Star BUSINESS

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$2.8b investment proposal for energy, petrochemical

Ispat Industries' Vinod Mittal signs MoU with BoI today

STAR BUSINESS REPORT

Vinod Mittal, brother of one of the world's richest businessmen, Lakshmi Mittal, arrived in Dhaka last night, to launch a $2.8 billion investment proposal in Bangladesh aimed at the energy and petrochemical sectors.

"We want to be a development partner in Bangladesh. We find the atmosphere now investment-friendly and we may invest more than 3 billion dollars in different sectors, mainly power and energy," Vinod Mittal told reporters on arrival at the airport, according to agency reports.

Mittal, Managing Director of Ispat Industries Limited, India, will sign a memorandum of understanding concerning the investment with the government today.

The MoU is a formal agreement to conduct a one-year feasibility study and is a first step to any eventual investment of this scale. The signing will take place between Vinod Mittal and Nazrul Islam, executive chairman of the Board of Investment (BoI), at the Sonargaon Hotel.

At the signing Mittal will represent Global Oil and Energy Limited, UK and Global Steel Holdings Limited, two energy and steel companies.

Mittal will also meet President Iajuddin Ahmed, Chief Adviser Dr. Fakhruddin Ahmed, Chief of the Army Staff General Moeen U Ahmed and Energy Adviser Tapan Chowdhury.

The companies will sign the MoU for the proposed investments in areas such as coalmine development and exploration, petrochemicals and oil and gas field development and exploration.

The group's local agent GRH Bangladesh Limited is arranging the programme.

The homepages Global Oil and Energy Limited, UK and Global Steel Holdings Limited could not be found on the internet. The two companies' Bangladesh representative Kamal Ahmed said homepages did not exist although it both companies had invested in many countries.

BoI chief executive said he was not sure whether the companies are a subsidiary of the steel giant Mittal Group or not. He said he would ask Vinod Mittal today.

Asked why the BoI was taking on another large scale investment proposal when it had struggled for several years to reach a decision on a similar proposal by India's Tata Group, the BoI executive chairman said the Tata investment couldn't be finalised as certain key government policies had been lacking.

"We did not have coal policy or a gas policy during the Tata investment negotiations but we hope the policies will be finalised within the next year and the government can complete the investment deals," Nazrul Islam said.

He said after signing the MoU with Mittal it would take another one year for the feasibility study and to start investment negotiations.

BB chief seeks full autonomy of central bank

UNB, *Dhaka*

Bangladesh Bank Governor Dr Salehuddin Ahmed yesterday stressed the need for full-scale autonomy of his organisation for smooth functioning of the banking sector.

He made the appeal in presence of Foreign Affairs Adviser to the caretaker government Dr Iftekhar Ahmed Chowdhury at a policy dialogue on 'Safe Migration and Remittances' at the BRAC Center Inn.

"Bangladesh Bank does not enjoy full autonomy like the other central banks in the world," he said.

Talking to reporters after the programme, he said for taking many decisions they have to send the proposals to different ministries and that creates procrastination.

Replying to a query whether the full autonomy creates any kind of lack of accountability, he said, "Obviously, full autonomy does not mean lack of accountability--there must be a process to make us accountable."

$2.3b investment offers from NRBs

BoI signs 36 MoU

STAR BUSINESS REPORT

The Board of Investment (BoI) has signed a total of 36 memoranda of understanding (MoU) for investment proposals worth US$ 2.3 billion from non-resident Bangladeshis across the globe.

The BoI in a 13-day road show from May 25 to June 06 in Toronto, Canada, Birmingham and London, UK and Colon, Germany has attained the investment proposals from the NRBs.

The NRBs have expressed their interest to invest in power production, lightening, electronic goods, mineral water, hatchery and fish processing, currency exchange, five star hotels, waste refinery, solar energy and automatic laundry systems.

"We are expecting that unlike on previous occasions most of the MoU's will be turned into actual investment due to the current improving governance situation in the country," BoI executive chairman Nasrul Islam said at his office after returning from the road show.

However, NRBs had expressed their concern about how long the current investment friendly situation will be maintained, Nazrul Islam said.

"We promised them that the situation will continue for as long as those who have been responsible for poor governance realise their mistakes and continue to opt for change, " Islam added.

Islam said he was very optimistic that a major portion of the MoU would result in real investments as they had been signed following one-to-one contacts with the NRBs.

