

USAID PROJECT NO. 388-0076  
USAID CONTRACT NO. 388-0076-C-00-2-35-00

PD-ABN-201

**POLICY IMPLEMENTATION AND ANALYSIS GROUP**

**FINAL REPORT**

**AUGUST 1995**

**Policy Implementation and Analysis Group (PIAG)  
Adamjee Court, Motijheel, Dhaka**

**A Project of**

**The Ministry of Industries, Government of Bangladesh  
and  
The United States Agency for International Development**

**Managed by**

**International Management Communications Corporation (IMCC)**

**BEST AVAILABLE COPY**

# PIAG FINAL REPORT

August 1995

## History

The Policy Implementation and Analysis Group (PIAG) is a component of a larger US Agency for International Development (USAID) project, the Industrial Promotion Project (IPP). An agreement was signed between the US and Bangladesh governments to conduct the project in August 1989. Civil unrest, the fall of the Ershad regime, the election of a new government, a cyclone and the Gulf War are all reported to have contributed to a delay in Project implementation. The implementation order for the PIAG component was signed in March 1992. A contract to carry out this segment of the Project was signed with the International Management and Consulting Corporation (IMCC)<sup>1</sup> in September 1992, with an effective date from August 1992. Administratively, within the Bangladesh government, the project was to be associated with the Ministry of Industries (MOI).

During this period a democratically elected government came to power, a new industrial policy that embraced the principles of a private sector driven market economy was issued by the Ministry of Industries for the government in 1991, and the World Bank and the government signed an agreement for a second industrial sector adjustment credit of \$100 million as an incentive for implementing industrial sector reform policies. A subsequent evaluation of PIAG<sup>2</sup> noted that the delay, during which these events occurred, was in some respects fortuitous for the PIAG component in that the environment was more open and conducive to policy reform than it had been before.

Despite the new environment, PIAG's first year was fraught with problems and changes in key personnel, both within PIAG and the Ministry of Industries. At various points the MOI and USAID considered discontinuing the project. The project however began to take on new life in the spring and summer of 1993 when new project leadership began to emerge in PIAG and the Ministry and a series of policy papers was produced within PIAG. Space was found for the project, near the Ministry of Industries, in August 1993.

While the substantive work of the project grew, it continued to have difficulties. For example, there were inconsistencies between the Bangladesh government's technical assistance project paper (TAPP) which authorizes the project from the Bangladesh

---

<sup>1</sup> In 1994, the corporation's name was changed to the International Management and Communications Corporation.

<sup>2</sup> Nathan Associates Inc., *Evaluation of the Bangladesh Industrial Promotion Project*, Arlington, March 1995.

government's perspective and the agreements between the US and Bangladesh governments' project agreement and between the TAPP and the IMCC contract. These differences were never completely reconciled and continued to plague the project. For example, the PIAG office was unable to obtain a telephone until January 1994 or air conditioning until March. The project did not receive its computers until August 1994 -- thus making the office reasonably functional. It was also at this time that USAID extended its contract with IMCC for a year to take the project up to August 1995. PIAG received its second authorized telephone during the last month of the project. Support staff could only be hired on a daily basis throughout the project. These administrative and logistical difficulties resulted in a high cost to the project in terms of its productivity.

Still, by its end, the project was generally considered a success. Thirteen reports had been prepared, five research notes written, eight seminars and forums held, and a respectable body of policy reform had occurred following PIAG representations.

### Goals and Methodology

The overall purpose of the project, according to USAID, was to reduce the cost and risk of business investments and other transactions particularly as these were affected by government rules and regulations. In a revised version of the Bangladesh government's TAPP for the project,<sup>3</sup> the objectives were stated as follows: "The PIAG project will advise the government on industrial policy matters. It will analyze and review the present policies, if required, to further improve the industrial climate in the country. It will examine the implementation problems of the present policies in the Ministry of Industries and its agencies as well as in financial institutions, tariff organizations and other government organizations concerned with industrial policy implementation. It will make recommendations on systems, methods and approaches to enhancing policy implementation. The PIAG will also evaluate and formulate new policy recommendations for the government as requested. The PIAG project will help in human resource development through training programs, both at home and abroad, for the Bangladesh officials. It will also help to establish a permanent policy implementation and analysis cell, at the conclusion of the project in the Ministry of Industries by way of institutional development."

As a guide and aid to achieving its goals and objectives, the project was to develop a work plan -- in accordance with the contract to be approved by USAID and the Ministry of Industry; and, to comply with MOI requirements, to also be approved by a project steering committee made up of representatives of related public and private sector organizations. In mid-1993 a broad plan with six tasks was approved by USAID and the MOI and subsequently by the project steering committee. The six tasks were:

---

<sup>3</sup> This was never approved. Indeed, for its last year, the project was not covered by an approved TAPP.

- \* Task 1: Study of the industrial regulatory policy framework
- \* Task 2: Systems analyses of the operational procedures and capacities of the Ministry of Industries and related agencies.
- \* Task 3: Implementing economic reforms
- \* Task 4: Study of investment promotion
- \* Task 5: Assessment of the impact of tariff liberalization on Bangladesh industry
- \* Task 6: Developing a consensus for reform.

All of PIAG's subsequent work was carried out within the framework of these original tasks.

The project employed a variety of activities and instruments to achieve its goals. These included:

- \* Research and analyses
- \* Seminars and key persons forums
- \* Direct representations
- \* The industrial policy matrix
- \* *The Industrial Policy Quarterly*
- \* Input to USAID, World Bank and other donor policy positions.
- \* Training
- \* Study tours

These will be discussed in more detail in the following section.

### **Accomplishments**

The project's outputs and other accomplishments took the form of reports, research notes, seminars, key persons forums, an industrial policy matrix, *Industrial Policy Quarterlies*, policy changes, meeting a conditionality of a World Bank loan, providing major inputs to the USAID policy matrix and other USAID and American Embassy policy positions,

introducing computer technology into the Ministry of Industries, and training and study tours. A description of these accomplishments follows.

### Reports

Box 1 provides a list of PIAG reports. The first two reports, *Background Material on*

**BOX 1**  
**PIAG Reports**

- \* PIAG Report # 1: *Background Material on Industrial Policy Environment in Bangladesh--Review of the Liberalization Process*, March 1993
- \* PIAG Report # 2: *Current Liberalization and Other Economic Reform Issues*, April 1993
- \* PIAG Report # 3: *Export Performance and Export Policy: Some Interim Recommendations*, June 1993
- \* PIAG Report # 4: *Current Exchange Rate Misalignment and an Agenda for Its Urgent Reform*, June 1993
- \* PIAG Report # 5, *Systems and Procedures for Policy Implementation*, July 1995
- \* PIAG Report # 6, *Regulatory Constraints to Industrial Development in Bangladesh and Recent Deregulations*, January 1995
- \* PIAG Report # 7, *The Seminar on Regulatory Constraints to Industrial Development in Bangladesh: Summary of Proceedings*, April 1994
- \* PIAG Report # 8, *Comparative Study of Investment Promotion Policies, Structures and Activities in the Asian Region with Applications in Bangladesh*, July 1995
- \* PIAG Report # 9, *PIAG and the Bangladesh Chambers of Commerce & Industry: Where Do We Go from Here?*, July 1995
- \* PIAG Report # 10, *The Seminar on Government Administrative Systems and Procedures*, August 1995
- \* PIAG Report # 11, *Investment Promotion in Bangladesh*, August 1995
- \* PIAG Report # 12, *Investment Case Studies in Bangladesh*, August 1995
- \* PIAG Report # 13, *Tax Reform in Bangladesh*, August 1995

*Industrial Policy Environment in Bangladesh--Review of the Liberalization Process and*

