CHAPTER 8

INDUSTRY

The contribution of the industry sector to Bangladesh economy has been on the increase. In FY 2005-06, the growth of the manufacturing industry reached double-digit level. It is expected that this upward growth trend of the industrial sector will help to reach the national growth rate at 7 percent level. Among the fifteen sectors identified for computing national income, the greater industry sector includes five sectors such as mining & quarrying; manufacturing; construction; electricity-gas and water supply. Among these sectors, the contribution of the manufacturing sector is the highest. In FY 2005-06, the contribution of the industry sector to real GDP is 29.01% while it was 17.31% in FY 1980-81. According to provisional estimate, in FY 2005-06 the contribution of the manufacturing sector to GDP is 17.05 percent, which is 0.54 percent higher than that of the previous year. In FY 2005-06, the growth rate in the manufacturing sector is estimated at 10.45 percent, which is 2.26 percent higher than that of the previous financial year. This trend in growth has accelerated the pace of economic development in Bangladesh. This growth was propelled by readymade garments and knitwear industry. The growth performance of the manufacturing sector and its contribution to GDP during FY 1999-00 to FY 2005-06 is shown in Table 8.1 below:

Table 8.1: Contribution of Manufacturing Sector in GDP and Growth Rate
(At constant prices of 1995-96)

(Tk. in crore)

Type of Industry	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Small & Cottage	8659.3 (5.8)	9267.4 (6.6)	10699.6 (7.2)	10780.0 (8.0)	11496.0 (7.45)	12408.5 (7.93)	13529.7 (9.04)
Medium-Large	21708.6 (4.4)	23130.2 (7.0)	24194.1 (4.6)	25780.8 (6.6)	27572.03 (6.95)	29860.5 (8.30)	33156.3 (11.04)
Total	30367.9 (4.8)	32397.6 (6.7)	34174.2 (5.5)	36480.8 (6.8)	39068.8 (7.1)	42269.0 (8.19)	46686.0 (10.45)

Source: Bangladesh Bureau of Statistics.
Note: Figures in parentheses indicate rate of growth.

In the face of challenges of open market economy and globalisation, the government considers that private sector-led industrial development could be one of the prime movers of economic growth. Beside this, government, by now, has liberalised the trade regime by introducing a range of reforms so that the entrepreneurs can set up industries and operate them profitably without any misgivings. Meanwhile, the government has handed over a number of SOE's to the private ownership. In order to establish economically viable industrial enterprises, there will be an initiative to set up Industrial and Special Economic Zones so that the huge land area of these industrial zones is effectively used to set a new trend for industrialisation which would facilitate creation of lots of employment opportunities.

To further strengthen the process of industrialization, the government has identified the Small and Medium Enterprise (SME) sector as a priority sector and also as an engine of industry. To attract foreign investment, all facilities to be given to the potential investors were incorporated in the industrial policy. The government took initiatives to formulate a separate SME policy to provide required guidelines and strategic support to set up SME industries across the country. Guidelines and strategies incorporated in the SME policy will be followed to establish SME industries.

Over the last decade, a discernible change across the globe was evident in terms of women's participation in socio-economic activities particularly in the sphere of industry. The present industrial policy, therefore, attaches significant priority to the issue of creating more women entrepreneurs and ensuring more participation of women entrepreneurs in the process of industrialisation. For hygienic preservation and marketing of Bangladesh agricultural products steps will be taken to make them frozen, pasteurized, canned or turn them into dry food, so that all these locally produced commodities can be exported round the year.

In this age of ICT, it is possible to provide accurate and rapid customer services by using ICT for cost effectiveness and improvement of the quality of products. This is why, providing encouragement to the intensive use of ICT on certain specific areas is another important feature of present industrial policy.

It is visualised that the industry sector that will be developing over the next decade would be able to gain 30-35% share of GDP and also to absorb 35 percent of the labour force. To achieve this estimated growth in the manufacturing sector, the present industrial policy has laid special emphasis on strengthening efforts to establish agro-based and agricultural product processing industry, together with steps to face the possible adverse situation in export-oriented RMG industry and SMEs sector, to extend facilities to women entrepreneurs on priority basis, to set up special economic zones in various regions, to market manufacturing products at a reasonable price with quality of products comparable to the world standard, to arrange environment-friendly production and to increase the productivity in the manufacturing sector. The directions contained in the new industry policy will help in putting in place planned expansion of industrialisation and also achieve sustainable industrial growth on a continued basis.

This will create a strong and potential base for economic development which will in turn accelerate the process of poverty reduction and reduction of unemployment, create employment opportunities as well as accelerate the overall economic growth of the country.

The government took effective measures for the augmentation of the industrial growth and diversification of the industrial sector. Currently, the manufacturing sector including local textile, leather products, agro-based industry, bicycle and light engineering etc., are given cash support to augment export. To boost up industrial investment, the nationalised commercial banks have reduced the rate of interest from 10-12.50 percent to 9 percent in the thrust industrial sectors, such as textile industry (including readymade garments), agro-based industries, computer software and information technology, data export, production of artificial flowers, frozen food, (including frozen poultry and meat), gift items, 100 percent export oriented finished leather goods and jute goods, jewellery, diamond cutting and polishing, oil and gas, cocoon cultivation and sericulture and stuffed toys. The rate of interest has been reduced from 8-10 percent to 7 percent for pre-shipment and packaging credit for export of RMG, frozen food and agricultural commodities. Besides, bank rate has been reduced from 7 percent to 5 percent to induce reduction of interest rate of bank loans.

Quantum Index of Production of Manufacturing Industries:

The Quantum Index of Production (QIP) is an important tool for measuring the production performance of manufacturing industries. Data available from Bangladesh Bureau of Statistics (BBS) show that QIP (1988-89=100), representing medium to large-scale industries, rose to 327.09 in FY 2005-06 from 204.17 in FY 1998-99. Table 8.2 shows the index during FY 1998 -99 to FY 2005-06. Appendix 32 presents production index for the previous years, while Appendix 33 shows the actual production of principal industrial outputs for the last seven years.

Table 8.2: Quantum Index of Production for Medium to Large Scale Industries 1998-99 to 2005-06 (1988-89=100)

Industry	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Medium to Large Scale Industries	204.17	214.3	228.43	238.75	254.45	272.13	290.78	327.09

Source: Bangladesh Bureau of Statistics.

Small and Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) by producing exportable surpluses of commodities together with local value additions and creation of employment opportunities, can make significant contribution to the economy of Bangladesh. Although financing of SMEs in off-farm rural economic activities are largely dependent on equity financing from personal and family savings, currently banks and financial institutions are also coming forward to provide finance to this sector. As the large potential of employment generation by SMEs has attracted attention of the policy makers, a range of initiatives for channeling loans to SMEs are being taken.

