treated as exports from domestic market; enterprises eligible for indirect exporter benefits 	<ul style="list-style-type: none"> -Mixed environment for EPZs -Sales to domestic market restricted to 10% for most sectors, prohibited for ready-made garments -Purchases from domestic market permitted, indirect exporters eligible for duty rebates
SOCIOECONOMIC POLICIES		
Labor Policies	<ul style="list-style-type: none"> -Full consistency with ILO labor standards -Specialized dispute settlement mechanism 	<ul style="list-style-type: none"> -Improved, but still not up to best practices -Delay in implementing freedom of association in EPZ -Specialized dispute settlement mechanism has been problematic in practice
Environmental Policies	<ul style="list-style-type: none"> -Consistency with national regulations -Promotion of good environmental practices 	-Lack of effective monitoring and enforcement of environmental rules
INCENTIVES REGIMES		
Eligibility for Benefits	<ul style="list-style-type: none"> -No minimum export requirement -Manufacturers & services -Foreign & local firms -Expansions of existing enterprises -Private developers of zones 	<ul style="list-style-type: none"> -Falls short of best practices in some respects -Minimum 90% export requirement -Different provisions for foreign vs. domestic firms -Private developers not entitled to zone benefits
Fiscal and Non-Fiscal Benefits	<ul style="list-style-type: none"> -Duty-free privileges on construction materials and equipment, production inputs, machinery, equipment, spare parts, and, in some cases, consumables and non-production machinery and equipment -Other non-fiscal incentives 	-Duty-free privileges largely aligned with international practices

Policy Area	International Standards	Bangladesh Zones
LEGAL AND REGULATORY FRAMEWORKS		
Licensing and Permitting	<ul style="list-style-type: none"> -Transparent criteria -One-Stop Shops and streamlined approvals -Automaticity 	<ul style="list-style-type: none"> -Falls short of best practices in some respects -BEPZA one-stop window not very effective -No automaticity
Customs Controls	<ul style="list-style-type: none"> -Minimum controls -Primarily at perimeter -Record-based mechanisms to monitor compliance 	<ul style="list-style-type: none"> -More streamlined than in domestic territory, but improvements possible -Over-reliance on physical controls
ZONE INSTITUTIONAL STRUCTURES		
Agency Powers and Authorities	<ul style="list-style-type: none"> -Division of development and regulatory roles 	<ul style="list-style-type: none"> -BEPZA has overlapping authorities that may create conflict of interest -Executive Cell is untested -BSCIC has limited powers and authorities in zones outside physical development
Private Participation on Governing Boards	<ul style="list-style-type: none"> -Strong private sector participation 	<ul style="list-style-type: none"> -BEPZA and Executive cell generally aligned with international practices -No private sector participation in BSCIC
Private Sector Development Roles and Responsibilities	<ul style="list-style-type: none"> -Clearly defined in legislation; specific zone designation criteria -Eligible for full benefits -Development of onsite infrastructure and facilities -Provision of value-added services -Competition from government-run zones on a level playing field 	<ul style="list-style-type: none"> -BEPZA & BSCIC regimes do not allow for private sector development -Private EPZ regime is untested, but will face competition from BEPZA zones
PHYSICAL DEVELOPMENT AND MANAGEMENT PRACTICES		
Location	<ul style="list-style-type: none"> -Proximity to population centers -Access to infrastructure linkages (water, power, gas, transportation) 	<ul style="list-style-type: none"> -Many sites selected on political grounds, regional development imperatives – have been less successful in attracting investment
Zone Designation	<ul style="list-style-type: none"> -Clear designation criteria, including minimum land area, location, etc. 	<ul style="list-style-type: none"> -Lack of designation criteria
Onsite Infrastructure and Facilities	<ul style="list-style-type: none"> -Serviced land available for sale or on long-term lease/leasehold -Private sector participation in provision of utilities -Value-added facilities and services on commercial basis 	<ul style="list-style-type: none"> -Lack of adequate utilities infrastructure in many zones and industrial estates -Lack of central effluent treatment plants have led to pollution -Lack of commercially-driven services

4 Infrastructure Needs Assessment – Excerpts from Draft Final

As part of this project, the team has undertaken a review of existing infrastructure facilities available to investors in Bangladesh's existing export processing zones (EPZs) and industrial estates.