*Current Liberalization and Other Economic Reform Issues* were prepared to provide a background of the status of industrial policy and reform in the country. The third, *Export Performance and Export Policy: Some Interim Recommendations* was prepared at a time that the Export Promotion Bureau was examining export policy. The fourth, *Current Exchange Rate Misalignment and an Agenda for Its Urgent Reform* initiated a theme that PIAG was to pursue through out the course of the project that the exchange rate needs to be devalued to make Bangladesh exports more competitive and to give export development a boost. The fifth, *Systems and Procedures for Policy Implementation* -- first as a draft that was widely circulated beginning in October 1993 -- pointed to the need for major reform to administrative systems and procedures in the Bangladesh government. During the project, PIAG began to refer to administrative reform as "the country's number one need." The sixth report, *Regulatory Constraints to Industrial Development in Bangladesh and Recent Deregulations*, met a conditionality for the government on its World Bank Industrial Sector Adjustment Credit-2 loan. This became PIAG's most broadly disseminated draft and final report. It was extensively used in the 1994-1995 World Bank Country Memorandum. PIAG's seventh report, *The Seminar on Regulatory Constraints to Industrial Development in Bangladesh: Summary of Proceedings*, was the results of a full day's review of the subject with the country's leading policy makers and industrialists and provided substantial input for the final version of the sixth report. A draft version had served as the basic document of the seminar. The eighth report, *Comparative Study of Investment Promotion Policies, Structures and Activities in the Asian Region with Applications in Bangladesh*, resulted from a major study of the investment promotion regimes of China, Indonesia, Malaysia, Thailand and Vietnam and an examination of the lessons for Bangladesh. A draft of this report was the basis for an important PIAG seminar on the subject. The ninth report, *PIAG and the Bangladesh Chambers of Commerce & Industry: Where Do We Go from Here?* -- Examined the role of chambers of commerce and industry as mechanisms for encouraging industrial policy reform and their need for policy analysis capabilities. The conclusion was that they may have to take to lead role and, in doing such, will urgently need one or more groups with strong policy analysis -- including analysis of barriers to policy implementation -- capabilities. Report ten, *The Seminar on Government Administrative Systems and Procedures*, represented the proceedings of a seminar held in the Ministry of industries on PIAG Report # 5. Report eleven, *Investment Promotion in Bangladesh*, looked at the Board of Investment and its needs for attracting major new investment for the country. Report twelve, *Investment Case Studies in Bangladesh*, is a collection of studies of investment in the country that were carried out to assist PIAG in conducting a number of its policy analyses. The final report, *Tax Reform in Bangladesh*, is a major study of tax reform. It is believed that this should be a major policy instrument for guiding tax reform in the country for coming years.

### Research Notes

During the course of the project, five policy notes were prepared. They are listed in Box 2. The first note, *Exports and Export Policy*, served as the basic presentation to initiate a

key persons forum held in conjunction with the Business Advisory Services Center.

**BOX 2**  
**PIAG Research Notes**

- \* PIAG Note # 1, *Exports and Export Policy*, March 1994
- \* PIAG Note # 2, *Some Recent Policy Changes*, April 1994
- \* PIAG Note # 3, *Privatization in Bangladesh*, June 1994
- \* PIAG Note # 4, *The Current State of Economic Policy Reforms in Bangladesh*, October 1994
- \* PIAG Note # 5, *Privatization Issues in Bangladesh and the Impact of Labor Unions on the Process*, July 1995

The second note, *Some Recent Policy Changes*, was prepared for a key persons forum at the Dhaka Chamber of Commerce and Industry. The third, *Privatization in Bangladesh*, was prepared to provide input into an article in the first issue of the *Industrial Policy Quarterly*. The fourth note, *The Current State of Economic Policy Reforms in Bangladesh*, was prepared for a presentation at a Dhaka Chamber of Commerce and Industry seminar. The last note, *Privatization and Labor*, was prepared to initiate a discussion of the subject among the country's leading political parties, and business and labor leaders which was organized by the Center for Policy Choice and Analysis. This was later serialized in *The Daily Star*.

Seminars and Key Persons Forums

During the course of the project, there were eight seminars and key persons forums. They are listed in Box 3. The first seminar, *Regulatory Constraints to Industrial Development in Bangladesh*, was mentioned under the discussion of PIAG reports. It was held in conjunction with the Metropolitan Chamber of Commerce and Industry in their conference facility. The second, on export policy, was a key persons forum. In these forums we would bring together about twenty persons with key roles or interest in a policy matter and discuss the issue informally and off the record. The third, on tariff reform was also a key persons forum held in conjunction with the Dhaka Chamber of Commerce and Industry. The fourth, on administrative systems and procedures was discussed under the report section. The fifth, on investment policies procedures and structures in other Asian countries, presented the draft of PIAG Report # 8 and based on seminar inputs, the final report was prepared. The sixth was a seminar at which the Secretary for the Ministry of Industries Abdul Hye discussed his findings on a PIAG sponsored study tour of Chili and the privatization

process the country has been through. Secretary Hye gave lessons which he perceived had relevance for Bangladesh. The seventh, was a seminar at which representatives of the private sector, the Ministry of Industries, the Board of Investment, the Bangladesh Small and Cottage Industries Corporation and the Planning Commission related lessons from a PIAG sponsored study tour of the investment promotion programs of Thailand and Malaysia. The eighth, presented the results of the PIAG tax reform study.

**BOX 3**  
**Seminars and Key Persons Forums**

- \* Regulatory Constraints to Industrial Development in Bangladesh
- \* Export Policy
- \* Tariff Reform
- \* System and Procedures for Policy Implementation
- \* Investment Promotion Policies, Structures and Activities in the Asian Region with Applications in Bangladesh.
- \* Privatization in Chili with Lessons for Bangladesh
- \* Investment Promotion in Malaysia and Thailand and Applications for Bangladesh
- \* Tax Reform

Industrial Policy Matrix

A significant product of the project was the development of an industrial policy matrix, *Accelerating Industrial Development*, which listed nine major policy areas and associated objectives against which were arranged in a matrix format (1) current problems, status and recent measures taken, (2) further actions needed and (3) the agency or organization responsible for the action. The major policy areas were:

- \* Accelerate industrial investment
  - accelerate legal reform
  - improve the financial system
  - development an efficient labor market

- \* Spur the introduction of new and improved technology and management and marketing skills
- \* Promote export led growth
  - enhance market competitiveness and rationalize industrial incentives through import liberalization
  - enhance market competitiveness through exchange liberalization
- \* Speed up the privatization process
- \* Streamline and make the government bureaucracy effective, efficient and accountable, and its activities transparent
- \* Maintain general security and industrial peace
- \* Stimulate the private sector through increasing public investment
- \* Overcome infrastructure deficiencies
- \* Establish a credible education system with the introduction of educational technology and the reintroduction of English as important components

In preparing its own policy matrix, USAID drew heavily on the PIAG matrix. It was referenced as an important document in a World Bank publication and it was reputed to have been widely used by a host of government policy makers, donor representatives and newspaper reporters. A copy of the matrix is provided as Attachment 1.

### The Industrial Policy Quarterly

Three issues of a publication named the *Industrial Policy Quarterly* were produced -- an introductory issue which focused on deregulation, a second one in which the focus was administrative reform and a third which focused on industrial investment. This publication provided a mechanism for presenting important industrial policy issues and recommendations in a concise readable format which was seen by most of the nation's leading policy makers and industrialists. In just three issues, the *Quarterly* became a popular publication which was widely quoted in the Bangladesh press. The tables of content for the three issues are provided as Attachment 2.