The government has taken up programmes to provide financial assistance to expand SMEs through commercial banks. Alongside the disbursement of loans, Bangladesh Bank has taken up a scheme of Tk. 100 crore for refinancing the scheduled banks and financial institutions against the loan given to SMEs. Beside this, IDA has provided US$ 10 million to Enterprises Growth and Bank Modernisation Project (EGBMP) during FY 2004-05. Moreover, ADB has finalised an agreement with Bangladesh Bank to provide additional US$ 30 million to this sector. These huge resources would strengthen the financing programme of EGBMP. This would result in employment generation in one hand and enhancement of purchasing power of the poor on the other hand. Under this programme, the financing capabilities of various financial institutions and banks have been enhanced and up to June, 2006 Bangladesh Bank has disbursed Tk 226.69 crore for refinancing. Out of this, the contribution of IDA and ADB was Tk. 70.91 crore and Tk. 19.70 crore respectively while that of Bangladesh Bank was Tk. 136.08 crore. Detail refinancing activities of Bangladesh Bank to various financial institutions and banks is shown at Table 8.3

Table 8.3 Summary information on SME Refinancing (up to June 2006)

Name of Banks/FIs Refinanced	Amount Refinanced (In Million/Taka)				No. of Beneficiary Enterprises			
Name of Banks/FIs Refinanced	Working Capital	Mid Term	Long Term	Total	Industrial Loan	Commercial Loan	Service	Total
(a) Bangladesh Bank	23.05	76.71	36.32	136.08	343	1503	318	2164
(b) IDA	17.94	37.52	15.45	70.91	174	695	61	930
(c) ADB	1.66	10.23	7.81	19.70	40	88	59	187
Total	42.65	124.46	59.58	226.69	557	2286	438	3281
(a) Refinanced from Bangladesh Bank								
Banks	Amount Refinanced (in Crore)				No. of Beneficiary Enterprises			
1. NCC Bank Ltd.	1.56	7.75	0.00	9.31	0	225	3	228
2. Jamuna Bank Ltd.	1.81	0.84	0.00	2.65	5	12	1	18
3. National Bank Ltd.	0.60	0.00	0.00	0.60	1	0	0	1
4. One Bank Ltd.	0.58	2.45	0.00	3.03	5	64	0	69
5. The Premier Bank Ltd.	8.67	2.06	0.72	11.46	39	52	18	109
6. BRAC Bank Ltd.	3.81	28.23	0.00	32.03	97	896	2	995
7. Southeast Bank Ltd.	2.79	0.15	0.00	2.94	0	31	10	41
Non-Bank Financial Institutions	Amount Refinanced (in Crore)				No. of Beneficiary Enterprises			
1. Uttara Finance & Investment Ltd.	0.78	5.44	9.65	15.86	0	0	90	90
2. Prime Finance & Investment Ltd.	1.40	1.40	0.60	3.39	2	13	2	17
3. Midas Financing Ltd.	0.05	18.26	7.74	26.04	110	201	97	408
4. IDLC of Bangladesh	0.00	1.06	1.35	2.41	4	1	2	7
5. Phoenix Leasing Co. Ltd.	0.12	1.59	4.27	5.99	23	2	2	27
6. United Leasing Co. Ltd.	0.40	5.34	7.47	13.21	25	4	51	80
7. Vanik Bangladesh Ltd.	0.03	0.05	0.00	0.08	2	0	0	2
8. Bay-Leasing	0.25	0.52	0.47	1.24	7	0	1	8
9. Fidelity Assets & Securities Co. Ltd	0.00	0.59	3.48	4.07	17	0	34	51
10. Islamic Finance	0.20	1.00	0.57	1.77	6	2	5	13
Sub-Total (a)	**23.05**	**76.71**	**36.32**	**136.08**	**343**	**1503**	**318**	**2164**
(b) Refinanced from IDA Credit Fund								
Banks	Amount Refinanced (in Crore)				No. of Beneficiary Enterprises			
1. NCC Bank Ltd.	0.10	5.59	4.13	9.82	2	228	5	235
2. BRAC Bank Ltd.	0.00	28.22	0.00	28.22	128	356	6	490
3. Southeast Bank Ltd.	5.33	0.17	0.35	5.85	6	36	3	45
4. The Premier Bank Ltd.	4.13	0.27	0.00	4.40	4	14	6	24
5. One Bank Ltd.	0.33	1.14	0.00	1.47	1	30	0	31
6. Dutch-Bangla Bank Ltd.	7.80	0.00	0.00	7.80	17	20	1	38

Non-Bank Financial Institutions	Amount Refinanced (in Crore)				No. of Beneficiary Enterprises			
1. Fidelity Assets & Securities Co. Ltd	0.00	0.06	0.00	0.06	0	1	0	1
2. IDLC of Bangladesh	0.00	1.21	0.48	1.69	4	5	4	13
3. Phoenix Leasing Co. Ltd.	0.25	0.65	4.72	5.62	12	5	6	23
4. Uttara Finance & Investment Ltd.	0.00	0.20	5.77	5.98	0	0	30	30
Sub-Total (b)	**17.94**	**37.52**	**15.45**	**70.91**	**174**	**695**	**61**	**930**
(c) Refinanced from ADB Fund								
Banks	Amount Refinanced (in Crore)				No. of Beneficiary Enterprises			
1. One Bank Ltd.	0.38	1.29	0.50	2.17	3	33	0	36
2. Eastern Bank Ltd.	1.28	0.00	0.00	1.28	1	9	1	11
Non-Bank Financial Institutions	Amount Refinanced (in Crore)				No. of Beneficiary Enterprises			
1. People’s Leasing Co. Ltd	0.00	0.27	1.85	2.12	2	11	0	13
2. Midas Financing Ltd.	0.00	2.63	1.90	4.53	24	24	14	62
3. IDLC of Bangladesh	0.00	1.63	0.35	1.98	4	0	5	9
4. Islamic Finance	0.00	3.09	1.26	4.35	6	11	9	26
5. Uttara Finance & Investment Ltd	0.00	1.32	1.95	3.27	0	0	30	30
Sub- Total (c)	**1.66**	**10.23**	**7.81**	**19.70**	**40**	**88**	**59**	**187**
Grand Total(a+b+c)	**42.65**	**124.46**	**59.58**	**226.69**	**557**	**2286**	**438**	**3281**

Source: Bangladesh Bank

It would be seen from the above table (8.3) that up to June 2006 Bangladesh Bank distributed Tk. 226.69 crore as refinancing to 8 banks and 10 other financial Institutions. It may be mentioned that the same amount of money was distributed by the above banks and financial institutions to 3281 SMEs earlier as loan. Out of the total loan, Tk. 42.65 crore has been provided as working capital, Tk. 124.46 crore as mid-term loan and Tk. 59.58 crore as long-term loan.