In order to arrive at a shortlist of sites to assess, BEPZA and BSCIC were asked to score each of their sites according to physical land characteristics, infrastructure facilities, proximity to markets, and investor base. Based on this scoring, an overall ranking was compiled for the 67 industrial estates and 8 EPZs (including Adamjee and Karnaphully which are under development). Dhaka, Chittagong, and Comilla ranked as the top 3 EPZs and, as such, were selected for analysis.

BSCIC industrial estates were selected based on the best performing sites adjacent to the capital city as well as top performers in the Western part of the country. In addition, sites along the Dhaka-Chittagong border were selected that have not managed to capitalize on their locational advantages. The following 10 BSCIC estates were visited: Khulna, Jessore, Joydebpur, Manikganj, Bogra, Rajshahi, Kalurghat (Extension), Comilla, Tangile, Feni. In addition, information on Narayanganj, Narshingdi and Mymanshing estates was collected through discussions with the staff at BSCIC headquarters.

Determination of Infrastructure and Institutional Needs

BEPZA EPZs

One can identify several aspects of the BEPZA properties that should be improved in order to help these properties meet investor expectations.

- The importance of the overall environmental quality is only now being appreciated by BEPZA, particularly as its staff are becoming exposed to best-practice examples of modern industrial park and free zone management and development. In addition, BEPZA's customers are pointing out the need for proper maintenance. The absence of treatment plants is pointed out as one of the major drawbacks, particularly since size of the estates handled by BEPZA easily warrant a separate effluent treatment plant.
- The usage of open drains for discharge of effluents are a common sight in all the estates. Whilst this may be a low-cost solution, providing covered designated drains or even pipe lines for the transporting of effluents is not seen as a major cost item in the overall development. This should be implemented at a minimum in new developments.
- Allowing storm water to mix with effluents is not good practice. Theoretically, storm water discharge from industrial estates also could contain hazardous chemicals and wastes and may require pre-treatment before discharge. However, currently, in Bangladesh, where the direct

discharge of effluents is not seen as a major transgression, it is safe to consider direct discharge of storm water. It is advisable to separate the channels for storm water and effluents.

- There appears to be very little thought given on the general aesthetics of the area. In Bangladesh, where the labor costs are quite low, it will surely be easy to develop and maintain attractive landscaping that will improve the overall appearance of the estate substantially. Such maintenance can easily be contracted, perhaps even to interested entrepreneurs within the estate.
- Signage, though present in some scale, is not considered adequate. This is another item that will improve the overall appearance of the estates and would need development.
- There are some overhead electric distribution lines that could be totally avoided at a reasonable additional cost.
- The security and surveillance at the estates does not seem to be adequate. A balance should be found between allowing worker access/egress and controlling entry, particularly in a duty-free environment.
- There are practically no shared facilities for the workers. The common dormitories, especially for the women who happen to be the majority, are one facility that should be developed. In addition, facilities for workers reduce loitering by workers, which again improves safety appearance, and security within the property.
- In places like Dhaka, where the workers are brought in buses from the various points, common parking facilities should be provided.
- Whilst it is noted that the officers are generally aware of their responsibilities as part of the maintenance of the estates, there seems to be no documentation of the activities carried out on routine and periodic basis. BEPZA should develop a maintenance manual for the management of various aspects of the estates.

BSCIC Estates

The advantages available to BEPZA due to its semi-autonomous standing are not available to BSCIC, which is essentially one of the departments of the Government. Perhaps as a result, there is a general tendency to follow government procedures and look to other government entities to resolve operational problems rather than to proactively seek out solutions. In addition, BSCIC is constrained by the fact that its developments are quite small, making the provision and management of the infrastructure costly on a per-unit basis. Their estate sizes (sites visited during the Mission ranged from 10 acres to 90 acres) general do not allow for efficient installation of dedicated effluent treatment plants or separate water treatment plants. In these cases, the preferred option would be coordination with a broader municipal treatment plan – if it could be funded.

On the other hand, one very noticeable aspect of the BSCIC estates is the solid waste dumped on the estate's roads (evidently by the estate's own tenants!), roads which are already narrow and in poor condition. Even with a low maintenance budget, the estate's management should be able to prevent such abuses from happening. Here it should be noted that there is variation among industrial estates, with Jessore estate noted as the one which is kept relatively clean, which may also reflect on the way the estate is managed. Improved interaction between BSCIC and its tenants should mitigate against the misuse of the facilities. The Mission could find little evidence of such interaction, though local BSCIC officers contested this observation.