### Computerization and computer training at the Ministry of Industries

When PIAG was initiated the typewriter was the instrument for preparing documents at the Ministry of Industries. There were three microcomputers at the Ministry but two were out of order and the third had quite limited capacity and capabilities and was only occasionally

used by one officer. PIAG repaired and upgraded all of the computers. Word processing, spread sheet and data base software was loaded and eleven staff members were trained in their use by the project. Familiarization courses were provided for eleven of the Ministry's senior staff in the functions in which the computer could aid the Ministry in performing, an organizational plan was prepared for setting up a computerized management information system (MIS) and an equipment purchasing plan was prepared based on standardized microcomputer networks and standard software. Six people received specialized training in the programming and the use of relational data bases. At the end of the project, computers were in wide use, particularly in the preparation of documents, within the Ministry. The prospects appear good that an increasing number of Ministry functions will be computerized.

### Study tours

Two study tours were funded under the project. The first, mentioned earlier, was to provide the Secretary of the Ministry with an opportunity to examine the process of privatization in Chili. PIAG arranged for the Secretary to meet the key policy makers and managers who led the country's privatization program. He was accompanied throughout the tour by a PIAG consultant who was an important player in the process. Afterwards, the Secretary gave a seminar in which he described Chili's experience and suggested lessons for Bangladesh. He also prepared a guest column for the first issue of the *Quarterly* based on his findings.

On the second study tour, five people from the private sector and five from government visited Thailand and Malaysia to observe their investment promotion programs, structures and results. The government representatives were from the Ministry of Industries, the Board of Investment, the Small and Cottage Industries Corporation and the Planning Commission. Following their tour, the participants provided a seminar on their experiences for the representatives of their organizations and the private sector. The Bangladesh Federation of Chambers of Commerce and Industry hosted the seminar.

### Policy changes

PIAG has produced a small library concerning industrial policy in Bangladesh and needed changes and requirements for policy implementation. We believe that this and PIAG representations have had a significant educational value for key policy makers, have had an impact on the country's industrial policy and will continue to do so. The literature produced by the project provides a firm base for future policy studies and analyses. Following is a list of policy changes that have occurred following PIAG representations.

**Policy Changes  
Made by the Bangladesh Government after PIAG Representations**

<b>Policy Changes Following PIAG Representations</b>	<b>Comments</b>
Introduction of a process of automatic registration of proposed investment projects with the Board of Investment. Of particular importance was the removal of a requirement of documentary proof that an investment was already underway prior to being able to obtain BOI registration.	This recommendation was made in the PIAG Policy Matrix as well as in PIAG Report 6. Also, several meetings were held with Members of the BOI at which this issue was raised. After the policy change was implemented, there was a large increase in the number of new investments registered with BOI.
Removal of the requirement for foreign shareholders of joint venture companies, or companies wholly owned by foreigners, to seek permission from the Securities and Exchange Commission for the purpose of transferring their shares to others.	This recommendation was made in the PIAG Policy Matrix as well as in PIAG Report 6. Also, meetings were held on the issue with the Chairman of the Securities and Exchange Commission. The change was a direct result of PIAG representations
Introduction of computers and a computer-based management information system in MOI.	This was recommended in PIAG Report 5 and technical assistance was provided to the Ministry in this regard. Computers are now widely used in the Ministry and efforts are underway to introduce a rudimentary computerized MIS system.

<p>Elimination of the passbook system limiting imported inputs for all but restricted import categories.</p>	<p>This was recommended in the PIAG Policy Matrix and in PIAG Report 6, as well as in meetings with members of the BOI. A new policy was established whereby new passbooks limit only restricted items. Customs, however, still limited for some time unrestricted items listed in old passbooks without written BOI approval. PIAG recommended that the Chief Controller of Imports &amp; Exports (CCIE) should recall all old passbooks and replace them with new ones or the NBR should issue a Statutory Regulatory Order stating that henceforth restriction of imports of the passbook items would apply only in the cases of restricted import category items. This recommendation has been implemented. The CCIE issued a circular to the customs authorities that no limitation be applied to imports which are not in the "Control List" of imports.</p>
<p>Full exemption of duties on imported machinery for 100 percent export-oriented industries outside the export processing zones without requiring bank guarantees.</p>	<p>Proposed in PIAG Report 3.</p>
<p>Development of a database of listed companies on the Dhaka Stock Exchange.</p>	<p>Proposed in PIAG Policy Matrix. A meeting was held with the Chairman of the Securities and Exchange Commission on this subject. This is being implemented.</p>
<p>Increase cash compensation to local fabric producers from 15 to 25 percent of the value of such supplies to ready-made garments producers for export in lieu of duty drawback.</p>	<p>Proposed in PIAG Policy Matrix and PIAG Report 6.</p>

Exemption of duty on raw hides and skins for leather producers with a bank guarantee.	Proposed in PIAG Policy Matrix and in PIAG Report 6.
Withdrawal of Bangladesh Bank controls on bank loans to hosiery industry, trading loans to sugar, pharmaceuticals, textile products and general merchandize, and on bank financing of stocks of certain goods categories such as air conditioners, complete bicycles, domestic refrigerators, electric fans, motor cars, trucks, and buses.	Proposed in PIAG Policy Matrix and in PIAG Report 6.
Further relaxation of foreign exchange controls such as those on personal and business travels, making the Bangladesh Taka fully convertible on current account by eliminating or relaxing exchange controls on remaining current account items.	These were proposed in PIAG Report 6.
The Finance Minister has already announced that the Taka would be soon made convertible also on capital account.	Proposed in PIAG Report 6. However, no action has so far been taken, to our knowledge, toward carrying out this pledge.

<p>It has been reported that the National Labor Law Commission has recommended the following:</p> <p>a) No outsiders, including previous employees of an industrial firm, could become members of a trade union of that firm or, if already members, retain that membership.</p> <p>b) A three-year moratorium has been proposed on the formation of trade unions in newly-established industries.</p>	<p>These were proposed in PIAG Report 6. An earlier version of the Report was made available to the National Labor Law Commission while it was in the process of finalizing its report. According to the disclosure of a previous member of the Commission in the PIAG seminar held on 16 April 1994 to discuss the PIAG Report 6, the Commission has addressed most of the concerns and issues raised in PIAG Report 6.</p>
<p>Preshipment inspection by one of some selected reputed foreign companies for valuation of imports for duty assessment purposes has been introduced on a voluntary basis, which from November 1994 has been made to prevail over "tariff values" of imports, which are pre-determined by the National Board of Revenue.</p>	<p>This step has been in line with the PIAG recommendation that the use of "tariff values" for assessment of duties be phased out. PIAG also recommended in its Policy Matrix and in PIAG Report 6 the introduction of preshipment inspection on a compulsory basis with its cost borne by the Government.</p>
<p>The advance income tax on imports for export production has been reduced from 0.5 percent to 0.25 percent. This is a step forward toward its complete abolition.</p>	<p>PIAG has recommended its complete abolition in the Matrix.</p>
<p>The retention benefit of foreign exchange earned by exporters has recently been further increased.</p>	<p>PIAG recommended both way convertibility of such retained foreign exchange benefits in its Matrix as well as Report 6. The further enhancement of the retention benefit may in part compensate for the disadvantage exporters were facing.</p>

<p>There has been further relaxation of foreign exchange controls. Incoming Bangladeshi travelers can bring up to US \$ 5000 without making a declaration to the authorities. The amount of foreign exchange an outgoing Bangladeshi traveler can get from banks without prior approval of Bangladesh Bank has been increased to a maximum of US \$ 3000 per passenger for travel to the United States, European and certain other countries. Another important change has been introduction of a foreign exchange travel quota for importers up to one percent of the value of imports.</p>	<p>These changes are in line with PIAG's recommendations for greater foreign exchange liberalization in its Report 6 and the Policy Matrix. The recommendation for importers was also explicitly made by PIAG.</p>
--	--

#### A continued PIAG type activity at the Ministry of Industries

The Ministry of Industries is preparing a proposal to the Ministry of Finance for funding to continue a PIAG type activity within the Ministry using local consulting support. Assuming favorable response, there seems a fair chance that the study and analysis of policy and its implementation will become institutionalized within the Ministry.