Activities of Bangladesh Small and Cottage Industries Corporation (BSCIC)

Bangladesh Small and Cottage Industries Corporation (BSCIC) is the prime mover organisation of the government to help the entrepreneurs for promotion and extension of small & cottage industries in the country in private sector. BSCIC is working smoothly through 64 district offices and 183 project offices in the upazilas to promote investment and production in the small and cottage industries sector in the country. During the financial year 2005-06, about Tk. 1100.96 crore has been invested in this sector through BSCIC, different banks & other financial institutions as well as in the form of own investment of entrepreneurs. The volume of investment is Tk. 54.28 crore (5%) higher than that of previous year. The investment has created employment opportunities of about 1.31 lakh people in this sector which is 2% higher than that of previous financial year. BSCIC has 67 industrial estates to provide infrastructural facilities for establishment of industries throughout the country. These industrial estates have been playing a significant role in the economy. A recent survey shows that a total of Tk. 667.57 crore has been invested in the 3,071 industrial units where as many as 2.15 lac persons were employed. These industrial units have produced goods worth Tk. 13368.06 crore during FY 2005-06 of which goods of Tk. 4944.57 crore have been exported. These industrial units paid to the national exchequer a total of Tk. 1517.67 crore as revenue among which Tk. 1299.30 crore was tax and duties. Recently, BSCIC has taken up a project, at a cost of Tk. 175.57 crore to shift the present tannery industries at Hazaribagh, Dhaka outside the capital city at Harindhara Mouza under Savar upazila.

Production performance of SOEs

a. Bangladesh Chemical Industries Corporation (BCIC): BCIC is currently managing 12 (twelve) enterprises under its control. During 2005-06, 12 enterprises of BCIC produced goods worth Tk. 1118.53 crore as against the target of Tk. 1249.02 crore which is 90 percent of the target. Total sale of BCIC enterprises during the said period was Tk. 1289.99 crore which is 103 percent of the target. BCIC enterprises incurred a loss of Tk. 271.84 crore during 2005-06 as per provisional account which was Tk. 165.93 crore during 2004-05. It may be mentioned that recently Privatization Commission has included 10 enterprises of BCIC for privatization as these are incurring losses. Out of which, 3 (three) enterprises have recently been privatized and have been handed over to the private entrepreneurs. Production of urea in the six factories under BCIC was 17.30 lakh metric tons in FY 2005-06. During the same period 0.56 lakh metric ton of TSP, 1.35 lakh metric ton of SSP, 0.97 lakh metric ton of paper, 25705 metric ton of Karnaphuli paper, 20.12 L. Sq.m. glass sheet, 2973 metric ton sanitaryware, 1204 metric ton Insulator, 11.57 lakh sft Hardboard and 1.51 lakh metric ton of cement were produced by the enterprises of BCIC. In order to attain self sufficiency in Phosphatic Fertilizer and to reduce the dependency on TSP Fertilizer, Di-Ammoniam Phosphate Project (DAP-1) and Di-Ammoniam Phosphate Project (DAP-2) are being implemented through the Chittagong Urea Fertilizer Ltd. Both the projects have already been completed.

b. Bangladesh Textile Mills Corporation (BTMC): Currently, there are as many as 24 spinning mills under the control of BTMC. Out of which 13 units of 10 mills are operating on service charge system. Production of yarn in mills under BTMC decreased to 68.31 lakh kg. in FY 2004-05 from 81.01 lakh kg in FY 1997-98. During the period, total sales revenue declined from Tk. 51.99 crore to Tk. 40.13 crore, while the cost of sales dropped from Tk. 122.56 crore to Tk. 55.78 crore. As a result, operational loss declined to Tk. 15.65 crore from Tk. 70.66 crore and net loss came down from Tk 92.70 crore to Tk. 23.75 crore.

c. **Bangladesh Sugar and Food Industries Corporation (BSFIC)**: BSFIC produced 133283 metric ton sugar in FY 2005-06 as against the target of 1,40,000 metric ton. In FY 2004-05, the operational loss of the Corporation was Tk. 18.82 crore whereas it is expected to make a operational profit of Tk. 63.21 crore (provisional) in FY 2005-06. The present demand of sugar in the country is around 12-14 lakh metric tons. 14 sugar mills are now operating in the government sector whose production capacity is only 195440 metric tons. To meet the huge demand of sugar, the government has taken three development projects at a cost of Tk. 170.48 crore. It is expected that, on completion of these projects, annual sugar production capacity of the operating sugar mills in the government sector will increase to 243940 metric tons.

d. Bangladesh Jute Mills Corporation (BJMC): BJMC received a subsidy of Tk. 31.09 crore in FY 2003-04. In FY 2004-05, a sum of Tk. 23.03 crore has been provided as subsidy for the export of jute goods at the rate of 7.5 percent of FoB price. Operational loss declined to Tk. 124.06 crore in FY 2004-05 from Tk. 176.54 crore in FY 1997-98 and net loss decreased from Tk. 275.90 crore to Tk. 177.52 crore.

e. Bangladesh Steel and Engineering Corporation (BSEC): Presently, 9 industrial units are operating under BSEC. The revenue income of this corporation is gradually increasing. Net profit of this corporation was Tk. 25.28 crore in FY 2004-05. In FY 2005-06, the net profit has been estimated at Tk. 20.01 crore.

f. Bangladesh Standards and Testing Institution (BSTI): To develop the infrastructural facilities and to strengthen technical capability of BSTI, two development projects at a cost of Tk. 154.4 million have been completed recently. Under these projects, construction work of two laboratory buildings at Head Office and Dhaka Divisional Office have been completed and a good number of modern laboratory equipment at a cost of Tk.810.00 lakh have been procured. The Parliament passed Bangladesh Accreditation Act, 2006 by which a National Accreditation Board will be established in the country. This board will regulate accreditation of laboratories, certification bodies and assessors.

On going Reform Programmes in State Owned Industrial Sector.

In order to bring about improvement in the management system of state owned industrial sectors the following programmes have been undertaken:

a. Gradual privatisation of the financially insolvent entities under the State Owned Industrial Sector;

b. Settlement of short term and long term liabilities of closed or privatised enterprises;

c. Reduction of losses through retrenchment of additional manpower and curtailment of non-essential expenditure;

d. Ensuring record keeping of assets and liabilities and annual audit;

e. Enhancement of reward/punishment scheme for ensuring accountability at every stage; and

f. Rationalisation of prices of goods/services consistent with market demand and cost of production.

Industrial Investment Status

Industrial Loan

Rapid industrialization is a ***sine qua non*** for achieving desired level of economic development of an agro-based developing country. Government continued its efforts to achieve this goal by way of providing loans and other ancillary supports to promote SMEs alongside the large-scale industries. As a result, the volume of industrial loan increased during 1994-95 to 2005-06 except FY 1997-98. The disbursement and recovery of the industrial loan was Tk 37972.77 crore and Tk. 30118.26 crore respectively during 2005-06 which is 22.97% and 12.65% higher than that of previous fiscal year. The volume of disbursed working capital loan and term loan increased by 28.76% and 8.21% respectively in FY 2005-06 than that of FY 2004-05. On the other hand, the loan recovery of the working capital increased 28.84 percent in FY 2005-06 while the recovery of the term loan decreased by 21.81 percent in the same year than that of the previous fiscal year. The table below shows the year wise disbursement and recovery of loan during FY 1995-96 to FY 2005-06.