The contacts came following directives from the caretaker government to woo Non Resident Bangladeshis. The BoI will introduce a NRB cell in its office to follow-up the proposals.

Islam said the BoI would provide a one-stop service to NRBs. This will aid with the installation of utility services to their enterprises and assist in land allocation. During the road show several potential NBR investors expressed concern about the hassle in connecting utility services and land allocation.

The BoI will also prioritise NRBs in the allocation of plots at special economic zone that the investment board is to establish.

The NRBs will get the same treatment as the investors of foreign direct investment (FDI) have been given in returning profits and the withdrawal of investments, the BoI chief said.

Nitol launches two Tata brand vehicles

STAR BUSINESS REPORT

Nitol Motors Ltd, the sole distributor of Tata brand vehicles in Bangladesh, yesterday launched in Dhaka two new environment-friendly commercial vehicles that are run by diesel and converted natural gas (CNG).

"The new TATA Ex Range of Eco-friendly Euro II and Euro III Diesel and CNG vehicles will enrich local market, meeting the customers' demand," Abul Matlub Ahmad, chairman of Nitol Group, told the launching programme.

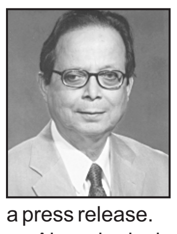
As many as 17,000 Tata brand vehicles have so far been imported to Bangladesh as those are good in terms of quality and after-sale-services, he added.

The Nitol Motors also announced to set up 15 more after-sale-service centres across the country.

The Indians acclaim Tata Group for its successful business ventures and for prioritising corporate social issues, said Pinak Ranjan Chakravorty, high commissioner of India to Bangladesh, addressing the function as chief guest.

Manzer Hussain, resident director of Tata Group in Bangladesh, said Tata Group is now an international name and Tata Motors is the largest and most efficient segment of the Group.

SMC's new chairman



Jalaluddin Ahmed, has recently been made the chairman of Social Marketing Company, says a press release.

Ahmed, who is also the president of the Board of Directors of East West University, started his career with the then Pakistan Civil Service in 1961.

He served various important offices of the government and the United Nations during his long career.

Price spiral casts shadow over rise in poor allowance: Shamunnay

UNB, *Dhaka*

The pace of price spiral has cast shadow over the government's generous proposal to increase allowances for the poor in the budget 2007-08, says an analysis by a non-government research body.

The research organisation, Shamunnay, found that under the budgetary allocation eligible poor would now get Tk 7.23 per day against his or her minimum requirement of about Tk 30 for half-kilo coarse rice, pulses and some vegetables for a square meal.

The budget proposed to increase the allowance for disabled, destitute women and extreme poor elderly people by only 10 percent or Tk 20, but Shamunnay said the price of coarse rice rose 25-30 percent in the last one year.

"How their days will go at only Tk 7.23… it should be looked at," economist Dr Atiur Rahman, who is Shamunnay chairman, told a post-budget press conference at Shamunnay conference room yesterday.

"We think, the allowances should have been double (Tk 400)," he said, with a note of concern for the poor due to rising prices.

Dr Atiur said an increase of Tk 20 in no way would help poor smoothen their livelihood with the present trend of rising prices.

He feared the huge budget might stimulate overall demand, eventually resulting in increase of prices in the days ahead.

He pointed out four measures announced in the budget to curb inflation, but apprehended that still it would be difficult to stabilise the market.

The economist said the inflationary pressure on the middle class would be mitigated to some extent due to raising the income tax exemption limit.

Bank directors asked to submit info about relatives

STAR BUSINESS REPORT

Bangladesh Bank (BB) yesterday asked directors and sponsor directors of the commercial banks to submit information about their close relatives to the central bank by June 25.

The BB also asked the directors and sponsor directors to inform the central bank about their share holding position in their respective banks, according to sources.

The central bank also requested the directors and sponsor directors to preserve the information of their relatives, who include wife, children, brother, sister, father and mother.

The BB has initiated the move to check holding of shares by relatives of the directors, the sources added.

PHOTO: PUBALI BANK

Helal Ahmed Chowdhury, managing director (MD) of Pubali Bank Ltd, and Q M Shariful Ala, MD of Delta Brac Housing Finance Corporation Ltd, exchange documents after signing a five-year term loan agreement of Tk 50 crore recently.