#### Problems

There have been several problems that have limited the effectiveness of PIAG. The major ones were:

- \* Contradictions between the TAPP and the IMCC contract and the two governments' agreement
- \* Bureaucratic procedures
- \* Lack of adequate staff in the MOI
- \* Project timing

A brief discussion of each follows.

### Contradictions between the TAPP and the IMCC contract and the two Governments' agreement

There were several contradictions between the TAPP and the contract between USAID (through its contractor the Small Business Administration) and IMCC. There were also contradictions between the TAPP and the agreement between the governments of Bangladesh and the United States to establish the project. The differences primarily had to do with project staffing and equipment purchases including the source of equipment and payment of duty and other taxes. As was noted under the History section of this report, these differences, coupled with the second problem area listed, resulted in the project never being able to hire permanent support staff and in having only one year of a reasonably fully equipped office.

### Bureaucratic procedures

Previously, it was noted that the number one problem facing investors in Bangladesh is the quagmire of bureaucratic systems and procedures that they have to deal with. The same quagmire is faced by donor funded projects. This means that productivity of projects is reduced and the time required to achieve project goals is elongated.

### Lack of adequate staff in the MOI

The additional secretary who was the government director of the PIAG project had to hold down a full time job, and a big part of the time two full time jobs, in addition to his duties as project director. Obviously, something had to suffer.

### Project timing

In the USAID "midterm" evaluation of PIAG, it was noted that it was probably fortuitous for the PIAG component that the project had not started in 1989 because the environment was now more open and conducive to policy reform than it had been at that earlier date. While this is probably true, the last half year of the project occurred during a period of increasing attention to an upcoming election with a concomitant reluctance to make hard policy decisions that could be unpopular or criticized by strong vested interests. This environment undoubtedly distracted from the project's productivity.

### Lessons

There are a few lessons that are apparent as the project comes to a close. The first is that USAID should review the TAPP for projects at the time that it prepares its contracts. There may be ways to eliminate potential discrepancies without sacrificing the project's productivity or USAID's objectives. At least, USAID will know where conflicts are and can hopefully begin to work with the Bangladesh government to eliminate them. It can also

alert the contractor. It would also be useful for USAID to brief contractors who are new to Bangladesh on the paramount importance that the Bangladesh government places on the TAPP. It is easy enough for the innocent to believe they are only bound by their contract.

A second lesson is that USAID needs to reduce contractual requirements for permissions and concurrences to the absolute minimum. In the Bangladesh context, obtaining these are very time consuming and slows project progress. This means that an important criteria in selecting contractors is their proven integrity, dependability and track record.

Two effective years is too short for a project which aims at achieving policy change and implementation at a national level across a major sector -- such as industry. A more reasonable length for such a project would be the term of one full government administration -- that is, five years in the case of Bangladesh.

Attachment 1

# PIAG Policy Matrix

BEST AVAILABLE COPY

**ACCELERATING INDUSTRIAL DEVELOPMENT**  
(Matrix of Proposed Policy Actions)

PIAG

4 July 1994

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
1. Accelerate industrial investment	a. Many of the policy area objectives in this matrix are mutually supportive and every one is supportive of the objective of accelerating industrial investment. From the standpoint of industrial development, however, an acceleration in industrial investment is the most direct and critical challenge facing the nation today.		
	b. The World Bank notes that Bangladesh has historically had very low investment rates, averaging around 12 percent of GDP. This is the lowest domestic investment rate in South Asia where in 1990, Nepal's domestic investment rate was 18 percent of GDP, India's was 23 percent, Pakistan's 19 percent and Sri Lanka's 22 percent. In East Asia, the domestic investment rates in 1990 were much higher, e.g., 39 percent in China, 36 percent in Indonesia and 37 percent in Thailand. The recently submitted Government budget states that the current investment rate in Bangladesh is 14.5 percent of GDP and that this is to be immediately raised to 16 percent and eventually to 20 percent of GDP. Foreign investment in Bangladesh is negligible, according to the Asian Development Bank, averaging about \$2.6 million per year between 1987 and 1992. During this same period, Pakistan had an average of \$260 million foreign investment per year.	i. Bangladesh needs to achieve an investment rate of at least 18 percent of GDP if it is to achieve a minimum desirable growth of six to seven percent per year. For increasing overall investment in Bangladesh, increases in both public and private investments – as shares of GDP – need to be brought about.	Board of Investment (BOI), Bangladesh Export Processing Zone Authority (BEPZA), Bangladesh Small and Cottage Industries Corporation (BSCIC) and Government executing agencies for public investment
	c. Except for the regulated sectors, "on paper" no controls remain on private investment outside the reserved list. In practice, however, investment controls do remain due to regulatory functions of industrial promotion agencies and for some other reasons.	i. Remove any remaining controls on foreign investment (e.g., in pharmaceutical and ready made garments industries); ii. Remove existing restriction on imports of second-hand or reconditioned machinery requiring certification that it has a minimum economic life. iii. Do not impose restrictions on financial institutions' financing of particular industries. In this connection, remove the Industrial Policy provision which discourages bank financing of industries on market saturation grounds. iv. Bring about a decisive improvement in customs clearance of goods by engaging the services of international agents to perform offshore duty assessment with import pre-shipment inspection.	Cabinet Division and the Ministry of Health Ministries of Industries and Commerce Ministry of Industries and BOI Ministry of Finance and the National Board of Revenue (NBR)

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
	<p>d. The Board of Investment is being reorganized and structured to be mainly a promotional body -- eliminating many, if not all, of its regulatory functions. Beginning 1 March 1994, the BOI eliminated the requirement for documentary proof that an investment was in progress prior to registering new companies and the registration form was substantially simplified. It is also confining recommendations on imported input requirements for incorporation in new industrial "passbooks" to restricted import category items. The Government announced the elimination of requirements for the inclusion of unrestricted goods in industrial passbooks. Old passbooks however still have all industrial inputs listed and the Customs authorities are not recognizing the announced government liberalization and are still asking for BOI approval for the import of unrestricted goods.</p>	<p>i. The Chief Controller of Imports and Exports (CCIE) should issue new passbooks to holders of the old passbooks which eliminate unrestricted categories, or the National Board of Revenue (NBR) should issue a Statutory Regulatory Order (SRO) which invalidates listings of unrestricted products in passbooks.</p> <p>ii. Take away from the BOI the functions of approving terms for private foreign loans outside a range and of approving technology transfer related payments of industrial firms.</p> <p>iii. Establish transparent and well defined guidelines about which industries need clearance on environmental grounds and about the procedures for such clearance. Similar guidelines should be published for regulating industries on other grounds such as public health and national interest.</p> <p>iv. Provide BOI more authority to carry out its facilitation functions for investors. Returning the Board to an enhanced Ministry of Industries could be one possible way of accomplishing this.</p> <p>v. Remove any remaining regulatory functions from the BOI (eg., issuing employment contracts incorporating BOI-approved remittances of expatriate employees salaries), making it a purely promotional agency.</p>	<p>• CCIE and NBR</p> <p>• Ministry of Finance and the Bangladesh Bank</p> <p>• Environment Department of the Ministry of Environment</p> <p>• Cabinet and Establishment Divisions and the Ministry of Finance</p> <p>• Cabinet Division and Ministry of Industries.</p>
	<p>e. The Government has recently withdrawn the value added tax from machinery but the advance income tax is still being collected from importers of machinery. Also, a 2.5 percent import permit/letter of credit authorization (LCA) fee is payable on such imports, if the industries are not located in underdeveloped areas.</p>	<p>i. The advance income tax and the import permit/LCA fee on fixed capital serve to increase investment costs and discourage further investment -- both should be removed.</p>	<p>• Ministry of Finance and National Board of Revenue.</p>
	<p>f. Three other areas that need attention if private investment is to be accelerated are:</p> <ul style="list-style-type: none"> <li>- Accelerating legal reform</li> <li>- Strengthening the financial system</li> <li>- Developing an efficient labor market</li> </ul>		