Table: 8.4: Year wise Distribution and Recovery of Industrial Loan

(Taka. in Crore)

FY	Disbursement			Recovery		
	Working Capital	Term Loan	Total	Working Capital	Term Loan	Total
1995-96	3675.69	1230.44	4906.13	3402.88	519.69	3922.57
1996-97	6179.75	1200.00	8179.75	5692.70	887.19	6579.89
1997-98	6599.03	1120.34	7711.37	5409.72	859.43	6269.15
1998-99	7905.49	1330.10	9235.59	5281.65	1093.39	6374.96
1999-00	10681.74	1627.26	12309.00	7200.13	1653.34	8853.47
2000-01	13382.19	3057.07	16439.46	9777.47	2795.10	12572.57
2001-02	13765.12	3505.15	17270.27	9638.34	3212.97	12851.31
2002-03	15671.46	3961.99	19633.45	12283.21	3835.12	16118.33
2003-04	18,703.10	6,675.99	25,379.09	15,435.00	4,963.44	20,398.44
2004-05	22,175.78	8704.52	30880.30	18189.65	8546.98	26736.63
2005-06	28553.74	9419.03	37972.77	23435.33	6682.93	30118.26

Source: Bangladesh Bank.

Role of Privatization Commission

In order to strengthen the contribution of the private sector to the economy and to develop the private sector as a driving force of the development, the government has decided to privatize gradually the nationalised industry and commercial enterprises. The aim of privatization is to stimulate the industrialisation and economic progress of the country and also to create more opportunity of employment by strengthening the private sector. Another important objective is to infuse dynamism to the loss-making organaisations to reduce the burden of losses of the government. In FY 2005-06, the Privatization Commission continued its effort of privatization in consultation with the administrative ministry. Four industrial organisations/companies have been privatised in this fiscal year up to 30 June 2006. With these, sixty seven institutions have been privatized since inception of the Privatization Board (Now Privatization Commission) in 1993. Of this, forty six institutions have been privatized through direct sale and remaining twenty one through floating of shares in the market. The sale of another five institutions has been finalised by circulating the letter of intent to the respective clients in order to transfer it to the private owners.

Besides, necessary measures have also been taken in order to sell 67.26 percent share of Rupali Bank Ltd.

Actual Investment Status

Private sector in Bangladesh has been playing a significant role in the economic development of the country. Specifically, in the recent years, private sector activities have expanded enormously in various sectors of the economy. Country's Industrial growth reached all time high nearly touching double digit (9.56%) while manufacturing experienced a spectacular double digit (10.45%) growth. UNCTAD's LDC Report 2006 found that the overall pattern of change for the LDCs as a group is strongly influenced by what is happening in Bangladesh. The report states,

> *"Between 1990–1993 and 2000–2003, half of the total increase in manufacturing value-added in the LDC group as a whole was attributable to the growth of manufacturing in Bangladesh."*

The LDC report also identified that, "Of the 40 LDCs for which data are available, only 7 have experienced steadily sustained growth – **Bangladesh**, Bhutan, Burkina Faso, Cape Verde, the Lao People's Democratic Republic, Lesotho and Nepal". Recognising Bangladesh as one of the most rapidly growing economy in the recent times, World Bank commented that,

> *"Bangladesh is the 10th most rapidly growing economy among 31 large developing countries with population above 20 million with GDP averaging 5% since 1990".*
>
> *(Source: Bangladesh Country Factsheet by the World Bank)*

Based on this promising growth performance and potential, the New York based global investment banking, securities and investment management firm **Goldman Sachs** considered Bangladesh as one of the **Next-11** emerging economies after BRIC (Brazil, Russia, India & China). Recently, in its China ASEAN business report, the Mizuho Corporate Bank of Japan has also identified Bangladesh as **South Asia's Next Rising Star for Foreign Investments**.

The robust economic growth achieved in Bangladesh has resulted from investment-friendly policy and improved investment climate. Moreover, Bangladesh is increasingly becoming an attractive destination for foreign direct investment (FDI). In 2005, the growth in FDI increased by 84 percent to US$ 845 million. Besides, substantial growths in investment registration, import of capital machinery and industrial raw materials and export have been achieved.

Bangladesh's success in attracting private investment and achieving remarkable industrial growth has been presented in the following eight sections:

1. Conducive Investment Climate
2. Investment Statistics
3. Private Investment Registration
4. Import of Capital Machinery
5. Growth in Manufacturing GDP

6. Private Investment as Percentage of GDP
7. Employment Opportunities and Potential
8. Continued Interests of Foreign Investors

1. Conducive Investment Climate

Doing Business in Bangladesh today is easier than many developing economies. A report entitled "*Doing Business in 2006: Creating Jobs*" published jointly by the World Bank and IFC ranked Bangladesh in the 65th position in terms of Ease of Doing Business among 155 economies (Table 8.5).

Table 8.5: Ease of Doing Business Ranking (Selected)

Rank	Country
1	New Zealand
20	Thailand
31	Maldives
55	Nepal
60	Pakistan
65	Bangladesh
75	Sri Lanka
91	China
99	Vietnam
104	Bhutan
116	India
122	Afghanistan

Source: Doing Business in 2006: Creating Jobs, World Bank, 2006

Based on 39 indicators grouped into 10 categories, the above ranking recognises Bangladesh as one of the easiest locations for doing business in South Asia, better than Sri Lanka and India. Besides, consistent growth in businesses is the best testimony of a conducive business climate prevailing in Bangladesh.

2. Investment Statistics

Actual Foreign Direct Investment

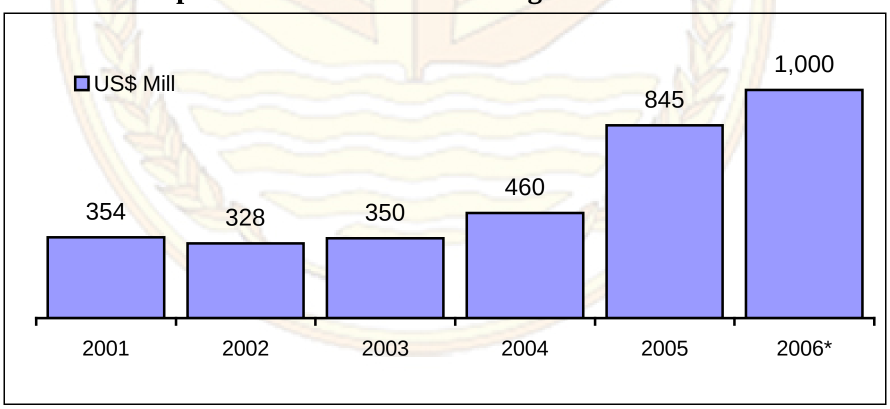
Foreign Direct Investment (FDI) has long been recognised as an important channel of capital and technology flows from developed to developing countries. World Investment report 2006 shows that, while North-South capital flows continue to play an important role in economic development, the world of FDI is becoming increasingly multi-dimensional. On of the most significant recent features of globalization has been the rise of FDI from developing and transition economies. This phenomenon presents new opportunities for developing home and host economies, with the international "rules of the game" changing rapidly.

