The Daily Star
FOUNDER EDITOR: LATE S. M. ALI

What's discouraging foreign investors?

Political will needed to address major trade, investment barriers

It is a matter of great concern that Bangladesh has failed to attract its targeted level of foreign direct investment over the years, with FDI inflow amounting to only 0.75 percent of its GDP in 2023, according to UNCTAD's World Investment Report. Efforts to attract foreign investors by developing economic zones and adopting one-stop services have not yielded the desired results, begging the question: what is the country doing wrong? A recent report by the US administration has identified precisely what's holding us back—corruption, bureaucracy, anti-competitive procurement system, and violation of intellectual property rights, among other barriers.

According to the findings of the United States Trade Representative (USTR) in its 2024 National Trade Estimate Report on Foreign Trade Barriers, corruption remains deeply ingrained in Bangladesh's commercial environment. This is partly because enforcement of relevant legislative measures, including the Code of Criminal Procedure and the Prevention of Corruption Act, remains lax, allowing corrupt practices to thrive. US investors have voiced concerns over the undue delays and bureaucratic hurdles they face, with government officials demanding bribes in exchange for license approvals and bid clearances.

Efforts to undermine the independence of the Anti-Corruption Commission (ACC) through legislation such as the Sarkari Chakori Ain Bill—which limits its ability to investigate corruption allegations against government officials effectively—only exacerbate the problem. Adding to that is the backlog of unresolved corruption cases and systematic attempts to dilute anti-government safeguards in procurement processes.

The US report also highlights the lack of transparency and fairness in public procurement, with allegations of bid rigging, favouritism towards local partners, and insufficient adherence to international competitive bidding standards. In addition, it points out deficiencies in Bangladesh's legislative and rulemaking processes, particularly concerning patent law, copyright amendments, and enactment of the Industrial Design Act. Meanwhile, the proposed Personal Data Protection Act and regulations for Digital, Social Media, and Over the Top Platforms pose potential threats to privacy and freedom of expression, raising apprehensions among international investors.

These challenges need to be taken seriously by our policymakers, as cosmetic incentives to foreign investors can only work for so long. For Bangladesh to unlock its full economic potential and foster a conducive environment for foreign investment and sustainable growth, the pernicious problems discouraging investors must be addressed. This will require concerned effort from the government, but first, there must be the political will to tackle entrenched corruption and bureaucratic inefficiencies. Meanwhile, the government needs to make serious improvements to the country's Intellectual Property (IP) regime, ensuring better coordination among enforcement authorities and government institutions, and move away from repressive regulatory frameworks for data protection and online content regulation.

Reclaim footpaths on Greed Road

Unauthorised parking, eateries depriving people of walking space

The bustling thoroughfare of Green Road connecting Farmgate and Panthapath intersection stands as a testament to the neglect of pedestrian rights in Dhaka. According to a report by this daily, the six-feet-wide footpaths on both sides of the 800-metre road are hardly used for their intended purpose. Instead, these and the surrounding space remain largely occupied by unauthorised tea stalls, vegetable shops and even restaurants, as well as rickshaw garages. As a result, what should have been a safe haven for pedestrians has turned into a commercial free-for-all with little regard for the safety and convenience of those on foot.

It's a scenario all too familiar in many urban centres and thoroughfares in the capital city: footpaths being commandeered by vendors and other types of encroachers, leaving pedestrians with no choice but to navigate through a perilous maze of vehicles despite the risk of accidents. The footpaths on Farmgate-Panthapath route are allegedly controlled by local ruling party men, while the fees for illegally set up establishments and parking spots are collected by "linemen". There are various types of financial arrangements covering the establishment and operation of a business, which also extend to related amenities such as lighting, security, and complicit silence from local police. Sometimes city corporation officials conduct clearance operations, but the footpaths are quickly reoccupied, and it is business as usual again.

We have often talked about the importance of unrestricted space for pedestrians in these columns. In a city as crowded as Dhaka, footpaths are vital lifelines providing connections between homes, schools, workplaces, and commercial areas. When these pathways are blocked or rendered impassable, it's not just pedestrians who suffer; it's the entire communication system that is compromised.