It is very evident that the maintenance funds allocation to the estates are extremely low (quoted figures are as low as 5,000 taka annually), making it very difficult to provide adequate maintenance. It was not clear from the meetings whether individual estates are more successful in obtaining maintenance funds than others. The general procedure appears to be that the field officer identifies the problems, sometimes make an estimate, and sends a request to the central office and waits for the outcome of the final budget allocation. Ideally the managers would be more involved in the process of the estate management as a whole, which would require significant improvements in the maintenance budgeting/implementation process.

For new developments, it is important that BSCIC adapts its norms of road widths, drain widths, and road construction to meet modern requirements. In small estates, the attempt is often to minimize the roads and maximize the saleable plot areas. However, this does not always maximize value, both in terms of overall appearance and the concrete transportation access requirements of tenants. Also, in some BSCIC estates there are attempts to accommodate very small plots, which sometimes increase the road area due to connectivity requirements. This approach should also be re-examined for new developments, including potential new projects at the Savar Tannery estate and redevelopment of the Chittagong Chemical Complex area and Khulna News print factory area (reportedly the Savar estate will have its own treatment plant, for example). On the other hand, BSCIC still has a mandate to view the small estates on socio-political based developments that have lower investments but generate some employment in the regions.

Cost Estimates for Upgrading Sites

Basis of Cost Estimates

Based on discussions with local contractors and developers, the following unit costs were compiled for calculations:

Table 2: Basic Unit Costs

No.	Description	Unit	Rate
1	Normal building (concrete)	Per sqft	1200 BDT
2	Factory building (up to 2 stories)	Per sqft	900 BDT
3	Pre-fabricated factory building	Per sqft	1000 BDT
4	Road construction – heavy loading – 4 lanes	Per km	45 million BDT
5	Road construction – heavy loading – 2 lanes	Per Km	25 million BDT
6	Road construction – light loading – 2 lanes	Per km	10 million BDT
7	Deep tube wells (including civil works etc.)	Per no.	4 million BDT
8	Pipe laying for gas	Per m	3000 BDT

No.	Description	Unit	Rate
9	Pipe laying for water	Per m	2500 BDT
10	Land development	Per m ³	400-700 BDT
11	11 KV line provision	Per m	2000 BDT
12	Drains – general precast	Per m	3500 BDT

Cost for Rehabilitation of Sites

The following table provides the indicative costs calculated for revamping of the 3 EPZs selected for analysis:

Table 3: Bulk Cost Estimates for BEPZA EPZs

No.	Site	Works Identified	Cost Estimated Million Taka	Additional Cost for Effluent Treatment Plant	Additional Cost for Water Treatment plant	TOTAL, by site
1	DEPZ	Replacing power lines by UG cables Develop a parking space for buses Surveillance system Security Passes for vehicles / workers Signage General landscaping	122	850	450	1422
2	CEPZ	Replacing power lines by UG cables Develop a parking space for buses Surveillance system Security Passes for vehicles / workers Signage General landscaping	105	500	500	1105
3	Comilla EPZ	Replacing power lines by UG cables Develop a parking space for buses Surveillance system Security Passes for vehicles / workers Signage General landscaping	90	400	200	690
4	TOTAL		317	1750	1150	3217

As far as the BSCIC estates are concerned, the improvements required at the properties examined as part of the assessment involve the following:

- Redevelopment of road network – improvement of the crust, providing proper camber and gradient, widening to full width where possible, and redevelopment of drains with proper cross section
- Redevelopment of pipe networks – both the water and gas pipe line network
- Redevelopment of electric network – provision of underground cables
- Development of signage and landscaping
- Basic contingencies

Indicative costs for water treatment facilities are also provided, though the feasibility of such plants may not be given in all cases due to the small scale of the estates.

Table 4: Bulk Cost Estimates for BSCIC Estates

No.	Site	Cost Estimated Million Taka	Additional Cost for Effluent Treatment Plant	Additional Cost for Water Treatment plant	TOTAL, by site
1	Khulna	120	50	70	240
2	Jessore	140	50	70	260
3	Jaydebpur	125	70	90	285
4	Narayanganj	70	70	90	230
5	Manikganj	30	70	90	190
6	Mymanshing	70	50	70	190
7	Narshingdi	30	70	90	190
8	Bogra	90	70	70	230
9	Rajshahi	250	100	100	450
10	Kalurghat extension	90	70	70	230
11	Comilla	150	70	90	310
12	Tangile	70	50	70	190
13	Feni	70	50	70	190
14	TOTAL	1305	840	1040	3185