Global Foreign Direct Investment (FDI) inflows rose substantially in 2005, the second rise in two years. This growth was spurred by cross-border mergers and acquisitions (M&As), which reflected strategic choices by transitional corporations (TNCs) following increased corporate profits and the recovery of stock markets. "Current growth is broad-based with inflows rising in 126 out of some 200 economies, reflecting high economic growth and strong economic performance in many parts of the world" said Dr. Supachai Panitchpakdi, Secretary-General of UNCTAD.

At US$ 916 billion, global FDI inflows were 29% higher than in 2004. Flows to the developed countries rose by 37% to US$542 billion. Those to developing countries surged by another 22% in 2005 to reach a record US$334 billion. In percentage terms, developed countries attracted 59% of global FDI, developing countries attracted 36%, South, East and South-East Asia received 18% and South-East Europe and the Commonwealth of Independent States (CIS) accounted for the remaining 4%. The LDCs received only 1.1% of the total FDI.

In 2005, total FDI inflow in Bangladesh was increased by 84% amounting US$ 845 million – highest ever in any year since her independence. The growth is second highest in entire South Asia. According to World Investment Report 2006, Bangladesh now ahead of India in terms of FDI Performance Index being ranked 116th among 200 economies while India is ranked 119th. Given the present trend, the strategic target for 2006 to attract FDI worth US$ 1.0 billion is likely to be achieved. Following graph 8.1 presents a summary of FDI inflow data since 2001.

Graph 8.1: Trend in FDI in Bangladesh since 2001



Source: World Investment Report 2005**,** BOI and Bangladesh Bank**. *** Target

A **component-wise analysis** of FDI inflow in 2005 shows that about 50% of FDI came as equity, 29% as reinvestment, and the rest as intra-company borrowing (Table 8.6). The higher reinvestment rate indicates unwavering confidence of foreign investors on overall investment climate of the country and, simultaneously, competitiveness of related business sectors.

Table 8.6: FDI Inflow in Bangladesh during 2005 – Summary by FDI Component (in million US$)

FDI Components	2005			Share
	Jan-Jun	Jul-Dec	Total	%
a. Equity Capital	252.4	173.2	**425.6**	50.35%
b. Reinvested Earnings	144.1	103.4	**247.5**	29.28%
c. Intra-Company Loans	85.3	86.9	**172.2**	20.37%
Total	**481.8**	**363.5**	**845.3**	**100%**

Source: Bangladesh Bank Enterprise Survey, 2006

Most of the FDI (87%) have been brought by companies registered with the Board of Investment the balance (13%) have been invested in companies registered with Bangladesh Export Processing Zones Authority (BEPZA) (Graph8.2).

Graph 8. 2: FDI Distribution by Regulating Authorities

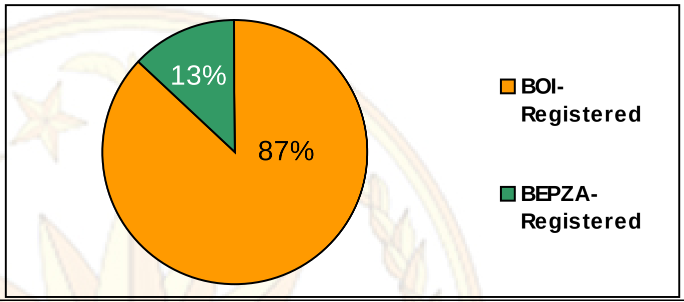


Table 8.7 presents a **component-wise analysis** of FDI inflow in 2005 according to its affiliation with the regulatory authorities i.e. BEPZA and BOI.

Table 8.7: FDI Inflow in Bangladesh during 2005 – Distribution by Regulatory Agencies

(in Million US$)

FDI Components	BOI-Registered Entities - 2005			BEPZA-Registered Entities - 2005			Total
	Jan-Jun	Jul-Dec	BOI **Total**	Jan-Jun	Jul-Dec	BEPZA **Total**	**FDI-2005**
a. Equity Capital	242.7	168.1	**410.8**	9.6	5.2	**14.8**	**425.6**
b. Reinvested Earnings	124.7	89.1	**213.8**	19.4	14.3	**33.7**	**247.5**
c. Intra-Company Loans	51.4	58.5	**109.9**	33.9	28.4	**62.3**	**172.2**
Total	**418.8**	**315.7**	**734.5**	**63.0**	**47.8**	**110.8**	**845.3**

Source: Bangladesh Bank Enterprise Survey, 2006

A **sector-wise analysis** of FDI inflow in 2005 demonstrates that FDI in Bangladesh have been widely spread among the key business sectors concentrating on telecommunication (33%), manufacturing (26%), energy and power (25%) and trade and commerce (15%). Table 8.8 presents a sectoral analysis of FDI inflow in 2005.

Table 8.8: FDI Inflow in Bangladesh during 2005 – Distribution by Sectors (in Million US$)

FDI Sectors	2005			2005 Share (%)
	Jan-Jun	Jul-Dec	**FDI-2005**	
a. Agriculture & Fishing.	1.6	0.7	**2.3**	0.3%
b. Power, Gas & Petroleum	113.1	95.2	**208.3**	24.6%
b.1. Power	*12.7*	*14.5*	**27.2**	3.2%
b.2. Gas & Petroleum	*100.4*	*80.7*	**181.1**	21.4%
c. Manufacturing	137.9	81.5	**219.4**	26.0%
c.1. Textile & Wearing	*52.0*	*44.5*	**96.5**	11.4%
c.2. Chemicals & Pharma	*2.8*	*1.1*	**3.9**	0.5%
c.3. Metal & Machinery Prods.	-	*0.1*	**0.1**	0.0%
c.4. Vehicle & Transport Eqp.	*0.7*	*0.9*	**1.6**	0.2%
c.5. Fertilizer	*46.7*	*14.5*	**61.2**	7.2%
c.6. Cement	*29.6*	*15.7*	**45.3**	5.4%
c.7. Leather & Leather Prods.	*0.7*	-	**0.7**	0.1%
c.8. Other Manufacturing	*5.4*	*4.7*	**10.1**	1.2%
d. Trade & Commerce	59.9	70.6	**130.5**	15.4%
e. Transport, Storage & Comm.	167.4	114.5	**281.9**	33.3%
e.1. Telecommunication	*165.3*	*113.5*	**278.8**	33.0%
e.2. Others (TSC)	*2.1*	*1.0*	**3.1**	0.4%
f. Services	2.0	1.0	**3.0**	0.4%
g. Others	-	-	-	0.0%
Total	**481.9**	**363.5**	**845.4**	100%

Source: Bangladesh Bank Enterprise Survey, 2006

In 2005, FDI has been originated from 30 different sources dominated by the developed economies (51.45%). Interestingly, a significant share of FDI also came from developing economies (43.23%). The top-5 FDI sources are UK (18.08%), USA (16.78%), Singapore (11.53%), UAE (6.55%) and Norway (6.33%). Table 8.9 presents a source-wise analysis of FDI inflow in 2005.