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
<p>Accelerate legal reform</p>	<p>g. A congenial legal environment is lacking for private sector business. Legal reforms are needed importantly and specifically to ensure enforcement of contracts, for the resolution of disputes and for orderly exit of unprofitable business activities. The Government has initiated significant work for reform of the general legal system.</p>	<p>i. Expeditiously finalize and enact the amendments to the Companies Act, 1913, the Bankruptcy Act, 1920, the Foreign Investment Act 1980, and laws relating to patents and trademarks.</p> <p>ii. Incorporate in general corporate law and in the Financial Loan Courts Act (Act 4 of 1990) provisions which will strengthen contract law, e. g., reasonable limitations should be placed on the adjournment and appeal processes, and outstanding awards should incur interest. At the international level, Bangladesh should accede to the UN Convention for the Enforcement of Foreign Arbitral Awards (the New York Convention) to complement its existing accession to the International Convention for the Settlement of Investment Disputes (ICSID).</p> <p>iii. Other pending legislation (e.g., the laws to provide the Board of Investment more authority to promote and support industrial development and to establish a Judicial Training Institute) should be accelerated.</p> <p>iv. Revise the Admiralty Act of 1861 to give proper protection to exporters and importers, including those by air and land as well as marine shipment</p> <p>v. Update the statutes affecting land transfer and mortgaging to facilitate the processes of creating title and securing other interests at reasonable cost. These have become acute impediments to modern business dealings. False titles abound and mortgages are often unregistered to avoid high charges. Correcting this situation requires modifications to the 1882 Land Transfer and Stamp Acts and the 1908 Registration Act. Further the land register system is in a chaotic state and requires a major overhaul including the introduction of modern record-keeping technology.</p> <p>vi. Make legislation to empower commercial banks to engage in financing equipment leasing (as occurred in India in 1984).</p>	<p>Ministry of Law, Ministry of Commerce and Ministry of Industries</p> <p>Ministry of Law</p> <p>Ministry of Law and BOI</p> <p>Ministry of Law and Ministry of Shipping</p> <p>Ministry of Land and Ministry of Law</p> <p>Ministry of Finance, Bangladesh Bank and Ministry of Law</p>

BEST AVAILABLE COPY

2

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
Improve the financial system		vii. Upgrade the legal system by providing the judiciary (1) greater autonomy and independence—this requires the repeal of the 1975 amendments to Articles 115 and 116 of the constitution, (2) more manpower with better management and judicial training—the establishment of the proposed judicial training institute and practicing law institute could be steps in this direction, (3) modernize court facilities and equipment—particularly, introduce modern information technology and (4) establish a permanent administrative law reform commission to rationalize existing rules, regulations and procedures.	Ministry of Law, Ministry of Commerce and Ministry of Industries
	h. Despite considerable financial reform recently, interest rate deregulation is not yet complete and flexible, and controls remain on some types of lending. Serious problems remain in the financial sector due to a spread between deposit and lending rates which is too wide, excess liquidity of banks reflecting inefficiency, large continuing losses of the nationalized commercial banks and the need for resolving outstanding large bank debts of some sectors such as jute.	i. Withdraw, relax or rationalize, as appropriate, the remaining central bank controls on personal loans against the security of non-resident foreign currency deposits and foreign currency accounts and shares; bank advances for hire purchase for general trading purposes; and opening import letters of credit for loan defaulters.  ii. Quickly phase out the government-directed credit to the jute sector through the nationalized commercial banks.  iii. Remove the remaining interest rate bands for loans to agriculture, exports and small and cottage industries.  iv. Encourage the entry and growth of private banks to make the banking operations more competitive.  v. Expedite the process of privatizing the Rupali bank and take meaningful steps towards privatizing other nationalized banks.  vi. Further strengthen the management and staff of the Bangladesh Bank such that the Bank can more effectively carry out prudential regulation and supervision of the country's banking system, as well as concomitant enforcement requirements.	Ministry of Finance and the Bangladesh Bank  Ministry of Finance  Ministry of Finance and the Bangladesh Bank  Ministry of Finance  Ministry of Finance  Bangladesh Bank
	i. A credit guarantee scheme with an initial funding has been launched by the MOF/Bangladesh Bank (BB) to assist retired and retrenched public sector employees to invest in small industries. Likewise, the government, in its latest budget submission, provides a Tk 4.65 billion loan guarantee for the poor—particularly for women in rural areas.	i. Expand the credit guarantee scheme for all small industrial investors with donor support.	Ministry of Industries and Ministry of Finance

BEST AVAILABLE COPY

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
	<p>j. The extremely low level of savings in Bangladesh has hindered the formation of indigenous promoter capital. This has also limited the availability of locally borrowed capital. The emphasis therefore has been on borrowed overseas capital, as exemplified through the IBRD credit provided through the Bangladesh Shilpa Bank (BSB) in the late seventies and up to the mid-eighties; the continued aid dependence for the government's investment projects; and the strong advocacy for attracting foreign investment.</p>	<p>i. Channel increasing amounts of foreign aid and loans either directly through private investors, or indirectly through private financial institutions.</p> <p>ii. Give the financiers adequate control over project selection, sanctioning, and disbursing.</p>	<p>• Ministry of Finance, fund providers, channeling agencies, and Bangladesh Export Processing Zones Authority</p> <p>• Ministry of Finance and Ministry of Law</p>
	<p>k. Loan courts have been established. The Bankruptcy Act has been redrafted.</p>	<p>i. Formulate enforceable legal codes to ensure responsible financial behavior and discipline, both on the part of the borrower and the sanctioning agency; and establish effective institutions for their enforcement. For example, members of the board of directors of banks should be held legally responsible for their decisions and actions.</p>	<p>• The Ministry of Law</p>
	<p>l. Some measures undertaken recently to improve the capital market include (1) the establishment of the Securities and Exchange Commission, (2) lowering of the interest rates on government-floated savings instruments, (3) withdrawal of several special levies on dividends, (4) allowing foreign investors to purchase securities traded on the Dhaka Stock Exchange, (5) exemption of taxes on capital gains resulting from share transactions, (6) allowing remittances of capital gains by foreign investors as well as repatriation of capital invested in stocks and shares quoted on the Stock Exchange, (7) allowing remittances of dividends and profits without requiring prior permission of the Bangladesh Bank and without tax clearance but with withholding of taxes, if any, in the company accounts, and (8) issuing and transferring company shares without requiring prior Bangladesh Bank approval.</p>	<p>i. The government is the owner of the largest proportion of the manufacturing capital in the country. It should enhance disbursement of this capital to both indigenous and overseas investors through such means as the stock market, debenture financing, and stock options for employees. It would also be beneficial to the development of the stock market if the government would divest its shares in publicly traded companies. A recent government decision to off-load Tk 1,000 million worth of shares in gas and oil marketing companies should be implemented on schedule early next year.</p> <p>ii. It is expected that an active stock market in Bangladesh will initially be dominated by speculators rather than investors, because of the low investment climate. Effective anti-speculation mechanisms must therefore be put in place.</p> <p>iii. Maintain an accessible and current database showing the capitalization, leverage, liquidity, and earning powers of all business units listed with the stock exchange.</p>	<p>• Privatization Board, Ministry of Finance, Ministry of Industries, Ministry of Jute, Ministry of Textiles, the Dhaka Stock Exchange, Board of Investment, and Cabinet Division</p> <p>• Securities and Exchange Commission, Dhaka Stock Exchange, Ministry of Law, Ministry of Finance</p> <p>• Dhaka Stock Exchange, Bureau of Statistics, Ministry of Commerce, and chambers of commerce and industry</p>
<p>Develop an efficient labor market</p>	<p>m. The labor market in Bangladesh is characterized by structural inefficiencies due to shortcomings in the labor laws, weaknesses in enforcement of the labor laws, centralized wage determination and minimum wage legislation, and excessive Government interference in labor disputes. The labor market inefficiencies are contributing to increases in wage costs unmatched by firm profitability or labor productivity and to unhealthy labor management relations. A Labor Law Commission has reviewed the labor law problems and submitted a report to the government.</p>	<p>i. Repeal the regulation that allows retrenched or terminated workers of an establishment to become and remain members or office bearers of that establishment's trade union.</p> <p>ii. Reduce the multiplicity of trade unions in an establishment to only one with majority worker support.</p> <p>iii. Cease the current, centralized practice of determining wages for public sector workers without regard to profitability of firms and the productivity of their workers.</p>	<p>• Ministry of Labor and Manpower and the Ministry of Law</p> <p>• Ministry of Labor and Manpower and the Ministry of Law</p> <p>• Ministry of Labor and Manpower</p>