Cost of New Developments

Similarly, depending upon the individual site characteristics, the costs for new proposed developments are estimated to come about 3 million Taka per acre on an average (excluding land price). This cost does not include the cost of captive power plants (which could perhaps be developed with private financing). Costs estimates (excluding land acquisition costs) calculated in this manner are listed in the following table:

Table 5: Bulk Cost Estimates for New Developments

No.	Site	Proposed Area	Cost Estimated Million Taka	Associated costs (access roads, infrastructure provision etc.)	Total Cost estimated Million Taka	TOTAL, by site
1	New Dhaka EPZ	500	1500	1500	3000	6500
2	Chittagong EPZ Extn	150	450	0	450	1050
3	Comilla EPZ Extn	150	450	0	450	1050
4	Khulna	60	180	150	330	720
5	Jessore	40	120	100	220	480
6	Jaydebpur	20	60	80	140	300
7	Narayanganj	20	60	0	60	140
8	Manikganj	20	60	0	60	140
9	Mymanshing	20	60	50	110	240
10	Narshingdi	20	60	50	110	240
11	Bogra	16	48	50	98	212
12	Rajshahi	40	120	100	220	480
13	Kalurghat Extn	20	60	50	110	240
14	Comilla	17	51	0	51	119

No.	Site	Proposed Area	Cost Estimated Million Taka	Associated costs (access roads, infrastructure provision etc.)	Total Cost estimated Million Taka	TOTAL, by site
15	Tangile	20	60	0	60	140
16	Feni	10	30	0	30	70
17	TOTAL	1123	3369	2130	5499	12121

Prioritizing Developments

The key questions that influence the prioritization of development include:

- The BSCIC estates are generally small and no extensions are possible at existing sites. Should scarce funds be concentrated on redeveloping existing properties or developing new small-scale BSCIC properties?
- In case of the larger BEPZA EPZs, should scarce funds be concentrated on upgrading fully occupied properties, supporting new EPZ properties being developed, or entirely new greenfield projects?

In the absence of market demand information (study is currently underway) for industrial property in Bangladesh, it is not possible to estimate the relative benefits of different types of development/rehabilitation. In order to nonetheless support the prioritization process, a ranking of projects has been tabulated based purely on infrastructure attributes. This analysis has been carried out in a manner similar to the original shortlisting carried out initially. In this case, a scoring level of 1 to 5 has been utilized (1 meaning Very Poor or least favourable and 5 meaning the most favorable). The parameters that are used in the analysis are listed below:

	5 Marks	4 Marks	3 Marks	2 Marks	1 Mark
Availability of land (acres)	>100	100 to 50	50 to 20	20 to 10	<10
Distance to Sea Port (km)	<50	50 to 100	100 to 200	200 to 500	>500
Distance to Air Port (km)	<50	50 to 100	100 to 200	200 to 500	>500
Distance to Trunk Route (km)	0	<5	5 to 10	10 to 20	>20
Distance to Gas supply point (km)	0	<5	5 to 10	10 to 20	>20
Distance to Nearest Substation (km)	0	<5	5 to 10	10 to 20	>20
Water Availability	Very good	Good	Reasonable	Bad	Not usable
Distance to Fire station (km)	0	<5	5 to 10	10 to 20	>20
Availability of rail head (km)	0	<5	5 to 10	10 to 20	>20
Social Infrastructure	Very good	Good	Reasonable	Bad	Not available
Soil Condition	Very good	Good	Reasonable	Bad	Not usable
Constrn. material availability (km)	0	<5	5 to 10	10 to 20	>20
Distance to Major Fibre route (km)	0	<5	5 to 10	10 to 20	>20
Land Acquisition Cost	Government	Private low	Private	Private High	Private very high

According to these criteria above, the various sites are evaluated and the result is presented in Tables 22 and 23 below:

Table 6: Ranking of BEPZA Estates Based on Ease of Infrastructure Supply

	land area	Sea Port	Airport	Trunk route	Gas	Power	Water	Fire	Rail	Social	Soil	Material	Fibre	Land cost	Total	Rank
Chittagong Extension	5	5	5	5	5	5	1	5	3	3	3	3	4	1	53	1
New Dhaka	5	2	5	2	3	5	5	5	1	2	4	5	1	3	48	2
Comilla Extension	5	3	3	2	5	5	3	5	2	2	3	2	3	5	48	2