Table 8.9: FDI Inflow in Bangladesh during 2005 – Distribution by Sources (in Million US$)

Sources / Regions	FDI Inflow			Country Share	Country Rank
	Jan-Jun'05	Jul-Dec'05	Total-2005	Share	Rank
	in million US$	in million US$	in million US$	%	
Developed Economies	**226.30**	**208.60**	**434.90**	**51.45%**	**-**
Western Europe	**134.40**	**111.50**	**245.90**	**29.09%**	**-**
European Union	*132.80*	*110.80*	243.60	28.82%	-
Denmark	6.40	11.80	18.20	2.15%	13
France	0.90	0.80	1.70	0.20%	20
Germany	0.10	1.50	1.60	0.19%	21
Luxembourg	-	0.40	0.40	0.05%	27
Netherlands	8.40	7.00	15.40	1.82%	14
Norway	24.60	28.90	53.50	6.33%	**5**
United Kingdom	92.40	60.40	152.80	18.08%	**1**
Other Western Europe	*1.60*	*0.70*	2.30	0.27%	-
Switzerland	1.60	0.70	2.30	0.27%	19
North America	**58.10**	**84.40**	**142.50**	**16.86%**	**-**
Canada	-	0.70	0.70	0.08%	25
USA	58.10	83.70	141.80	16.78%	**2**
Other Developed Economies	**33.80**	**12.70**	**46.50**	**5.50%**	**-**
Japan	33.80	12.70	46.50	5.50%	8
Developing Economies	**225.60**	**139.80**	**365.40**	**43.23%**	**-**
Africa	**22.20**	**26.20**	**48.40**	**5.73%**	**-**
Egypt	22.20	26.20	48.40	5.73%	7
Latin America & the Caribbean	**-**	**-**	**-**	**-**	**-**
Asia & the Pacific	**203.40**	**113.60**	**317.00**	**37.50%**	**-**
Asia	**203.40**	**113.60**	**317.00**	**37.50%**	**-**
West Asia	*2.70*	*53.60*	56.30	6.66%	-
Saudi Arabia	0.50	0.40	0.90	0.11%	24
United Arab Emirates	2.20	53.20	55.40	6.55%	**4**
South, East and South-East Asia	*200.70*	*60.00*	260.70	30.84%	-
China	1.40	0.20	1.60	0.19%	22
Hong Kong	27.20	25.90	53.10	6.28%	6
India	0.80	1.90	2.70	0.32%	18

Sources / Regions	FDI Inflow			Country	Country
	Jan-Jun'05	Jul-Dec'05	Total-2005	Share	Rank
	in million US$	in million US$	in million US$	%	
Indonesia	-	1.30	1.30	0.15%	23
Malaysia	24.90	8.20	33.10	3.92%	9
Nepal	0.10	-	0.10	0.01%	30
Pakistan	18.00	7.50	25.50	3.02%	12
Singapore	97.40	0.10	97.50	11.53%	**3**
South Korea	18.10	11.70	29.80	3.53%	11
Sri Lanka	2.10	2.00	4.10	0.49%	17
Taiwan	10.50	0.90	11.40	1.35%	16
Thailand	0.10	0.10	0.20	0.02%	29
Vanuatu	0.10	0.20	0.30	0.04%	28
Others	**29.90**	**15.10**	**45.00**	**5.32%**	**-**
ADB	6.10	6.60	12.70	1.50%	15
IFC	23.50	8.20	31.70	3.75%	10
Others	0.30	0.30	0.60	0.07%	26
Total	**481.80**	**363.50**	**845.30**	**100.00%**	**-**

Source: Bangladesh Bank Enterprise Survey, 2006

3. Private Investment Registration

Generally, private investment project proposals are submitted to BOI immediately after legal formation of the company. Registration is the first formal commitment for an investment project based on primary project feasibility study. Following Table 8.10 presents year-wise data since FY 1991-92 on the projects registered with BOI. In FY1991-92, about 258 private investment projects with proposed investment of Tk. 660 crores were registered with BOI that reached to 1,889 projects in FY2005-06 with proposed investment of Tk. 43,356 crores. Growth of registration for the just concluded year of 2005-06 was 125% which is very encouraging. Table 8.10 below presents detail of projects registered with BOI since FY 1991-92.

Table 8.10: Yearwise details of the Private Investment Projects registered with BOI from FY1991-92 to FY2005-06

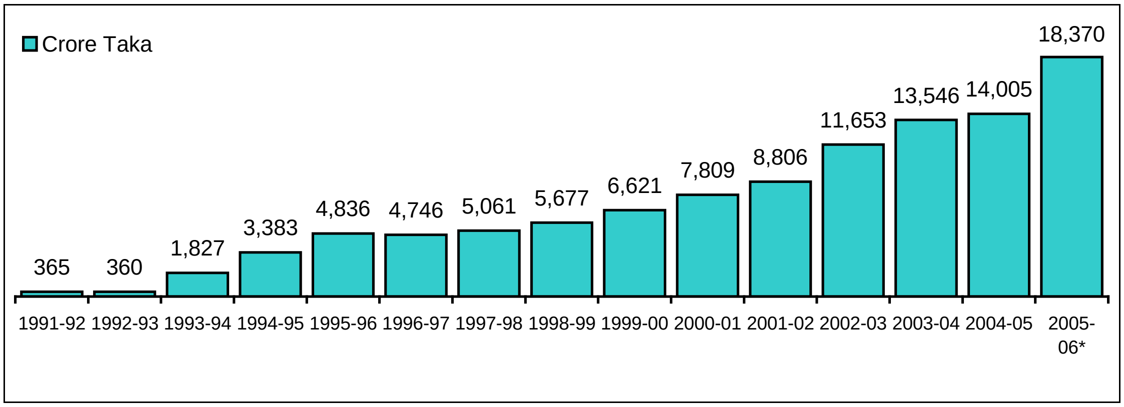
Year	Local Investment		Foreign/ JV		Total		Growth (%)
	Projects	Crore* Taka	Projects	Crore* Taka	Projects	Crore* Taka	
1991- 92	233	365	25	294	258	660	-
1992- 93	353	360	28	211	381	571	-13.4%
1993-94	846	1,827	100	3,217	946	5,043	782.9%
1994-95	1,113	3,383	145	2,920	1,258	6,303	25.0%
1995-96	1,211	4,836	127	6,261	1,338	11,097	76.1%
1996- 97	1,247	4,746	138	4,515	1,385	9,261	-16.5%
1997- 98	1,448	5,061	140	15,308	1,588	20,368	119.9%
1998-99	1,535	5,677	161	9,243	1,696	14,920	-26.8%
1999-2000	1,428	6,621	135	10,594	1,563	17,215	15.4%
2000-01	1,788	7,809	80	6,993	1,868	14,802	-14.0%
2001-02	2,875	8,806	89	1,734	2,964	10,540	-28.8%
2002-03	2,101	11,653	104	2,067	2,205	13,720	30.2%
2003-04	1,624	13,546	130	2,644	1,754	16,190	18.0%
2004-05	1,469	14,005	120	5,298	1,589	19,302	19.2%
2005-06*	1,754	18,370	135	24,986	1,889	43,356	125%
Total	**21,025**	**1,07,062**	**1,657**	**96,283**	**22,682**	**2,03,345**	-

* 1 Crore = 10 Million. Source: IIMC, BOI

Registration Statistics of Local Investment Projects

During the last 5 years from FY2001-02 to FY2005-06, a total of 9,823 local investment projects worth Tk. 66,379 crores were registered at BOI which is 122 percent higher than previous five years' investment (Graph 8.3). About 80 percent of those local investment projects have either been implemented or at various stages of implementation.