20

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
		<ul style="list-style-type: none"> <li>iv. Do not impose a national minimum wage for private sector workers.</li> <li>v. Government should cease intervening in labor disputes outside the procedures prescribed by the labor law. Legal loopholes which allow excessive government interference should be removed.</li> <li>vi. Cease the Government practice of reaching wage agreements with unions or their national federation, the Sramik Karenachari Okya Parishad (SKOP), by-passing tripartite consultations.</li> <li>vii. Enhance enforcement of labor legislation by strengthening the Labor Department, further streamlining labor court procedures, penalizing illegal strikes and lock-outs and ensuring job security.</li> <li>viii. Amend the current legal requirement, seldom met in practice, for joint reference by labor and employer of disputes to labor courts for adjudication.</li> <li>ix. Amend the labor law appropriately to remove the lack of a clear definition of the basis for double pay for overtime – which should exclude annual bonuses.</li> <li>x. Impose appropriate time limits on progress between most steps of the dispute resolution process to accelerate dispute resolution and increase the insufficient time limit specified for the tripartite conciliation step to give reasonable scope for this step to have success.</li> <li>xi. Allow the provision for employment of workers for fixed term contracts in addition to the presently allowed employment on permanent and casual, i.e., on a daily basis.</li> <li>xii. Make public the Labor Law Reform Commission report to elicit general public reaction.</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Labor and Manpower</li> <li>• Cabinet Division and Ministry of Labor and Manpower</li> <li>• Cabinet Division and Ministry of Labor and Manpower</li> <li>• Ministry of Labor and Manpower and Ministry of Law</li> <li>• Ministry of Labor and Manpower and Ministry of Law</li> <li>• Ministry of Labor and Manpower and Ministry of Law</li> <li>• Ministry of Labor and Manpower and Ministry of Law</li> <li>• Ministry of Labor and Manpower and Ministry of Law</li> <li>• Prime Minister's Secretariat or Cabinet Division</li> </ul>

BEST AVAILABLE COPY

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
<p>2. Spur the introduction of new and improved technology, and management and marketing skills.</p>	<p>a. Nothing, perhaps, accelerates industrial development more than the introduction of new technology, and management and marketing techniques and capabilities. The only way to do this on a fast and large scale is by bringing it in from outside. It is new technology and management and marketing skills that rapidly increase the "size of the pie". Unfortunately, local industry is often opposed to permitting, much less encouraging, foreign technology and management and marketing skills into the local market place because of a parochial view that the size of the pie is fixed -- and thus they will get less. Nothing is further from the truth. A recent example of what technological input can do to spur an industrial activity is given by a dramatic (near two-fold) increase in labor productivity in a new export-oriented shoe factory (Apex Footwear) when it received the help of a USAID supported foreign technical advisor.</p>	<p>i. Remove discriminatory restrictions on foreign investors' importation for commercial purposes, and on local residents and foreign investors for importation through direct payments from bank accounts abroad.</p> <p>ii. Seek donor support to initiate a long term grant and loan program aimed at aiding private companies in technology acquisition and mastery.</p> <p>iii. Seek donor support to initiate a program of industrial loans for Bangladesh-foreign partner joint ventures. This could be coupled with a program element that provides grants to work on new technological developments.</p> <p>iv. Remove remaining controls on the use of foreign exchange for payments for technical know how, and technical assistance and consulting fees.</p>	<p>• Ministry of Industries, Cabinet Division, Ministry of Health and the Ministry of Commerce</p> <p>• BOI, the Bangladesh Small and Cottage Industries Corporation (BSCIC), the Ministry of Science and Technology and USAID</p> <p>• Ministry of Industries, BOI, BSCIC, the Bangladesh Export Processing Zones Authority (BEPZA) and the World Bank or the Asian Development Bank</p> <p>• Ministry of Finance and Bangladesh Bank</p>
	<p>b. Every productive venture, irrespective of its level of capital intensiveness, depends on technology. The kind and level of technology required by an enterprise will of course vary widely. Technology is embodied in (1) the machinery, tools, equipment and processes used in production, and (2) the knowledge, techniques and skills brought to bear upon the production process. The use of inappropriate kinds or levels of technology abounds in Bangladesh.</p>	<p>i. Remove excessive protection to domestic textile and other industries, which has blunted incentives for use of more efficient technology.</p> <p>ii. Establish a mechanism of according social recognition and financial incentives (somewhat in the manner of the existing practice of installing Commercially Important Persons) to technology leaders among the local entrepreneurs.</p> <p>iii. Create an information center which will make information available on technology, equipment, suppliers, prices, terms of delivery, and government policy incentives.</p>	<p>• Ministries of Industries and Finance</p> <p>• Ministry of Finance, in collaboration with the various chambers of commerce and industry.</p> <p>• Ministry of Industries in collaboration with the Ministry of Science and Technology, and the chambers of commerce and industry.</p>
<p>3. Promote export led growth</p> <p>Enhance market competitiveness and rationalize industrial incentives through import liberalization.</p>	<p>a. The local market is not large enough, and certainly does not have sufficient room for expansion, to accommodate a rapid acceleration of industrial development. The only viable option, and one that should be aggressively pursued, is to accelerate expansion into export markets.</p> <p>b. Progress has been made in the substantial elimination of quantitative import restrictions and some rationalization of import tariffs. Currently import QRs remain on 55 four-digit HS items because of trade reasons. For most products, customs duty rates are now compressed into a range of 7.5 to 100 percent.</p>	<p>i. The most critical step needed to promote the export-led growth strategy is to accelerate import and foreign exchange liberalization to remove the anti-export bias of the existing restrictions in these areas.</p> <p>i. Eliminate remaining trade (i.e. protection) related quantitative restrictions on inputs of textiles, sugar, pharmaceutical, steel and other products.</p> <p>ii. Lower the highest tariff to 30 percent within a reasonable time span -- say two years.</p>	<p>• Ministry of Commerce, Ministry of Finance and the Bangladesh Bank</p> <p>• Ministry of Commerce, Ministry of Finance and Tariff Commission</p> <p>• Ministry of Finance</p>