AN ANALYSIS OF THE NATIONAL BUDGET FOR FY2007-08

The analysis is prepared under the CPD (Centre for Policy Dialogue) programme: Independent Review of Bangladesh's Development (IRBD)

CONTINUED FROM JUNE 10

Centre for Policy Dialogue (CPD)

VI. SECTORAL AND REGIONAL MEASURES
Agriculture

Crop Sector– Increased investment, Subsidy for fertiliser, Diesel Card for Farmers

- Proposed subsidy for diesel used in irrigation directly to Card Holding farmers amounting Tk 750 crore ⇨ *Good initiative. CPD suggested for such an initiative*
- To Continue 20% subsidy for electricity used in irrigation
- Allocated Tk 1500 crore as fertiliser subsidy against Tk 1100 crore in FY07 Budget and Tk 1541 crore in revised budget of FY07⇨ *Good initiative*
- Allocated Tk 350 crore in FY08 as Endowment Fund for agricultural research instead of an allocation of Tk 244 crore in FY07 for this. ⇨ *Welcome measure*
- Fund for Small Farmers Affected by Natural Disasters: increased from Tk 50 crore in FY07 to Tk 100 crore in FY08. *This is a welcome measure.*

Implementation would be the major challenge. Only 52.8% of allocation in FY07 was spent until Feb'07; 77% of ADP allocation was released and 56% of ADP allocation was spent up to April 2007

VI. SECTORAL AND REGIONAL MEASURES
Agriculture

Crop Sector– Tariff reduction on import of agro-commodities would not affect domestic production

- Continuance of duty-free facility to import of fertilizers for farmers
- Withdrawal of customs duty on crude edible oil and lentils ⇨ *would have negligible impact on domestic production of these commodities*
- Withdrawal of duty-free import provision and introduction of 10% duty on import of power pumps. ⇨ **Negative measure.**
- In FY08, target for agricultural distribution of agricultural credit is Tk 6351 crore against targeted Tk 6316 crore in FY07 and actual disbursement of Tk 4294.93 crore (up to April'07)

VI. SECTORAL AND REGIONAL MEASURES
Agriculture

Poultry– Special project to tackle Bird Flu and zero tariff on import of inputs and machinery

- Initiated two projects for poultry sector in ADP
  - Prevention and Control of Avian Influenza: Tk 19.81 crores for FY08 (Total budget: Tk 154 crores for 4 yrs)
  - Poultry Technology Development and Testing Project: Tk 18.21 crores for FY08 (Total budget: Tk 33.51 crores for 5 yrs)
- Declared continuation of zero duties and no taxes for import of capital machinery, accessories and other inputs of poultry industries and machinery for manufacture of poultry feed at the importation stage and exemption from Advance Income Tax

These are welcome measures but real challenge will be implementation. Because, only 34.1% of allocation in FY07 was spent until Feb 2007. CPD recommended for duty-free import of equipments for poultry industry and special projects to tackle Bird flu (Avian Influenza).

VI. SECTORAL AND REGIONAL MEASURES
Industry

- Allocation of Tk 341.8 crore in FY08 (25.3% lower than Original ADP and 18.2% higher than RADP of FY07). Shares of domestic resources and project aid are 42.4 % and 57.6 % respectively.
- Number of projects decreased to 29 (15 Investment and 14 TA projects) from 39 of previous Fiscal. No new project is included.
- Highest allocation goes to project *"Refurbishing Assets of Chittagong Still Mills And Adamji Jute Mills for Converting into EPZ"* : Export promotion through EPZ and FDI.
- Taka 68 crore (19% of total allocation) allocated for repairing of two Fertilizer company (Zia and Jamuna fertilizer Company).
- Although top most thrust sector in Industrial policy (2005); surprisingly no projects has been included on *"Agro based and Agro processing industry"*.

VI. SECTORAL AND REGIONAL MEASURES
Industry

TEXTILE AND RMG

- In FY08, total ADP allocation in 4 projects, for the development of Textile and RMG sector, amount to Tk 10.18 crore, of which 49% has been provided by the GoB and 51% has come in the form of Foreign Aid
  - Among the 4 projects, 3 were approved for the development of the textile sector and 1 was approved for strengthening the RMG sector
  - Tk 468 lac has been locally financed for the development of 10 textile vocational institute
  - Tk 350 lac has been provided in the form of Technical Assistance by UNIDO for Strengthening of NITTRAD's & TSMU's Capability for Development of Textile Sector
  - Tk 170 lac has been allocated to the MoC as foreign aid to strengthen the RMG sector in the Post – MFA Era

VI. SECTORAL AND REGIONAL MEASURES
Industry

TEXTILE AND READYMADE GARMENTS

- Tk 25 crore allocated for welfare of RMG workers (in the form of Contributory Provident Fund, which has never been used)
- Tk 20 crore allocated for training to enhance efficiency
- Withdrawal of '0' duty on textile machineries

Didn't mention anywhere what will be the import slab!

