

THE VISION OF INDUSTRIAL DEVELOPMENT

Bangladesh will have within a decade a sizable industrial sector where manufacturing will account for at least 25 per cent of the GDP and at least 20 per cent of the employed workforce. This will mean a considerable rise from the figure of 10 per cent around which the sector's share in GDP and employed population have hovered for most of the past two decades.

A vibrant and dynamic private sector will be the principal actor in Bangladesh's industrial arena. The industrial sector of Bangladesh will be competitive in the liberalized internal market as well as in the external market. The industrial sector of Bangladesh shall have a dominant export orientation.

The goal of external competitiveness implies the pursuit of industrialization in accordance with the dynamic comparative advantage of the economy. Given Bangladesh's resource endowment, the principle of dynamic comparative advantage means production of labour intensive manufactures with skill up-gradation and productivity growth as its cutting edge. This however, does not preclude the possibility of Bangladesh having a niche high-tech industrial sub-sector that may be externally competitive.

Dispersal of small and medium industries will constitute an important element in the industrial policy approach. Industrial development will be sustainable from the point of view of environmental concerns and resource availability.

Industrial Policy 1999 aims at addressing these concerns building on earlier efforts and gains towards industrialization of Bangladesh economy.

OBJECTIVES

- (a) To develop the Industrial Sector in order to increase its contribution to the gross domestic product, income, resources and employment.
- (b) To expand industries by putting more emphasis on development in the private sector and in this respect to make the role of the Government promotional rather than regulatory.
- (c) To encourage domestic and foreign investment in overall industrial development.
- (d) To develop export-oriented, export linkage and efficient import substitution industries.
- (e) To especially encourage the development of small and cottage industries.
- (f) To expedite development of the labour intensive industries through acquisition and improvement of appropriate technology.
- (g) To attain self sufficiency in essential consumer goods through efficient production.
- (h) To attain self sufficiency in essential consumer goods through efficient production.
- (i) To encourage development of industries based on indigenous raw materials and indigenous technology.
- (j) To encourage balanced industrial growth in different regions of the country.
- (k) To encourage investment in the intermediate and basic industries.
- (l) To limit the role of the Government generally in establishing strategic and heavy industries and to improve efficiency in the public sector.
- (m) To put special emphasis on the increase of productivity in industries and to ensure optimum utilization of the existing industries.
- (n) To create possible opportunities for revitalizing and rehabilitating sick industries.
- (o) To make effective arrangements for improving standards and controlling quality products.

- (p) To take appropriate measures for preventing environmental pollution and maintaining ecological balance.

Financial Incentives to Industries

1. There shall be a tax holiday for five, seven, nine and twelve years for industries set up in the developed, less developed, least developed and special economic zones respectively which will remain effective until the year 1995. The period of such tax holidays will be calculated from the month of commencement of commercial production. The eligibility of tax holiday will be determined by the National Board of Revenue and the time of commencement of commercial production will be certified by the respective sponsoring agencies.
2. The National Board of Revenue in consultation with the Ministry of Industries will Publish in the official gazette area wise classification for the application of concessional duties and tax holidays and this will be revised from time to time to keep pace with industrial expansion.
3. There will be no discrimination in case of duties and taxes for the same type of industries set up in the public and private sectors.
4. Local industrial products will be protected through tariff rationalization keeping in view the interests of the entrepreneurs and the consumers.
5. To create internal market for jute products, industries producing jute substitute synthetic fibers, especially polypropylene bag, will be discouraged, high tariff rates will be imposed on related imports in these areas. In addition, effective steps will be taken for compulsory use of jute bags for packing of food grains, sugar, cement, fertilizer etc.
6. Duties and taxes on import of goods which are produced locally will be higher than those applicable to import of raw materials to be used to produce such goods.
7. In cases where credits/loans obtained from foreign institutions or Government through private initiative for private industrial investments are related to commercial banks/DFIs through the Government, the following conditions shall be applicable:
 - a. The Government will relend the above mentioned credits/loans through commercial banks/DFIs. The concerned Banks/DFIs will disburse the credits/loans to the entrepreneurs with applicable service charge.
 - b. The entrepreneurs shall undertake full responsibility for repayment of the loans/credits. For this, the concerned Banks/DFIs will provide guarantee to the Government for repayment of the loans/credits, concerned Banks/DFIs will however be entitled to claim collateral from the entrepreneurs.
8. An exchange-rate Fluctuation Absorption Scheme (EFAS) will be created to reduce the impact on industrial sponsor for fluctuation of Bangladeshi currency with foreign currencies.
9. Special incentives will be provided to encourage nonresident Bangladeshi for investment in industries. In case of their investment in Bangladesh, they will enjoy facilities similar to those given to the foreign investors. Besides, they will be able to buy newly issued shares/debentures of Bangladeshi companies. Moreover, they will be able to maintain foreign currency deposit in the NFCD account for up to five years.
10. Provision will be made up to 80-100 percent accelerated depreciation allowance.
11. Special financial incentive for industries located in the least-developed areas and for small and cottage industries. As long as natural gas can not be supplied to the non-gas lined least developed areas and the price of natural gas remains lower than that of fuel oil use in industries in this areas. The concerned ministries will make provision for necessary funds for this purpose.