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
<p>Enhance market competitiveness through exchange liberalization</p>	<p>c. A liberalized exchange should promote exports if factors holding up the value of the taka are corrected (liberalizing imports and accelerating the development program). There have been recent relaxations on exchange controls but more could be done.</p>	<p>iii. Phase out the official tariff values for duty assessment and contract international agents to perform offshore duty assessment in association with import pre-shipment inspection.</p> <p>i. Free private borrowing from abroad from any remaining control -- i.e., approval by BOI.</p> <p>ii. Allow exporters to operate their accounts with retained foreign exchange with the facility of both-way convertibility.</p> <p>iii. Allow exporters operating on back-to-back letter of credit basis to import with cash foreign exchange up to their retained foreign exchange benefits -- five to ten percent of exports.</p> <p>iv. Allow access to foreign exchange for all imports without the requirement for L/Cs.</p> <p>v. Extend the facility of import against direct payments abroad to all investors -- foreign and domestic. (Currently this facility is available to only Bangladeshi nationals living abroad.)</p> <p>vi. Considerably relax -- at least double -- the current ceilings on foreign exchange available for personal trips abroad. Withdraw foreign exchange restriction altogether for business travel -- or at least fix their foreign exchange entitlement well above those for personal trips.</p> <p>vii. Lift the control on capital transfers and make the taka also convertible on the capital account. Put the taka on a free float against other currencies or at least use reference rates with a wide band within which banks can vary the exchange rate.</p>	<p>Ministry of Finance and the National Board of Revenue</p> <p>Ministry of Finance and Bangladesh Bank</p> <p>Ministry of Finance and Bangladesh Bank</p> <p>Ministry of Commerce and Bangladesh Bank</p> <p>Ministry of Commerce and Bangladesh Bank</p> <p>Ministry of Finance and Bangladesh Bank</p> <p>Ministry of Finance and Bangladesh Bank</p> <p>Ministry of Finance and Bangladesh Bank</p>

BEST AVAILABLE COPY

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
<p>Other export promotion measures</p>	<p>d. Recent measures introduced to improve export policy include (1) providing full exemption of duty on machinery imports for 100 percent export-oriented industries without bank guarantees -- including those outside export processing zones, (2) providing substantial exemption of duties on machinery import for export-oriented industries, that export at least 70 percent of output, with bank guarantees, (3) providing 25 percent cash compensation to producers of ready made garments for export in lieu of duty drawback and allowing this same facility to direct exporters of other textile products, (4) providing full exemption of duties on imports of raw hides and skins for use in export products when companies provide bank guarantees that the imports will be re-exported as part of their export product, (5) providing export-oriented companies, who are not operating on back to back LCs, with an advance import facility of up to four months' requirement, (6) expanding the coverage of flat-rate duty drawback, (7) access to bonded ware houses for all types of export activities and (8) relaxation of the domestic value addition restriction for ready made garments exporters. Further export policy improvements are necessary in view of low general export growth, for products other than ready-made garments, the narrow export base and slow export diversification.</p>	<p>i. Remove existing bans and restrictions on export (1) on consignment, (2) through entrepot trade and (3) of a number of agricultural and manufactured products.</p> <p>ii. Expand the duty-drawback system at flat rates on a continuous basis and at a satisfactory speed -- say by 50 new product areas per month.</p> <p>iii. Extend the duty exemption facility, on machinery and spare parts, to other than 100 percent export-oriented units on a pro rata basis.</p> <p>iv. Introduce more flexible exchange rate management.</p> <p>v. Generalize the reintroduction of a cash compensation system for direct and indirect exporters who get inadequate tax offset on imported inputs or compensation for protection on domestically produced inputs.</p> <p>vi. Withdraw advance income tax from exporters on machinery imports and other inputs.</p> <p>vii. Abolish 2.5 percent import permit/LCA fee on imports for export.</p> <p>viii. Reduce duties to low levels on spare parts, raw materials for packaging and refrigerated vans used in the frozen fish industry.</p> <p>ix. Investigate the reasons for slow utilization of the Export Credit Guarantee Scheme and take necessary appropriate steps to improve its utilization, including provision of a subsidy on the premium cost for the insurance coverage.</p> <p>x. Accelerate the application of the bonded warehouse scheme to other areas of industry.</p>	<p>Ministry of Commerce, Ministry of Finance and the Bangladesh Bank</p> <p>Ministry of Finance and, particularly, the Duty Exemption and Drawback Office (DEDO) of the Ministry</p> <p>Ministry of Finance and, particularly, the Duty Exemption and Drawback Office (DEDO) of the Ministry</p> <p>Ministry of Finance and the Bangladesh Bank</p> <p>Ministry of Finance and the Bangladesh Bank</p> <p>Ministry of Finance</p> <p>Ministry of Finance</p> <p>Ministry of Finance</p> <p>Ministry of Finance, Bangladesh Bank, BOI and the Export Credit Guarantee Scheme Cell in Sadharan Bima Corporation</p> <p>National Board of Revenue</p>

BEST AVAILABLE COPY

BEST AVAILABLE COPY

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
4. Speed up the privatization process.	<p>a. This is the most effective way to eliminate the huge public enterprise losses and their concomitant burden on the general tax payer. It will also improve the efficiency of these enterprises, improve their products and make them more stable employment generators.</p> <p>b. The Privatization Board was established on March 20, 1993 and then given "status similar to that of an autonomous body" on 07 December 1993 and given a budget. Privatization procedures have been improved – there is no requirement for buyers to keep all the staff of tendered companies, the tendering system has been made more transparent, and the terms of payment by private buyers have been made easier. Still, the privatization process is progressing slower than many expected.</p> <p>c. The Privatization Board has targeted 39 state owned enterprises (SOEs) to be privatized during 1994-95. It includes eleven units in the textiles subsector, eight units in the steel and engineering subsector, ten units in the chemicals subsector, and ten units in the sugar and food subsector. This Board also lists the names of ten multinationals for which the government's shares are to be sold. During the Privatization Board's tenure, government shareholdings in five SOEs have been sold to private bidders. In addition, the shares of six multinational were sold to a state-owned insurance company.</p> <p>d. During June 1994, the Cabinet approved a privatization policy which increases the transparency of the process of privatization of SOEs and government owned shares. It also says attempts will be made to broaden ownership.</p> <p>e. The Ministry of industry submitted and Parliament passed, in July, the Bangladesh Industrial Enterprises (Nationalisation) Amendment Bill, 1994. The bill creates rules for registering nationalized industrial enterprises as limited companies under the Companies Act of 1913 and for providing industrial enterprises autonomy of operations.</p>	<p>Key steps needed to accelerate the privatization process are:</p> <p>i. Speed up privatization by (1) setting more ambitious targets with privatization dates, including the sale of non-industrial enterprises, (2) eliminating bias against profitable firms, and (3) making the privatization process – valuation, bidding and contracting – adequately open and competitive (the new government policy on privatization has provided a more transparent framework for this process in the case of SOEs and government owned shares).</p> <p>ii. Encourage foreign participation in the privatization process (the new government policy on privatization provides equal emphasis on sales to foreign and local interests).</p> <p>iii. In addition to disinvestment of state owned enterprises through closed bidding, additional mechanisms should be employed, where appropriate, such as open bidding for blocks of shares; open auction; transfer of shares through the securities market (the recent government budget submission and the new privatization policy notes that the government has decided to off-load part of its holding of shares in public companies through the stock market); employee takeover (the new privatization policy explicitly refers to this possibility); and bank structured, financed and underwritten disinvestment.</p> <p>iv. Where government is unable to transfer, or wholly transfer, ownership of assets to private parties, other methods of privatization such as management contract, leasing and joint private-public ownership should be undertaken.</p> <p>v. Engage competent professional advice for sale and valuation processes (the new privatization policy provides that chartered accountant firms will be involved in this process).</p> <p>vi. The Government should absorb part of outstanding liabilities where net worth is negative to make the privatization offer attractive (the new privatization policy explicitly excludes this except in the case of short term bank loans against stocks and stores where the government will take over liability in excess of the value of stocks and stores).</p> <p>vii. Liquidate enterprises which can be judged as inviable even with restructuring and rehabilitation.</p>	<p>Privatization Board, Ministry of Textiles, Ministry of Energy and Mineral Resources, Power Development Board (PDB), Ministry of Communications and Telephone and Telegraph (T&amp;T) Board</p> <p>Privatization Board, Ministry of Textiles, Ministry of Energy and Mineral Resources, PDB, Ministry of Communications and T&amp;T Board</p> <p>Privatization Board, Ministry of Textiles, Ministry of Energy and Mineral Resources, PDB.</p> <p>Cabinet Division, Privatization Board, Ministry of Communications, T&amp;T Board, and other relevant government agencies.</p> <p>Ministry of Textiles and Privatization Board.</p> <p>Privatization Board and respective government agencies</p> <p>Privatization Board and respective government agencies.</p>