Table 7: Ranking of BSCIC Estates Based on Ease of Infrastructure Supply

	land area	Sea Port	Airport	Trunk route	Gas	Power	Water	Fire	Rail	Social	Soil	Material	Fibre	Land cost	Total	Rank
Bogra	2	2	3	5	5	3	5	4	4	4	4	3	2	5	51	1
Jessore	3	4	5	5	1	4	3	4	2	3	4	4	3	5	50	2
Jaydebpur	3	2	4	5	5	4	4	3	3	3	4	3	2	4	49	3
Narayanganj	3	2	4	4	4	3	5	4	2	2	4	4	3	5	49	3
Narshingdi	3	2	4	5	5	4	3	3	3	3	4	3	2	5	49	3
Tangile	3	2	4	5	5	5	3	3	1	3	4	4	2	5	49	3
Rajshahi	4	2	3	4	5	4	5	3	1	3	4	3	3	5	49	3
Khulna	4	4	4	5	1	3	3	3	3	3	4	4	2	5	48	4
Comilla	2	3	3	4	5	4	3	5	4	3	4	2	2	3	47	5
Kalurghat extension	3	5	5	5	5	3	3	3	2	3	4	2	2	2	47	5
Manikganj	3	2	4	5	5	4	5	4	1	1	4	3	3	2	46	6
Feni	2	3	3	5	5	4	3	3	5	1	4	3	1	3	45	7
Mymanshing	3	2	4	4	5	3	5	3	1	1	4	3	2	3	43	8

It is seen that among EPZs, Chittagong emerges as the best site. Among the BSCIC estates, Bogra and Jessore emerge as the top two sites.

The above preliminary assessment is purely from an infrastructure point of view and reflects an unweighted sum of the various infrastructure parameters presented. It is likely that this ranking may change based on weights added to the analysis as well as additional information collected during the study finalization stage.

5 Core Functions Reviews – Excerpts from Draft Final

This study conducts an organizational review of the Bangladesh Export Promotion Bureau (EPB); the Bangladesh Export Processing Zone Authority (BEPZA); and the Bangladesh Small and Cottage Industries Corporation (BSCIC) with the objective of evaluating their performance and making recommendations on how they can best be developed to contribute more to an Economic Zones Strategy, and to suggest options for institutional development and capacity building so that the Economic Zones Strategy can be most effectively implemented and administered.

Bangladesh Export Processing Zones Authority

BEPZA is the Government entity charged with promoting, attracting, and facilitating investment into the six export processing zones (EPZs) that are currently operational, and the two additional EPZs that are currently under development. There are areas that need improvement, particularly in involving private sector Developers and/or Operators in the management of the zones:

- **Amend the law to authorize BEPZA to engage private zone developers/operators.** There is an increasing trend in zone management to allow private sector developers and operators to providing a range of services including building, leasing or selling land and buildings within a zone at competitive market prices; building infrastructure; and operating services within a zone at market rates. Such services could include engineering and construction services, security services, maintenance services, childcare services, etc., and as such permit public-private partnerships that now cannot be accommodated either under the BEPZA law or under the private EPZ law.
- **Expand the investment promotion division in BEPZA to promote private sector participation.** Creating a new Department to oversee private sector participation in EPZs is probably not necessary. This function could be incorporated into the current Investment Promotion Directorate, which now has very limited capabilities in promoting investment in the Zones.
- **Review of the HR function and develop standard operating procedures.** Some level of organizational restructuring is necessary within BEPZA for the purpose of reorienting its operations towards private sector Developer/EPZ Operator participation. BEPZA's plans currently call for increasing the level of staffing to over 2,000 employees. Reorientation of its role to include the capability to develop contracts with Developers and with private sector service providers would reduce, if not eliminate the need for BEPZA to massively increase its workforce.

Bangladesh Small & Cottage Industries Corp

BSCIC is the primary Government organization engaged in small and cottage industries development in Bangladesh. BSCIC's remit extends far beyond the development of industrial estates. It is involved in a very wide range of activities that

are not necessarily related to industrial estate development and/or would be more appropriately provided by the private sector. The industrial estates are not run on a commercially-viable basis and lack services that should be provided on a commercial basis. BSCIC's industrial estates need to be run more efficiently; they need to provide more services; and they need to generate more revenue. The major conclusion is that BSCIC needs to be restructured, and, if its activities are to be given a new lease on life, it needs to be radically restructured.

