

The BSEC has also introduced a new corporate governance code. It will enhance corporate governance of all listed companies. We have been working on an investment relations guideline where every potential investor will get better information about all enlisted companies. There will be a separate department in every enlisted company dedicated to providing foreign investors with information about its operations, management and finances.

We are now working on a new regulation for private equity and venture financing which I think will be a very timely initiative in terms of attracting foreign investors to the country. We had a meeting with ADB on this issue and we did basic formulation for this new private equity and venture financing rule. We are setting up a separate clearing company so that we can get better settlement guaranty funds.

Farooq Sobhan

BEI was invited by the commerce ministry to facilitate the finalisation of the new Company Act. By April, we hope we can finalise the draft. I am confident that it will give a big boost to the investment climate. We have tried to prepare it in line with the best practices of the region.

There is a strong link between strengthening corporate governance and response of the institutional investors. I have been in touch with several institutional investors. With the improvement of corporate governance we are seeing good results. I hope the BSEC and Bangladesh Bank will continue their effort.

Dr Salehuddin Ahmed

Bangladesh's strength is its people. I had an opportunity to advise China's poverty alleviation minister. I told him that there were lessons to be learnt from Bangladesh and wrote a paper highlighting seven world class development success stories of Bangladesh: the garment industry, food production, population control, non-formal education, microfinance and women's rights. Bangladesh has all the ingredients to attract investment. But, first of all, the political crisis has to be solved to realise this potential. We also have to focus on education. Our migrant workers have a very basic level of skills which translates into basic level of work and low income.

Sohail R. K. Hussain

To become a middle income country our economy needs to grow at 8% a year. We also need 8% remittance growth. To support this we need a 5% increase in investment which can translate into the productivity increase necessary for skill development.

The government needs to ensure that the business environment is appealing. That means not just providing serviceable factory space, but promoting a stable business climate, reliable law and order, better infrastructure, consistent business policies

ogy transfer and job creation.

Finally, developing human capital is essential for achieving faster economic growth. In the short term, we need to target increasing average years of schooling from the current 5.7 to 7.3 years as well as quality of education. This is not going to happen without substantial government investment.

Bangladesh is an attractive market with great potentials; it has a population of 160 million of which 93 million are under the age of 28 years. This is a large young work force that can be trained, sent abroad or employed in better earning jobs in industrial and service sectors.

In Bangladesh export industries are driving growth and investments. Now, we export \$30 billion worth of products. We would like to reach \$50 billion by 2021 or preferably earlier. If we want to achieve this level of export, we need to diversify our export basket. But, how?

There are a number of ways to do this. We need to look at other industries that are doing well and where we are developing core competencies. Leather, pharmaceuticals, IT, ship building, etc. comes to my mind.

Of course, the most adaptive sector is the ready-made garment industry (RMG). It attracts substantial amount of FDI and has done well in terms of meeting the challenges of the times. Now it needs a vision to where the industry should be in 15 to 20 years' time. Currently, the industry is positioned around manufacturing competencies and we have expanded this to cover backward linkages i.e. spinning, weaving, knitting etc. quite successfully. However we need to focus on increasing our share of the global apparel value chain. This means moving into designing, marketing, distribution and retailing. Our RMG sector can also explore markets like Japan, Australia and BRIC countries where our presence is limited. To expand into these lucrative markets and to move up in the value chain we need more investments in R & D and human capital development.

As we move up in the Apparel Value Chain, our returns will multiply manifold. The total garment market is worth \$1.2 trillion. How much do we really make? After deduction of all value additions apart from manufacturing, only approximately \$4 is left in the country for a \$200 final product value.

The two best ways for diversification in garment industry are diversification of locations and diversification of products. We have an 86% concentration in the US, EU and Canada. We should continue to grow in our existing markets but also target markets in Japan, BRIC countries and Australia. Our garments industries should not look at themselves as factory houses only. It is a large industry even in the international context.

Our leather and pharmaceutical industries need to develop aggressive visions for the future, which focuses on faster growth through international markets.

Reaz Islam

Bangladesh cannot grow at 8% a year without both domestic and foreign investment. Reforms are happening in Bangladesh but not fast enough to take capital away from Vietnam, Myanmar and other alternatives. If you cannot attract investment you cannot build large infrastructures and generate employment that can propel growth.

Human resource is the most precious resource of Bangladesh. Upgrading the level of human resources should be the top priority for private sector because government cannot do it alone. If we can increase our remittance by 5% through upgrading the skills of our migrant workers it would have a huge impact on our economy.