The responsibility to address this situation falls squarely on the shoulders of our civic authorities and law enforcement agencies. The Dhaka North City Corporation, in particular, must take decisive action to clear Green Road's sidewalks of illegal encroachments and ensure that they stay un-encroached. Political affiliations must not be allowed to dictate the fate of public spaces meant for the common good.

CPD BUDGET PROPOSAL FOR FY2024-25

Renewable energy needs proactive govt boost

Dr Khondaker Golam Moazzem
is research director at Centre for Policy Dialogue (CPD).
Tamim Ahmed
is senior research associate at CPD.
Fardeen Kabir
is programme associate at CPD.
Sarara Jafrin
is surveyor at CPD.

KHONDAKER GOLAM MOAZZEM, TAMIM AHMED, FARDEEN KABIR AND SARARA JAFRIN

As Bangladesh faces challenges of climate change and fiscal sustainability, the need for transitioning towards clean energy sources and green technologies has become more apparent. The newly elected government, in its inaugural budget for FY2024-25, is expected to take suitable fiscal and budgetary measures to promote the use of green and clean energy in the country. The Centre for Policy Dialogue (CPD) has proposed a list of fiscal and budgetary measures for the upcoming national budget targeting important sectors including power, transport, agriculture and manufacturing and their financing. The proposed measures are as follow:

Enhance allocations, number of renewables projects: Recent observations reveal a concerning trend of underfunding in renewable energy projects, with a 2.47 percent allocation in the Annual Development Programme (ADP) for FY2023-24. Such an allocation not only raises questions regarding the timely completion of crucial projects, but also undermines the country's ambitious goals of achieving 40 percent renewable energy in the power mix by 2041. Currently, there are a total of 99 approved power and energy-related projects in 2023-24 ADP, and only five of them are renewables-based. To address this gap, the CPD recommends that the upcoming national budget implement more renewable energy-based projects and allocate greater resources to such projects, prioritising key initiatives such as solar photovoltaic power plants and the enhancement of coastal transmission systems.

Ensuring energy financing would be crucial for Bangladesh to achieve its clean energy target. According to a report of the Change Initiative, Bangladesh would require an amount of $26.5 billion to achieve this target. Besides, data indicates that 39 percent of the committed support from development partners for the power sector is still to be disbursed.

The adoption of solar energy could yield massive fiscal savings, potentially sparing the government Tk 5,230-11,032 crore annually. FILE PHOTO: REUTERS

Extend tax incentives: Current tax structures continue to favour fossil fuel-based investments, posing a barrier to the widespread adoption of renewable energy solutions. By extending tax holidays from five years to 10 years for renewables-based power plants, providing 100 percent duty waivers to small-scale solar-based projects, and lowering the cumulative tax rate on solar power-related accessories, Bangladesh can create a more conducive environment for clean energy ventures.

Ease eligibility for renewables producers: Private sector power generation companies can access tax exemptions and benefits outlined in specific statutory regulatory orders (SROs) if they have power sale or purchase agreements with the government. The CPD recommends that any company generating or producing electricity through renewable energy under the Net Metering Guideline 2018 be inserted into the SRO.

Limit using reconditioned ICE cars: The current duty structure does impose a higher tax on Internal Combustion Engine (ICE)-based vehicles than hybrid or electric vehicles (EV). But there is still major room for improvement regarding the duty structure in the transport sector. In the current market scenario, customers still mostly opt for imported reconditioned ICE cars. Reconditioned cars have worse safety and emission standards than new ICE or hybrid cars. The current duty structure should be tailored in favour of hybrid vehicles so that customers feel incentivised to opt for new hybrid cars instead of reconditioned ICE cars. The supplementary duty on hybrid microbuses should be lowered than that on ICE microbuses. Also, the current regulation states that imported reconditioned cars cannot be older than four years; this should be decreased to three years to further discourage reconditioned car import.