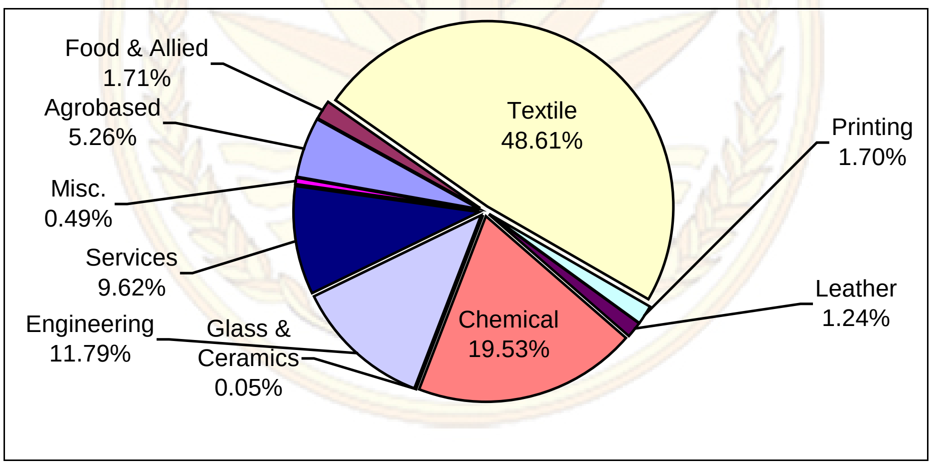
Graph 8.3: Trend in Registration of Local Investment Projects (Crore Taka)



Source: IIMC, BOI. * Provisional

49 percent of the local investment proposals are textile projects. The other major sectors are chemical (20 percent), engineering (12 percent), services (10 percent), agorbased (5 percent) etc. Graph 8.4 illustrates the sectoral break-up of local investment proposals registered with BOI.

Graph 8.4: Sectoral Distribution of Local Investment Projects Registered in FY 2005-06

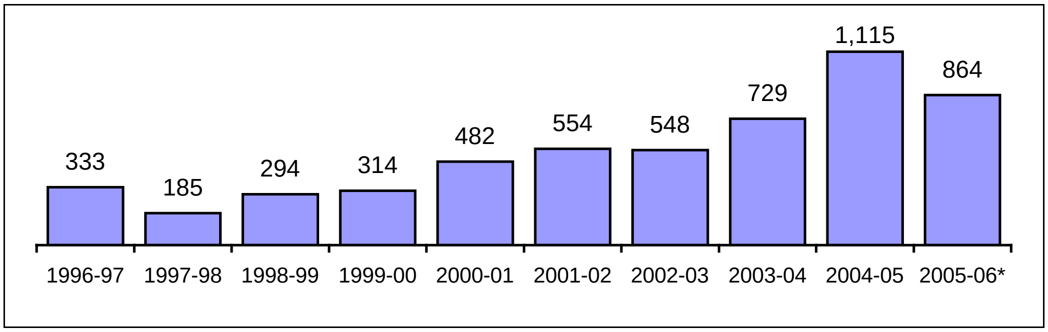


Source: IIMC, BOI. * Provisional

4. Import of Capital Machinery

Nearly half of the import payments of Bangladesh are spent for importing capital machinery and industrial raw materials. During the first 8-months of FY 2005-06 (upto February 2005), import of industrial raw materials and capital machinery grew by 16 percent and 37 percent respectively (Graph 8.5). In the last four years and eight months, total import of capital machinery stood at US$ 3.80 billion which is 123 percent higher than the previous five years. This higher trend in import of capital machinery clearly indicates that the manufacturing growth would continue for considerable period of time.

Graph 8.5: Trend in Import of Capital Machinery (Million US$)

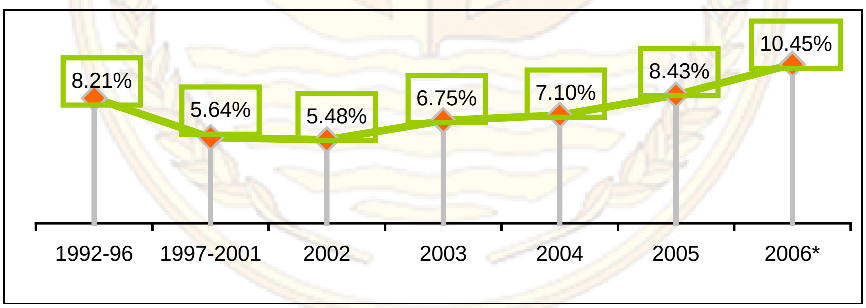


Source: Bangladesh Bank, Monthly Statistics Reports, 2006. * Provisional (Jul-Feb).

5. Growth in Manufacturing GDP

Manufacturing has shown a double-digit growth (10.45%) in FY 2005-06. Because of this robust growth, manufacturing has now turned to be the single largest contributor to GDP (17.05%) and has overtaken agriculture (16.91%). This clearly shows that the economy of Bangladesh has been transforming quickly from agrarian to industrial structure. Notably, the average growth in manufacturing during FY1992 to FY1996 was 8.21 percent that came down to 5.64 percent during FY1997 to FY2001. However, a strong policy support by the government facilitated manufacturing to rebound. Graph 8.6 presents the recent trend in manufacturing growth.

Graph 8.6: Trend in Manufacturing Growth since 1992



Source: Bangladesh Economic Review 2006. * provisional.

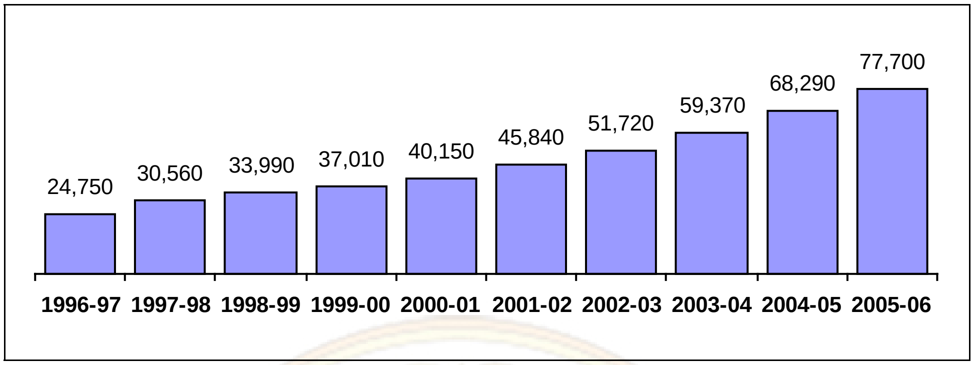
To uphold and support this unprecedented growth of manufacturing sector, BOI has strengthened its facilitating services with transparent, easier and customer-oriented processes. BOI introduced an Online Service Tracking System to provide status of the service requests online at real time basis.