In view of the rising competitiveness in the RMG sector, the decision to remove the '0' duty on textile machineries will put Bangladesh in a negative footing!!!

Handloom

No mention about the development of our handlooms sector, whereas in the Indian budget an allocation of Rs 321 crore has been proposed for FY08

Jute

Though Jute sector exist in the third position as thrust sector in the Industrial Policy but no allocation has been made in this sector over the last two FY.

VI. SECTORAL AND REGIONAL MEASURES
Industry

SME Sector: Loser against Large Scale?

- Priority sector in the Industrial Policy 2005 with an allocation of only Tk 40.06 crore or 11.8 percent of total industrial sector allocation.
- In ADP of FY08, Small Enterprises Development Credit Project (SECP) got 20.66 crore, while Tannery state received 16 crore taka allocation.
- A new SME foundation with an endowment allocation of Taka 100 crore is proposed, while BSCIC is allocated TK 23 crore to create a Thrust Fund for providing SME loans.
- Re-fixation of the ceiling of invested capital in plant, machineries and equipment from Taka 5 lakh to Taka 7 lakh for cottage industry. This is a welcome measure and hopefully will benefit SME industry.

VI. SECTORAL AND REGIONAL MEASURES
Sectoral Issue

SME Sector: Loser against Large Scale?

- To protect the local industries budget proposed the withdrawal of zero duty on textile machinery, computer and computer accessories.
- India raised the exemption limit of excise duty for small scale industry (SSI) from Rs.1 crore to Rs.1.5 crore in FY 2008 to promote the SME sector. While in Pakistan, selected thrust sectors (CNG dispenser, leather and shoe industry) have been exempted from custom duty in order to develop SME.

Few Suggestions:

- SMEs based on imported raw materials suffer from double VAT collection; lose price competitiveness.
- Turnover tax should be collected from larger SMEs.
- To ensure SME sectors' access to credit facilities, loan procedure should be more easier.

VI. SECTORAL AND REGIONAL MEASURES
Industry

Change in Customs Duty: May Create Anti-Domestic Industry Bias

A New Three tier tariff slabs of 10%, 15% and 25% in place of 5%, 12% and 25% respectively with a complete removal of IDSC of 4%

- Expected increase in GoB revenue earnings by 12.9% due to the change in customs duty

	CD	SD	VAT	AIT	IDSC	RD	Tariff Incidence
	CD increased from 5% to 10%						
Old	5	0	15	3	4	0	27.75%
New	10	0	15	3	0	0	29.50%
	CD increased from 12% to 15%						
Old	12	0	15	3	4	0	35.80%
New	15	0	15	3	0	0	35.25%
	CD remains 25%						
Old	25	0	15	3	4	0	50.75%
New	25	0	15	3	0	0	46.75%

- The tariff incidence will be increase by 1.75% when CD changes to 10% from 5% (mainly for raw materials and capital goods) with IDSC at 0%
- When CD increases to 15% from 12% (basically intermediate goods), virtually no change occurs (0.55% decrease) with IDSC at 0%
- Finally, tariff incidence decreases by 4% with CD remaining unchanged at 25% (mostly for finished goods) with IDSC at 0%
- *There is a high possibility that the proposed restructuring of tariff, notwithstanding being progressive in nature, may create anti-domestic industry bias.*

VI. SECTORAL AND REGIONAL MEASURES
Agro-based Industry

Agro-based industry– EEF and Credit support to sustain growth

- Allocated Tk 100 crore as Agriculture Equity Entrepreneurship Fund. Last year FY07, Tk 100 crore was allocated under Equity Entrepreneurship Fund (EEF) for Agriculture and ICT.
- We have no information as regards its implementation status
- Allocated Tk 150 crore as credit support for agro-based industries to be channeled through Bangladesh Krishi Bank
- Increased specific duty on raw sugar from Tk 2250 per metric ton to Tk 4000 to avoid mis-declaration and to protect interest of sugarcane growers and local sugar industries

Newsprint

- Proposed reduction of duty on newsprint from 25% to 15%

→ Welcome measure. CPD recommended to reduce it to 10%.