- **Remove responsibility for industrial estate development from BSCIC/Ministry of Industries.** Industrial estates in Bangladesh need to be used as a driving force for industrial development with the capability of attracting every type of industry, not just small-scale and cottage industries. The responsibility for developing industrial estates should be removed from the Ministry of Industries and that a new autonomous agency responsible for the development of industrial estates, similar to the way that BEPZA is set up to report to a Board of Governors that is headed by the Prime Minister.
- **Develop a new industrial estates law.** A new Law should grant autonomy to an Industrial Estates Development Authority on the same basis as that granted to BEPZA; its Board of Governors should include the Prime Minister as Chairperson, include Ministers from all the economic Ministries, and an appropriate number of private sector representatives; an Executive Chairman should be appointed from the private sector and report directly to the Prime Minister; it should absorb the current BSCIC industrial estate development function; and should have the authority to make contracts, by way of lease, sale, or concession, with private sector developers and operators.
- **Restructure BSCIC's role in developing and overseeing social programs.** Consideration needs to be given to removing responsibility for the social programs currently being run by BSCIC as part of its responsibility for the development of rural industries.
- **Privatize those services more appropriately provided by the private sector.** The final agglomeration of activities that BSCIC is involved in and that needs to be rationalized is the range of consulting and research type activities that are provided to BSCIC clients, including the operation of the Design Centre; providing design, product, process, quality control and technology development advice; supplying prototypes of products, machinery, equipment, and tools; organizing trade shows; developing sales promotion literature; providing training for craftsmen, technicians and managers; and advising on loan utilization. All of these services should be provided by the private sector, mainly through consulting services, although the ability of the current recipients of such services to pay for them would inevitably be questionable if they were provided through the private sector.

The Export Promotion Bureau

EPB is a semi-autonomous organization under the Ministry of Commerce and has about 250 staff. It is led by a Vice-Chairman, has two Directors-General and six Directors. It was established in 1977 and given responsibility to promote Bangladeshi exports and improve export policy and planning. The EPB is administered by a Board

of Management, with the Minister of Commerce as the ex-officio Board Chairman. The main responsibilities of the EPB include development of the export policy, promotion of exports, monitoring of national export performance, compilation of export statistics, development of new markets abroad, new product development, exporter training, market studies, and convening of trade fairs.

To bring the EPB to a level of performance where it could make a greater contribution to export growth, an extensive upgrading program would be necessary, the main elements of which would be as follows:

- **Grant autonomy to the EPB.** The EPB is stated to be semi-autonomous, but, it is, effectively, a unit of the Ministry of Commerce. The performance of the EPB would improve if it could be moved outside the Ministry of Commerce, was provided with an adequate budget, had a salary scale that was not linked to public sector salary scales, was free to hire and fire, promote and incentivize, and free to make its own decisions under a Board of Directors where the majority of the members were private-sector nominees and the minority were public sector representatives.
- **Provide a sufficient budget.** The EPB does not have sufficient finances to pay travel costs of staff members who have to travel outside, or even inside the city of Dhaka, which renders some of the most important services that could be provided by the bureau dysfunctional. Increases in the budget should be targeted towards specific activities such as developing marketing plans for companies, and carrying out market research in specific markets.
- **Eliminate staff rotations for the EPB.** None of the top level EPB staff has risen through the ranks of the EPB. While those on staff rotations clearly develop knowledge about the job in due course, and in many cases can, and do become effective contributors, the reality is that once they have become familiar with the nuances of export promotion, they are likely to be transferred to another Government Department, at which point the learning curve has to begin anew.
- **Enhance the salary structure and career paths in the EPB.** Successful export promotion agencies have salary structures and career paths that encourage strong candidates to join, and guarantee them merit-based promotions all the way to the top of the organization should their talents be sufficiently strong.
- **Restructure the organization.** There are too many divisions, and some of these divisions are either not operating, or some of the sections within the divisions are not operating, or there is duplication within the sections, or sections are inappropriately located. In further support of reorganization, procedures need to be analyzed and new procedures put in place.
- **Bring in professional management.** All top-level management, and much of the middle-level management have been rotated into the EPB from other – often very inappropriate – Government Ministries. This means that they are placed in high-level positions within the EPB where they are expected to make important decisions, although they do not have the experience to make

such decisions. Once they have developed a level of expertise, they are rotated out, and replaced by another employee from the Government cadre. While the best option would be for the senior management of the EPB to be from the private sector, the second best option would be to bring in advisors who could act in that capacity for a three-to-five year period.