SMALL AND COTTAGE INDUSTRIES

1. Small Industry means an industrial undertaking engaged either in manufacturing process or service activity whose total fixed investment excluding the prices of the land, expenses for

inland transportation and commissioning of machinery appliances and duties and taxes , is limited to taka three crore i.e. Tk. 30 million (including intial working capital). In the case of BMRE, even of the total investment limit exceeds Tk. 30 million, it would still be considered as a small industry . However , the extent of extended investment for BMRE shall not be more than 50% of the total investment limit.

2. 'Cottage Industry ' means an industrial unit either engaged in manufacturing or servicing generally run by the family members either as full time or part time and the total investment is limited to taka five lac(Tk.500,000).
3. For the development and expansion of Small and Cottage Industries, BSCIC will be responsible for the registration, determination of import entitlement of raw materials and packing materials, issue of import pass book recommendation for local raw materials, allotment of land in its own industrial zones, and also for providing assistance in all other matters.
4. BSCIC will provide financial types of small and cottage industries , in this case , BSCIC shall have to mobilise its own fund. The fund to the banks may not be utilised for this purpose.
5. During the selection of investors for small and cottage industries, special priority shall be given to women educated unemployed, skilled technicians, labourers, engineers, wage-earners and those depended upon them.
6. Small Industries of the textile sector will enjoy similar facilities as those of small and cottage industries from the Bangladesh Small and Cottage Industries Corporation.
7. BSCIC will continue its efforts in creating infrastructure facilities in the growth centres similar to those available in the industrial estates. In the regions , where there are no industrial estates, the relevant authorities on the recommendation of BSCIC, will provide infrastructural facilities to the small and cottage industries on a priority basis. Irrespective of the amount of investment , BSCIC will approve the plans and lay-outs of the buildings of all the industries situated in the BSCIC , industrial states and be their controlling authorities, but for the sake of expansion of small industries , no permission shall be granted for the establishment of any new large or medium industry in the BSCIC industrial estates.
8. To assist in the marketing of products of small and and cottage industries, the government, semi-government and autonomous bodies will ensure the purchase of these products , as per rules and the government purchase policy . By utilizing their own funds, the Thana Parishads will also try to support BSCIC and the related institutions by organising fairs and exhibition , setting up of sales and exhibition centres and providing infrastructural facilities like setting up of special Hat Coner.
9. The Jurisdiction, Sector and amount of investment and the type of prodution to be controlled by the Board of investment and the BSCIC will be clearly demarcated.
10. Small and cottage industries which have been granted credits by financial institutions/banks, must be registered with BSCIC.
11. A Review committee will be formed in the Ministry of Industries with members from BSCIC, Bangladesh Bank, relevant banks/financial institutions and representatives from Chamber of Commerce and Industry and NASCIB for reviewing the implementation of the investment schedule of the small and cottage industries and monitoring the credit, policy being followed by the banks and other financial institutions.
12. Machinery/spare parts required by the new and existing heavy and medium industries and Government. Semi-Government and Autonomous bodies have to be procured from small industries and in these cases subcontracting will be given preference.
13. In addition to the existing facilities, the following special incentives and facilities will be provided to intensify the expansion of small and cottage industries:
 - a. Small Industry Credit Guarantee Scheme will be introduced with joint collaboration of Bangladesh Small and Cottage Industries Corporation, Government / Private general insurance corporation, Government / Private general insurance corporation / companies.
 - b. Based on the recommendation of the BSCIC, the National Board of Revenue will provide tax holiday to appropriate small and cottage industries.
 - c. To assist the sub-contracting banks and financial institutions will make provisions for funds in

accordance with their rules, the sub-contracting industries shall enjoy incentives and facilities similar to those provided in the SCI sector irrespective of their locations.

FOREIGN INVESTMENT

1. The Government is encouraging foreign investment with special importance. Such investments shall be established either independently or through joint venture on mutually beneficial terms and conditions. The foreign private investment (promotion and protection) Act, 1980 will continue to be the legal frame work of foreign investments. The main provisions that exist in the Act to protect foreign investment include:
 - a. Ensuring equal treatment in all respects for local and foreign investment.
 - b. Protection of foreign investment from nationalisation.
 - c. Ensuring repatriation of proceed from sale of shares and profits. In addition, adequate rules will be framed for protecting the intellectual property rights such as patents, designs and trademarks and copyrights.