VI. SECTORAL AND REGIONAL MEASURES
Export Promotion and Diversification: Less Priority!!

- Allocation of Tk 1100 crore for export subsidies for FY08 and already released Tk 800 crore for FY07.
- Two of the six thrust sectors (Agro-products and agro-processing products and Software & ICT) identified in the Export Policy 2006-2009 have been addressed through the EEF fund: Tk 100 crore has been allocated for each of these two sectors.
- Besides, Tk 150 crore for the development of agro-based industries have been allocated as credit support.
- Other four Thrust sectors (pharmaceuticals, home textiles, light engineering and shoe and leather items) and another nine special development sectors are not at all addressed.

Is export sector being punished for its robust performance??

VI. SECTORAL AND REGIONAL MEASURES
Agriculture

Environment – Special focus to monitor and curb pollution

- Mandatory establishment of Effluent Treatment Plant to prevent industrial pollution in highly polluting industrial plants
- CPD recommended penalty on those who will not install within stipulated period
- Efforts to prepare and implement plans for waste reduction and recycling
- Creation of a website and database on climate changes by Department of Environment

VI. SECTORAL AND REGIONAL MEASURES
Transport

- Transport sector received the second highest allocation (Tk3303.74 crore, 12.47% of the total ADP) in the ADP of FY08. Sub-sectoral distribution is - Tk2428.15 crore for Roads and Tk875.59 crore for railways, shipping and civil aviation
- The allocations for road maintenance and railway maintenance have been increased by 76.5% & 40% in the proposed budget of FY08.
- Financial and management restructuring is underway to improve Biman's efficiency and a decision has been taken to convert Bangladesh Biman into a public limited company. Conversion of Biman to PCL should increase its efficiency and profitability. However, no specific deadline has been mentioned for completing the corporatisation.
- Reduction of customs duty on CNG driven trucks from 25 percent to 10 percent and enhancement of customs duty from 5 percent to 15 percent on CNG driven CBU bus to develop the assembling industry for CNG-driven bus.

VI. SECTORAL AND REGIONAL MEASURES
Transport

- Lack of coherence in the definition of sectors in ADP and the proposed budget of FY08. **Projects related to road, railways, shipping and civil aviation have been included under the "Transport" sector in the ADP whereas those were mentioned under the sector "Communication" in the budget of FY08. This incoherence leaves scope for confusion and misinterpretation.**
- No allocation has been made for the following crucial projects:
  - **Padma Bridge**
  - **Mongla Port**
  - **Chittagong Port**
  - **Deep Sea Port**
  - **Second Bridge on Jamuna**
  - **Dhaka Elevated Highway**
  - **Dhaka-Chittagong Express Highway**

VI. SECTORAL AND REGIONAL MEASURES
Communication

- Communication sector is the only sector receiving less allocation (3.3%) compared to the RADP of FY07. Tk550.69 crore has been allocated in FY08 whereas tk569.71 crore was allocated in RADP of FY07.
- Mobile phone Operator Companies' corporate tax rate would be 45%, but tax rate would be 35% if the companies are converted as publicly traded companies and enlisted with the stock exchanges.
- Supplementary duty at the rate of 60% on the SIM card has been imposed. Government should be able to earn more revenue considering the high growth of mobile phone users.
- The policies for bringing VOIP business under legal framework are going to be finalised soon. Though consumers have to pay more money as call charges, this initiative will ensure higher revenue earnings for government.
- **Similar definitional problem exists for this sector.**

VI. SECTORAL AND REGIONAL MEASURES
Energy

Power

- Government announced a plan to increase power generation over the next three years by 345 MW in the first year (FY08?), 900MW in the second year(FY09?) and 1050MW in the third year (FY10?). Government has proposed to allocate tk1155.06 crore for electricity generation. Inclusion of 14 new unapproved projects has been proposed, of which 9 will add the 2295 MW new electricity in the national grid. ***However, project-specific allocations and timeframe regarding the completion of these projects have not been clearly mentioned.***
- Initiatives have been taken to add 600 MW electricity to the national grid by completing the maintenance of neglected power generation plants by the end of this year (2007??).
- Government has provided a loan of Taka 350 crore to PDB to settle the outstanding bills of Independent Power Producers (IPP).
- Government has proposed to offer tax holiday facility to solar energy plants to encourage use of alternative source of energy to mitigate the power crisis. This is a good initiative.

TO BE CONTINUED