- **Recruit new staff.** It has been stated that no new staff have been recruited into the EPB for more than 20 years. This is a function of limitations on funding for new staff, but it is also reflective of salary levels, career paths and the poor perceptions there are of careers in the EPB. The EPB cannot recruit directly, and this is a serious constraint.
- **Create a strong operations division based on export marketing advisory services.** It is very important to have units that specialize in product and market development. This is one of the EPB's areas of responsibility, and should be the principal focus of the organization, with all other units acting in support of it, but in reality, the unit concerned – Commodities Development – is not effective.
- **Expand export support operations.** As an adjunct to the marketing advisory services, a trade promotion organization needs to have a unit to provide specialized assistance to exporters on matters such as trade documentation, trade procedures, transportation, standards, costing and pricing, quality control, export packaging, export financing, and legal matters. Further support measures that are needed are the ability to organize participation in international trade fairs. It is also necessary to have a unit that provides training to the export community.
- **Strengthen the research and planning function.** Ongoing analyses of overseas and local market conditions are necessary in order to make recommendations to the Board, to senior management, and to other Government authorities, and to assist in the preparation of the organization's work program. The EPB currently has a Policy and Planning division which is responsible primarily for developing the Bangladesh Export Policy. This unit is one of the areas in which the EPB performs well. Another related area that provides a very useful service is Research and Statistics, although this needs to be computerized.
- **Strengthen the trade information section.** It is essential to have a trade information service, which should operate as a separate integrated unit. There are good arguments for making the Trade Information Centre the centerpiece of the trade promotion service, and provide it with additional resources, since information on foreign markets is essential for local producers who are interested in exporting.
- **Increase automation.** The EPB is not sufficiently automated for an organization that deals with a wide number of domestic companies, overseas buyers, overseas Embassies and Consulates, domestic and international trade and manufacturers associations, and Government Ministries.

- **Install a strategic planning system.** Rather than being tied to the Export Policy, the EPB needs to put in place its own strategic planning system. This system would have to be based on realistic budgets, and the implementation of most of the proposals made here.
- **Amend the Export Promotion Bureau Ordinance.** The Export Promotion Bureau Ordinance will have to be amended to reflect the above proposals.

A Revised Institutional Framework

The basic premise that derives from this review is that the EPB will have little or no relevance to any type of industrial estate or EPZ in its present form (other than certifying companies under the Generalized System of Preferences, providing Certificates of Origin and providing export statistics), and its relevance to companies in a future Economic Zone can only be of value if it can improve its performance. Likewise, BSCIC as it is currently constituted does not appear to have the capability to play a meaningful role in overall industrial estate development especially with the commercialization or privatization of industrial estates, unless it can be reconstituted under a new law as an Industrial Estates Authority with the power to enter into agreements with private sector developers and providers of services. In the case of BEPZA, this organization seems best placed to move towards private sector involvement in the EPZs under its control, because of its (unique) position of having a Board of Governors that is headed by the Prime Minister.

The options identified for a future Economic Zones strategy range from simply rehabilitating existing properties that are currently under the control of BEPZA or BSCIC to a regional multi-project SEZ program. These can be restructured into two types of activity:

1. Those that do not require the creation of a new special Economic Zones entity, but can be accommodated under the existing BEPZA and a restructured Industrial Estates Authority regime.
2. Those that would require the creation of a new zones entity.

Rehabilitating, Commercializing, and Modernizing Existing EPZs and Industrial Park Regimes

BEPZA and BSCIC zones and estates are in varying stages of development, operation and decline. Much depends on location. BEPZA's EPZs in Chittagong and Dhaka are full, while others are gradually being filled, and more are in inappropriate locations because of political decisions and are tenantless. In BSCIC's case, nearly all its industrial parks are small, and geared to small-scale producers. Because of the low level of rents charged and the requirement that BSCIC be neither a profit-making nor a loss-making organization, funding for upkeep of the estates is very limited, and many of them are gradually falling into decline.

Against this broad background, the policy options under consideration would retain the core investment and service-delivery mechanisms of BSCIC and BEPZA in the existing EPZs and industrial estates; rehabilitate the existing estates where this was an identified need; and introduce commercial management principles into the

management of the estates. An extension of this basic model is to privatize the best-performing properties thereby transferring risk to a private developer, most likely through concessions offered by BEPZA and BSCIC. The advantage of this approach is that it would broaden the role of private developers; provide some impetus to introducing new services to zone clients, and reduce public-service financing requirements for zone/park development, although it would still leave the Government to identify new industrial property opportunities.

The sequence involved in carrying this out would likely be as follows.