6. Private Investment as Percentage of GDP

Total private investment during last 5 years from FY 2001-02 to FY 2005-06 amounted Tk. 302,550 crore which is 82 percent higher than that of the previous 5 years' investment. During FY

1995-96 to FY 2000-01, the total private investment was Tk. 166, 560 crore. In FY 2005-06, the private investment stood at 18.7 percent of GDP from 15.8 percent in FY 2000-01 (Graph 8.7).

Graph 8.7: Trend in Private Investment since FY 1996-97

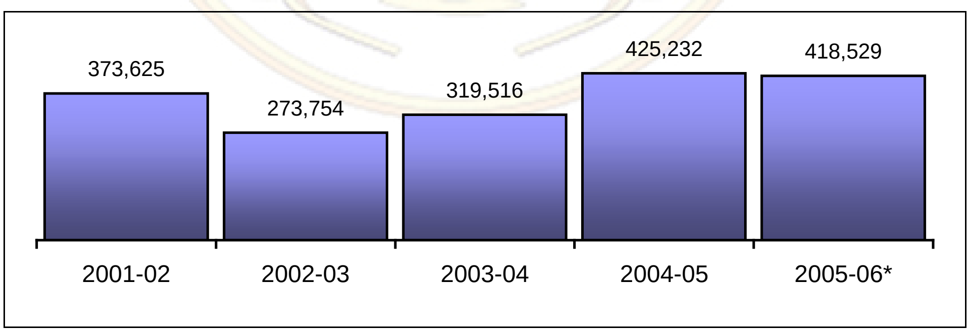


Source: Bangladesh Economic Review 2006

7. Employment Opportunities and Potential

Poverty reduction in a densely populated and geographically small country like Bangladesh largely depends on employment generation. The creation of employment opportunities requires accelerated investment in labor-intensive manufacturing sector. Recent surge in manufacturing activity in Bangladesh has *not only* nearly doubled our export earnings, *but also* created plenty of new jobs. During the last five years, more than 1.8 million new jobs have been created in the BOI-registered projects alone. Yearwise breakdown of new job creation from FY 2001-02 to 2005-06 is illustrated in the following graph 8.8:

Graph 8.8: Potential Employment Opportunities in BOI-Registered projects



Source: IIMC, Board of Investment, September 2006.

8. Continued Interests of Foreign Investors

The recent years have witnessed tremendous interests of foreign investors to invest in diversified sectors in Bangladesh. In FY 2005-06, major foreign investors include Dhabi Group of United Arab Emirates, Singtel of Singapore, Orascom of Malaysia, YKK of Japan and Microsoft of USA.

Besides, a number of large investment proposals worth about US$ 10.5 billion are at negotiation and / or approval stages. These include investment proposals from Tata Group of India, Toray of Japan, Indorama Group of Thailand, Luxon Global of South Korea, Delta Pacific Mining of United Kingdom, Dawood Group of Pakistan, Kingdom Group of Saudi Arabia and other proposals from China, Malaysia, India, Taiwan, UK, USA, Australia, Singapore, Thailand, Saudi Arabia, UAE and Kuwait.

Should the present investment and industrial growth trend continues, Bangladesh would certainly be able to achieve the Millennium Development Goals (MDGs) and graduate to a developing economy by 2015.

Performance of Industries under Bangladesh Export Processing Zone Authority (BEPZA)

Tables 8:11 and 8.12 show the number of industries, investment cost, manpower utilization and export performance of the seven EPZs at Dhaka, Chittagong, Comilla, Mongla, Uttara, Iswardi and Adamzee EPZ. Upto June 2006, 242 industrial units were operational in these seven zones with a total investment cost of US$ 979.46 million. A total of 1,77,809 manpower has been employed in these industries. Besides, establishment of a total of 133 industrial units (32 in Chittagong EPZ, 26 in Dhaka EPZ, 22 in Comilla EPZ, 14 in Iswardi EPZ, 18 in Mongla EPZ, 6 in Uttara EPZ, 9 in Adamzee EPZ and 6 in Karnaphuli EPZ) is underway. According to the project proposal, another 66,007 jobs will be created, once those industrial units are operationalised. During the FY 2005-06, commodities worth US$ 1830 million were exported from the mills and factories of EPZ, which accounted for 18 percent of national exports.

Table 8.11 Industries under Bangladesh Export Processing Zone (EPZ) and their Performance in terms of Investment and Employment Generation (up to June 2006)

Goods	Number of Industries	Total Investment (Million US $)	Total Manpower
Readymade Garments	49	253.28	94,742
Electronics	15	52.27	3,001
Textile goods	26	239.23	20,158
Metal goods	12	20.57	815
Leather goods	12	52.36	5,280
Plastics goods	13	21.24	1,025
Cap	07	43.12	12,583
Terrytowel	16	34.89	4,491
Knit textile	21	84.28	19,028
Garment goods	30	76.01	6,013
Others	41	102.19	10,674
Total	242	979.46	1,77,809

Source: (BEPZA).

Table 8.12: Annual Investment and Exports Status in EPZs located at Dhaka, Chittagong, Mongla, Comilla, Uttara, Iswardi and Adamzee (1997- 98 to 2005-06)

(Million US $)

EPZ		1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Dhaka	Total Invest	26.24	35.50	19.80	24.06	32.01	59.14	49.36	51.35	61.57
	Total Export	185.64	259.57	364.73	447.51	466.76	554.79	667.60	757.73	912.30
Chittagong	Total Invest	42.59	36.11	15.18	24.30	22.37	42.14	55.43	45.31	35.95
	Total Export	450.41	452.12	526.09	620.36	680.70	641.28	679.01	772.39	873.03
Mongla	Total Invest	0.00	0.00	0.00	0.05	0.43	0.11	0.80	1.49	0.00
	Total Export	0.00	0.00	0.00	0.00	1.55	3.00	3.21	7.83	7.09
Comilla	Total Invest	0.00	0.00	0.00	0.00	0.64	1.05	9.03	19.01	10.18
	Total Export	0.00	0.00	0.00	0.00	0.01	1.15	4.10	9.66	34.99
Uttara	Total Invest	0.00	0.00	0.00	0.00	0.16	0.20	0.42	0.72	0.00
	Total Export	0.00	0.00	0.00	0.00	-	-	-	-	-
Iswardi	Total Invest	0.00	0.00	0.00	0.00	0.10	0.50	-	0.05	0.76
	Total Export	0.00	0.00	0.00	0.00	-	-	-	1.09	2.54
Adamzee	Total Invest	0.00	0.00	0.00	0.00	-	-	-	-	4.00
	Total Export	0.00	0.00	0.00	0.00	-	-	-	-	0.23
Total Investment		**68.83**	**71.61**	**34.98**	**48.41**	**55.71**	**103.14**	**115.05**	**118.52**	**112.46**
Total Export		**636.05**	**711.70**	**890.73**	**1067.91**	**1149.02**	**1200.22**	**1353.91**	**1548.68**	**1830.18**

Source: (BEPZA) June, 2006.