Another problem is political risk and opportunity cost to the country due to unstable politics. Moody's Investor Services has recently highlighted the downside risk to Bangladesh's sovereign rating because of the recent troubles and conflicts. This has substantial ramifications for financing.

Farooq Sobhan

To attract investment, we need an effective problem solving mechanism. If foreign investors have to run from pillar-to-post they will go elsewhere.

Reaz Islam

There have been a lot of talks about empowering BoI as a one-stop-shop. I have seen that it works in Sri Lanka, so it should be possible here too.

Rupert Walker

I would like to quote a recent comment by Standard & Poor's: "Investment is driven by a dynamic local entrepreneurial class that can effectively maneuver around red tape, bureaucracy and a shortage of physical infrastructure." Do you agree with this view?

Rubel Aziz

Bangladeshi entrepreneurs would leap into a business opportunity even if the profit margin is 1%. They are very aggressive. In contrast, entrepreneurs in other countries will just drop the

profile if the profit margin is not more than 20%.

In 2007, I was in Malaysia for almost a year and started man power business. I noticed that Bangladeshi labourers were less paid because they could not speak in English. If we can just improve in English our remittance feature will change radically.

Rupert Walker

What about start-ups in Bangladesh? If I ask Mr. Anwar that as a banker when someone approaches you for providing start-up capital how receptive are you to these appeals?



ARIF KHAN

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Abrar A. Anwar

We seem to be very happy with 6% GDP growth. But if you look at other countries they are doing better than us with their big economy. As a nation we should step back and ask ourselves what more we can do rather than saying we are doing very good.

In the garments industry we see many entrepreneurs who are very courageous. When they approach us for financing, we tend to see at what level they would be able to meet up their obligations. Our entrepreneurs will jump in even where there is only 1% profit but we, financiers, will not generally support this entrepreneur.

Typically we see that small time investments are possible to be financed. But to move the needle you need hundreds of millions of dollars of investment. That's where the BSEC comes into play. A large project has a large horizon. For large projects, it needs to ensure that investors are able to project their cash flows properly. The stability of the cash flow will depend on some ancillary agreements.

structures, is a very useful step but this needs to be completed quickly. This sector can achieve exports of almost \$5 billion within a few years, provided adequate investments are made.

Ship breaking and ship building are two potential growth industries, and City Bank is part of an initiative with the Association of Bankers, the FMO, DEG and other multilaterals to create a model shipyard.

IT is another prospective sector. Bangladesh sells around \$120 million worth of goods and services every year and boasts annual growth of 40%. Inadequate infrastructure and human resources are the main impediments to the growth of this sector. The government should set up internationally accredited institutions that can provide necessary training for skilled IT workers. The private sector has started doing this and the government should join them. Finally, pharmaceutical companies based in Bangladesh provide 97% of local demand, which is the largest proportion among LDCs. The local market size is currently USD

private equity funds which are very critical for investment growth. The fastest path of growth is IT. We have seen how India has moved ahead in IT. There are already tax incentives for IT firms in Bangladesh. The government should help the industry more. It would not require big investment but more assistance and coordination to accelerate the growth of our IT industry.

Abrar A. Anwar

The recent circular on private equity exit is a very welcome move by the Bangladesh Bank and BSEC.

Arif Khan

In terms of start-up financing we are heavily engaged in venture financing and private equity rule formulations. We have a road map in this regard which will be put on the website for public opinion in April. By June, there will be an official gazette. In a recent meeting with ADB, we agreed to reduce the lock-in period for equity venture financing institutions to one

to listed companies. So there are issues why after such a good amount of tax benefit companies do not want to go for public listing? I think one of the reasons is procedural complexities. Another issue is that there is a fear that with two valuation methods (book building and fixed price) whether I am getting a good price or would it make sense for me to get the money from my friends and family. If the BSEC is extremely fixated on fixed price method, investors will not go for that.

Reaz Islam

In typical markets like India, there is a substantial debt market that replaces financial institutions but that is really non-existent in our country. Without that this market will not flow. In Bangladesh there is only one private equity fund. India has more than forty private equity funds. I think part of the issue is developing the debt market and work with BSEC and other regulators to create an environment which will not discourage foreign funds from coming here.

Dr Gowher Rizvi

There is already a presupposition that government is corrupt, complex, slow and tedious and therefore we must find a body that can navigate through that. However, the navigator can itself create hindrances. The BoI was supposed to be the navigator but it failed to do so. We need something more institutional.