- **Carry out a Needs Assessment to Determine which Estates/EPZs can be Commercialized or Privatized and How this can be Achieved.** This will involve a review of the EPZs and at least the larger industrial estates to identify which would be candidates for commercialization/ privatization. It would also identify what improvements are needed in each estate, such as whether new roads need to be built, what utility services need to be upgraded, whether security systems are adequate and how they could be improved, what extra services are needed as well as an estimate of how they could be provided. Cost estimates for all of these activities would need to be made. The Needs Assessment would also have to develop a plan for who should be responsible for improvements by identifying where these can more appropriately be provided through concessions to private contractors and developers and where they need to be provided for through the Government's Annual Development Program, or through a combination of both. In all likelihood, the most efficient route will be private sector concessionaires.
- **The Legal Framework Needed to Support the Commercialization/ Privatization of Existing EPZs and Industrial Estates.** Many of BSCIC's existing industrial estates are run down, because they have not been maintained properly. Upgrading these would require a considerable amount of funds that BSCIC does not have access to under current conditions. Provided an appropriate level of funding were available, BSCIC would probably have the core competency in planning, engineering etc to devise an upgrading program which would then be put out to tender among private-sector contractors. However, the organizational review strongly recommends the dismantling of BSCIC's industrial estates responsibilities in its current form and its replacement with a new Industrial Estates Authority. BEPZA, on the other hand, mainly as a result of its autonomy and its access to decision-making at the highest levels of the Government only needs to make legal provision for extending its remit to enter into concessions with private developers which would involve an amendment to the existing BEPZA law to enable it to enter into agreements and contracts for the rendering of all kinds of services, works, technical assistance, acquisition of equipment, supply, construction of infrastructure and installations, as well as all that is required for the efficient operation of the Authority.

Creation and Development of a Special Economic Zone

Special Economic Zones are created to bring options to the regional development process that may not readily be available for a larger region such as the national Customs territory of Bangladesh. The options that have been presented range from less-complex zonal activities in industrial estates, parks and EPZs involving private

investment in infrastructure and services to the most complex case – operation of a regional, multi-project SEZ program.

- **The Basic Requirement: A Special Economic Zones Law.** SEZ Laws typically make provision for defining the perimeters of the proposed Special Economic Zone; authorizing the creation of a Special Economic Zones Authority to manage the affairs of the SEZ; defining what the objectives of the SEZ Authority would be.
- **The Institutional Framework for a Special Economic Zone Authority.** With the draft law as a guide, the institutional framework would require the creation of a Special Economic Zones Authority which would have an organizational structure that would need to conform to the mandate of the Authority as set out in the Law. The basic organizational structure of a notional Special Economic Zones Authority in Bangladesh would include the following characteristics: autonomy in its operations; private sector Board level participation; a clear mandate to issue Regulations and Instructions governing activities in the Zone; flexible compensation and hiring practices to attract and ensure retention of high-quality staff; sufficient resources and budgetary autonomy; close relationships with other national agencies including the ability to develop coordinating mechanisms such as MOUs; and a promotional rather than a regulatory ethos.
- **The Role of Developers and Operators in an Economic Zone Framework.** The concept of entering into contracts with Developers and/or Operators in respect of the development, promotion and operation of all or part of a Zone is not part of the *modus operandi* of either BEPZA or BSCIC, although it is not an unknown concept in Bangladesh. It is a concept that needs to be further publicized and accepted in Bangladesh because it is a viable alternative to having either BEPZA, or a new Industrial Estate Authority, or a new Special Economic Zones Authority develop industrial estates or an SEZ in the traditional manner, i.e., by doing all the planning, development, construction and marketing of space and buildings in-house.

Zone Developers and/or Zone Operator are usually granted rights by the Zone Authority that precisely define the area of the Zone to be developed/operated, and the rights being granted to the Developer or Operator. The latter would include the right to lease, sub-lease, purchase and sell the Assets within the areas under its development or operating rights. The advantages to the Zone Authority of engaging a Developer or an Operator is that it removes the responsibility for developing and/or operating the Zone from the Authority, thereby reducing the financial obligations of the Exchequer to fund such activities. It also can reduce the level of staffing required in the Zone Authority. For example, BEPZA's intention to request a significant increase in its staff levels to handle labor relations in its Zones could be obviated by having a Zone Operator involved in the Zone management process. Finally, by including private sector Developers or Operators in the development and management of a Zone, the Authority will ensure that an economic return is generated from zone development and operating activities, and thereby increasing its own income and the income of the Government.