Foreign investment will particularly be encouraged in the following sectors:

- a. Export-oriented industries
 - b. Industries located in the export processing zones;
 - c. High-technology based products that will be either efficient import substitute or export oriented.
 - d. Undertakings in which more diversified use of natural resources are made.
 - e. Basic industries based mainly on local raw materials and
 - f. Investments toward improvement of quality and marketing goods manufactured and /or the increase of production capacities of existing industries.
3. In case of foreign investments, there will be no limitations pertaining to equity participation, i.e. up to 100 percent foreign private investment will be allowed.
4. In case of joint ventures or industries set up independently by foreign investors, there will be no obligation to sell shares through public issue irrespective of the amount paid up capital.
5. If the foreign investors reinvest their repatriable dividends, those will be treated as new investments.
6. Foreign investors or companies with foreign investments may obtain working capital loans equivalent to their equity amount. The amount and terms of loan will be determined in accordance with the Bank Client relationship and the bank's rules and procedures.
7. Rules will be framed to facilitate foreign investors or companies with foreign investment to buy shares through the stock exchange.
8. BSCIC has already developed industrial states with infrastructural facilities like roads, water, power, fuel etc. for small and cottage industries and steps are being taken for setting up more industrial states. In case of industries set up in the industrial estates, foreign investors will also get special concessionary financial benefits similar to local investors. If required, such facilities may also be arranged by the Board of Investment.
9. Other facilities to be provided to foreign investors are as under :
- a. Tax exemption on royalties, technical knowledge and technical assistance fees and the facilities for their repatriation;
 - b. Tax exemption on the interest on foreign loan;
 - c. Tax exemption on capital gains from the transfer of shares by the investing company;
 - d. Avoidance of double taxation in case of foreign investors on the basis of bilateral agreements;
 - e. Exemption of income tax , up to three years for the foreign technicians employed under the approved industries;
 - f. Remittance up to 50 percent of the salary of the foreigners employed in Bangladesh and the facilities of repatriation of their savings and retirement benefits at the time of their return;
 - g. There will be no restricting in issuing work permits to foreign nationals in Bangladesh; and
 - h. facilities for repatriation of invested capital, profit and dividends

FACILITIES IN THE EXPORT PROCESSING ZONES

To assist in the establishment of export-oriented industries, an Export Processing Zone has been

set up in the Port- City of Chittagong. To provide facilities for setting up industries for manufacture of goods which can be air-freighted, another Export Processing Zone has been established at Savar, near Dhaka . In addition , there are plans for establishing another Export Processing Zone on the other bank of river Karnaphuli at Chittagong and one at Khulna . In these areas, industries may be established entirely through foreign investment or through joint ventures of local and foreign investors or entirely through local initiative. Infrastructural facilities which are essential for industries exist in these areas , like warehouses, communication, water supply, electricity, gas etc. Besides, the following facilities are provided to industries situated in these areas :

- a. Income tax exemption for ten years and proportional income tax rebate between 30 and 100 percent on export earning after this period;
- b. Duty free import of raw material, machinery, construction materials and other materials used in manufacturing process;
- c. Income tax exemption subject to existing conditions on salaries of foreign executives and technicians for three years.
- d. Tax exemption on interest on foreign loans;
- e. Tax exemption on royalties, technical know-how and technical assistance fees.
- f. Tax exemption on the profits on accounts of transfer of shares by foreign companies;
- g. Reallocation of running manufacturing units from abroad to EPZ.
- h. Export linkage materials required for production of goods to be exported, will be allowed to be exported through back-to-back LC by recognized export oriented industries which operates through bonded warehouse facilities to the interior of the country and
- i. Offshore banking facilities.

THE CLASSIFICATION OF INVESTMENT IN EPZs

Type A:

One hundred percent foreign investment including investment made by Bangladeshis living abroad . Under this type of investment , the total investment cost including the construction, raw material cost and requirement for the whole of working capital have to be met through the foreign investors own source of foreign currency.

Type B :

Joint Collaboration of Projects by foreign investors and Bangladeshi investors living within the country. Under this type of investment, the expenditure of the project will be met as per ratio of investment of the local and foreign partners. But the cost of all imported machineries must be met by the foreign partner.

Type C :

One hundred percent investment made by Bangladeshi investors residing in Bangladesh. Under this type of investment , the cost of machineries, spare parts, raw materials and other imported goods will have to be met through suppliers credits /non-repatriable foreign currency, credits /pay as you earn scheme and through any other approved arrangements.