Farooq Sobhan

I have been told that there would be a renewed effort to empower the BoI. If we have to activate BoI, it is important that it is given the necessary power to deliver. I would recommend institutionalising it. It needs a high-level committee to meet every two weeks with the BoI as its secretariat. We had an idea of Bangladesh Better Business Forum (BBBF). But, the key ministries in the government are reluctant to surrender their power as facilitators. Ideally, the Prime Minister or the Prime Minister's Office (PMO) should take the initiative to establish this high-level committee with the BoI providing back up support, then hopefully problems that require immediate attention can be resolved quickly.

Dr Gowher Rizvi

I do not think the government is reluctant to hand over facilitating authority. It is the inter-ministry turf war that creates hindrances. I think we need a body to neutralise these conflicts.

Rubel Aziz

I have been encouraged by many issues raised by Farooq Sobhan, especially the prospects of a BoI one-stop-fast-track service and IT parks. These issues have been discussed for the last few years but no effective steps have been taken yet. These problems can be easily resolved within a month.

Let me end with an illustration of the challenge we face. Bangladesh has a robust toy industry, yet its export



ABRAR A. ANWAR

If you look at the country like a company, it has to invest continuously to support its growth aspirations. 6% growth means it will be growing at 6% of \$150 billion. To support that, we need investment of around \$30-40 billion every year. The question is: how do we finance this investment?

and so on.

On the question of productivity, the country is self-sufficient in food and our agriculture sector makes about 19% of the total GDP. Due to increased investments in industrial and service sectors, we see rapid labour migration from low earning marginal farming to these sectors. This is a good thing. It will enhance productivity and competitiveness which will in turn attract FDI. The same trend should happen in the service sector.

What is the government's role here? It has to create infrastructure which facilitates this growth. For example, Indians, Chinese and Japanese investors have approached the government and asked for special economic zones. If this can be done quickly we will have a lot of investments coming in. There is also the potential for technol-



In recent years, we have seen a lot of investment in power sector because there is a good structure in power purchase agreement, implementation agreements and others. So we need to replicate that in other big projects like building transport infrastructures.

BSEC has been doing good stuff but they are not doing any road shows outside the country to talk about the good stories of Bangladesh.

Arif Khan

We have limitations in terms of funding and spending money. But we do take a proactive approach and go wherever possible and project the success stories of Bangladesh. I hope soon we will be able to hold such road shows abroad.

Sohail R. K. Hussain

RMG makes up 86% of the country's exports. We need to diversify our export base. Some government facilita-

1.9 billion. We have to explore opportunities to export medicine to other LDCs. This could happen through the TRIPS arrangement but it is going to be terminated next year. If the facility could be extended to 2021 then the industry could grow to \$5 billion within this period.

Farooq Sobhan

The TRIPS agreement in respect of the pharmaceutical industry has already been extended for LDCs. Bangladesh needs to take full advantage of this opportunity.

On the issue of SEZs, there has been movement but clearly this is again an area where we need to accelerate the process. The litmus test will be operationalising the Korean EPZ. It is now fully developed and ready to take off. For the IT sector, the sky is the limit. Tata Consulting and Infosys as well as other leading IT companies are very interested in Bangladesh. But the

year.

Some private equity investors that take stakes in IT start-ups are concerned about how to exit by selling their shares bilaterally. A foreign exchange regulation stated that their holding should be priced at net asset value, which was unsatisfactory. It has been replaced by fair market value.

Abrar A. Anwar

Many investors are not interested in going public. If you change this obligation it will be better for investment because it deters investors from increasing their capital.

Dr Gowher Rizvi

I think rather than removing the provision all together we can arrive at an agreeable ceiling. We could go up to Tk 500 crore.

Sohail R. K. Hussain

The government gives 10% tax benefit

ambitions are stifled by unnecessary costs and restrictions. We have more than 4000 machines that can produce toys but we are making other products. There is more than 30% duty on plastic imports and businesses must have a bonded warehouse for exports. That costs 10% and another 10% is payable to the bank. With these obstacles our toy manufacturers can never compete with China. Meanwhile, toy businesses are shifting to Sri Lanka where there are no onerous duties.

The discussion today could lead to solving many problems in the country and boost its GDP growth rate by a further 2% but only if action follows. I would request Dr Rizvi to arrange another meeting with this group and ensure the presence of our finance minister and the chairman of BoI.

Rupert Walker

I want to thank all the participants for their time and valuable comments.