Revise EV duty structure: The current tax structure for EVs equates 1kW of electric motor capacity to 20cc of the ICE for annual tax purposes. This comparison has resulted in a tax disparity that affects affordability. For context, even an entry-level EV has a motor capacity of 110kW. In general, affordable EVs come with engines ranging from 100kW to 150kW, but the current annual EV tax structure states that the owner of an EV with 100-120kW will have to pay Tk 75,000 in annual taxes. Most car owners in Bangladesh own vehicles under 1,600cc and pay Tk 25,000 in annual taxes. This customer base is precisely the target audience for entry-level EVs, and given the current annual tax structure, they will have to pay three times more if they opt for EVs. Furthermore, the existing tax incidence on EV imports, including an 89 percent import duty, 20 percent SD, and a fixed advance income tax of Tk 3 lakh per unit brings the total cost of EV ownership close to traditional vehicles in the same price range, providing little incentive for consumers to switch to EVs. This should be immediately restructured to create market level incentive for mass EV adoption.

Reduce TTI for lithium batteries: The total tax incidence (TTI) on lithium batteries in Bangladesh is 89 percent—almost double that of India. This will hinder the country's potential as an EV assembler and manufacturer. The tax structure should be revised to accelerate Bangladesh's manufacturing competitiveness.

Reduce customs duties on solar products: Various global agencies estimate that rooftop solar systems alone hold the potential to produce 5,000MW of electricity in Bangladesh, including a 400MW capacity specifically from the textile sector. The adoption of solar energy could yield massive fiscal savings, potentially sparing the government between Tk 5,230 crore and Tk 11,032 crore annually, courtesy of an estimated 2,000MW of rooftop solar capacity. Nevertheless, the growth of solar energy in Bangladesh is hampered by steep import duties and taxes on solar products, which substantially inflate installation costs. While solar panels incur a minimal tax of one percent, solar inverters face a hefty 37 percent duty. Moreover, the TTI on solar accessories ranges from 26.2 percent to 58.6 percent, further escalating costs for businesses. Additionally, the current Net Energy Metering (NEM) policy, with a 10MW cap, significantly limits expansion possibilities. Reducing customs duties on solar products and offering subsidies especially for SMEs could drastically decrease installation costs. Furthermore, establishing a streamlined and standardised NEM process could be a step in the right direction.

Devise a unified tax strategy to lower TTI for SIPs: Solar irrigation pumps (SIPs) offer a cost-effective alternative to traditional diesel and electric pumps, whose annual operational costs surpass $1 billion. Despite their benefits, only 2,971 SIPs are in use, making up a mere 0.22 percent of the total pumps due to high initial costs and insufficient fiscal incentives. Yet, the economic advantages are clear, with solar irrigation being more affordable than conventional methods. However, the cumulative taxes including VAT, AIT and others raise the overall expense, deterring widespread adoption. A unified tax strategy to lower the TTI to one to five percent is crucial. Furthermore, promoting grid-integrated SIPs to allow energy export during off-peak times, coupled with subsidies for grid connection for smaller farms, could accelerate the shift towards solar energy, offering substantial support to the agricultural sector.

Put effort into clean energy financing: Ensuring energy financing would be crucial for Bangladesh to achieve its clean energy target. According to a report of the Change Initiative, Bangladesh would require an amount of $26.5 billion to achieve this target. Besides, data indicates that 39 percent of the committed support from development partners for the power sector is still to be disbursed. In the upcoming years, the government needs to ensure the disbursement of the remaining support and explore additional funding sources. In addition, it should intensify negotiations to secure funds from bilateral, multilateral, and regional sources. Different global climate funds and clean energy and green technology funds should also be a priority.

The authors are working at the CPD Power and Energy Study.

NABAPALLAB

Harvesting resources from nature, safely

Dr Ainun Nishat
is professor emeritus at Center of Climate Change and Environmental Research of BRAC University.

AINUN NISHAT

NABAPALLAB is a project aimed at developing and implementing Nature-Based Solutions for adaptation in selected ecologically critical areas (ECA) in Bangladesh. The Ministry of Environment, Forest and Climate Change (MoEFCC) will steer the project entitled "Nature-Based Adaptation towards Prosperous and Adept Lives and Livelihoods in Bangladesh" (NABAPALLAB). A total of nine national and international organisations will contribute to the project, led by CARE Bangladesh in partnership with CNRS, Cordaid, C3ER-Brac University, DSK, Friendship, HI, IDE, and Practical Action. NABAPALLAB is funded by the UK's Foreign, Commonwealth and Development Office (FCDO).

The impacts of weather and climate change are being felt globally. All countries of the world will now have to cope with various natural disasters. In fact, the level of adverse impacts felt in Bangladesh is already high and likely to worsen in the coming days. In some assessments, Bangladesh is counted as one of the most vulnerable countries to adverse climate change impacts.

The intensity and frequency of various types of floods in Bangladesh will increase; drought and drought-like weather will prevail; the frequency and intensity of cyclones and storms will increase; saline and brackish water will move inland due to rising sea levels; rainfall will also not follow the established weather pattern; and heat waves will be more and more prevalent in the summer. In the long run, food security will be threatened, there will be a crisis in the availability of safe drinking water as well as negative impacts on the health sector. The poverty level will increase, natural disasters will be more frequent, and people's livelihoods will see many disastrous impacts.

A reduction in greenhouse gas emissions can mitigate the global warming process. But this will face a huge number of challenges. Moreover, it is believed that the rise of global average temperature will continue unabated.

In the face of these adverse impacts, Bangladesh finalised and approved a National Adaptation Plan (NAP) in 2022. Globally, it has been accepted that approaches contained in Community-based Adaptation (CbA), Ecosystem-based Adaptation (EbA), Locally Led Adaptation (LLA), and Nature-Based Solutions (NbS) shall be followed to respond to the impacts of global warming. Bangladesh has also identified a number of Ecologically Critical Areas (ECA). The ecosystem and biodiversity in these areas are rich, but adverse impacts are sure to affect the livelihoods of people living in and around these ECAs. The goal and objective of NABAPALLAB is to assist these people and to take on adaptive measures that would support the nature and ecosystems as well the livelihood of the people. For Hakaluki Haor (declared an ECA in 1999) and the 10-km ECA in the Sundarbans, two management structures will be developed. The people dependent on these two biodiversity-rich areas will be trained on the proper approach to harvesting resources from nature and also reduce their dependence on the biodiversity of the area. The beneficiaries will increasingly use renewable energy and the availability of safe drinking water will be ensured. The process of issuing warnings of natural disasters will be reviewed and the warning system will be made easy for the beneficiaries. The project will recognise that by ensuring the livelihood securities of ECA-dependent people, it will be possible to ensure that they take part in the protection of the ecosystems.

The intensity and frequency of various types of floods in Bangladesh will increase; drought and drought-like weather will prevail; the frequency and intensity of cyclones and storms will increase; saline and brackish water will move inland due to rising sea levels; rainfall will also not follow the established weather pattern; and heat waves will be more and more prevalent in the summer

NABAPALLAB plans to pioneer science and environment-based harvesting of resources from nature, effective disaster management practices and provision of adequate safe drinking water and sanitation systems. One of the important approaches of the project will be the effective and active engagement of beneficiaries in project management. The sustainability of the completed project will be ensured through proper capacity building, and steps will be taken to properly document knowledge that will be generated in the process.

The Daily Star Reg. No. DA 781
EDITOR & PUBLISHER: Mahfuz Anam
Printed by him on behalf of Mediaworld Ltd at Transcraft Ltd, 229, Tejgaon Industrial Area, editor@thedailystar.net
EXECUTIVE EDITOR: Syed Ashfaqul Haque
Registered & Head Offices: The Daily Star Centre 64-65 Kazi Nazrul Islam Avenue, Dhaka-1215 Phone: 09610222222
Newsroom: Fax- 58156306 reporting@thedailystar.net
Advertisement: 01711623910 advertisement@thedailystar.net GPO Box: 3257
Subscription: 01711623906
thedailystar.net
bangla.thedailystar.net/