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
		<p>viii. As interim measures to privatizing the SOEs:</p> <ul style="list-style-type: none"> <li>- Establish an independent audit body, reporting directly to the Prime Minister and accountable to the Parliament, to detect and report pilferage in the SOEs.</li> <li>- Recruit top SOE executives from the open market and engage them under contracts renewable on the basis of performance.</li> <li>- Bring SOEs under the purview of the Companies Act as is called for under the Bangladesh Industrial Enterprises Amendment Bill, 1994</li> </ul> <p>ix. Contracting out to private firms of client-based services – which the government is now providing. Customs would be a good place to start.</p> <p>x. Make more intensive use of build operate and own (BOO) and build operate and transfer (BOT) mechanisms to accelerate infrastructure development, especially for development of power, gas, telecommunications, special development zones such as export processing zones, and rail and port facilities.</p> <p>xi. Rationalize labor by removing over-staffing before privatization by resorting to voluntary labor retrenchment under a "golden hand shake" scheme which has donor support.</p> <p>xii. In the privatization process, the Privatization Board must strive to ensure competition or, where this is not possible, or practical, work with other concerned agencies – e. g., the Ministry of Commerce – to see that simple targeted regulatory rules are in place to protect the public in a monopoly environment.</p> <p>xiii. The Privatization Board should initiate a major awareness campaign to inform the public of how much state run enterprises and services are costing them in terms of high taxes, lost jobs, high interest rates, inadequate infrastructure, and poor services and products.</p> <p>xiv. The Chairman of the Privatization Board must be a person who is free of vested interests in the privatization process. Members and Executive Directors should be persons having experience in areas such as industrial strategic planning, project appraisal, contract law, and public relations. One of the two full time Members should come from the private sector and additional private sector members should be brought in as ex-officio members representing the chambers.</p>	<ul style="list-style-type: none"> <li>• Prime Minister's Secretariat, Cabinet Division and Ministry of Finance.</li> <li>• Cabinet Division and relevant government agencies.</li> <li>• Ministry of Law and Ministry of Industry.</li> <li>• Privatization Board and respective government agencies.</li> <li>• Cabinet Division and government infrastructure related agencies (PDB, Roads and Highways, port authorities, gas authorities, T&amp;T Board, etc)</li> <li>• Privatization Board and respective government agencies</li> <li>• Privatization Board and Ministry of Commerce</li> <li>• Privatization Board</li> <li>• Prime Minister's Secretariat, Cabinet Division</li> </ul>

BEST AVAILABLE COPY

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed. Specific Recommended Measures	Agency or Organization Responsible for Action
5. Streamline and make the government bureaucracy effective, efficient and accountable, and its activities transparent	a. There are a number of ministries dealing with industry and commerce. There is also the Board of Investment (BOI) and the Privatization Board – neither apparently with the authority they need to accomplish their missions.	i. Thought should be given to consolidating these fragmented elements into one large ministry made up of a number of divisions – each with its own secretary. The restructuring should eliminate redundancies and aim at achieving economy, efficiency and productivity.	* Cabinet Division and the Establishment Division
	b. The pay scale is too low to permit officials a reasonable life style – thus leading to a lack of incentive and diligence and to rent seeking. The size of the bureaucracy is also too massive with many people sitting around doing nothing.	i. Raise pay scale X percent per year until total benefits reach the level of the private sector. Decrease the size of the bureaucracy by Y percent a year until an optimum size is reached.	* Cabinet Division and the Establishment Division
	c. The government <i>Rules of Business</i> is outdated and inappropriate to a modern democratic form of government.	i. The <i>Rules of Business</i> need to be revised to reflect a parliamentary form of government, eliminate secrecy, and introduce transparency and a sense of service to the public.	* Cabinet Division
	d. Four government committees have been established to review administrative reform proposals and needs. One of these, a Ministerial Commission, is to propose concrete actions based on the work of the other committees. The Commission's report is now over due.	i. The government administrative reform committees should expeditiously complete their work and with donor assistance implement reform.	* Cabinet Division
6. Maintain general security and industrial peace	a. There are periodic recurrences of violent activities in educational institutions and outside as well as frequent general strikes (hartals) and labor unrest.	i. Set up or strengthen police guards at vulnerable points including industrial plants.	* Ministry of Home Affairs
		ii. Ban – and enforce ban on – political rallies in educational institutions	* Ministry of Home Affairs
	b. Passage of and placing into effect the anti-terrorism law has helped the general law and order, and security problem – but further improvement is needed.	iii. Sternly deal with illegal labor unrest in accordance with the labor law	* Ministry of Home Affairs
		iv. Depoliticize labor unions by reducing their multiplicity and allowing only one union in an industrial establishment.	* Ministry of Labor and Manpower and Ministry of Law
		v. Discontinue unauthorized Government intervention in labor disputes and the wage negotiation process.	* Ministry of Labor and Manpower
7. Stimulate the private sector through increasing public investment. The	a. Government spending of funds on donor supported development programs is far behind schedule. This leads to missed opportunities such as stimulating private sector activity via generating more effective demand as well as providing improved infrastructure to lower the cost of	i. Bureaucratic procedures for processing and implementing development projects must be streamlined. Authority should be delegated. Project directors must be full time and frequent transfers should be avoided.	* All concerned agencies

29

Immediate objective would be to increase the rate of implementation of the Annual Development Budget and a longer term objective would be to increase the size of the public development program.

"doing business" and greater human resource development through improvements in education and health services, and drawing down on the excess foreign exchange reserve which is partially responsible for an overvalued exchange rate which in turn hurts export industry. A continued sluggish execution of these programs will lead to a reduction in donor funding (witness the Asian Development Bank's recent cancellation of a 62.7 million US dollar interest-free loan).

ii. More responsibility for project implementation should be shifted to the private sector.

All concerned agencies

60

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
8. Overcome infrastructural deficiencies	<p>a. Shortages and frequent power outages, running out of existing known gas reserves by the year 2010 and likely shortages in gas and power production if facilities are not quickly developed, and inadequate telephone facilities are some of the problem areas.</p> <p>b. New petroleum policy encourages private exploration of oil and gas, the import tax on exploration equipment has been waived, private sector distribution of gas will be allowed in case the Government supply proves inadequate, and power generation by the private sector is encouraged by Government. The Government's decision to amend existing laws (Telephone Board Ordinance, 1979) for allowing private sector participation in telecommunications.</p> <p>c. Encouraging privatization developments in various forms in these sector include:</p> <ul style="list-style-type: none"> <li>• Possibility of foreign participation in telecommunications in the form of joint ventures or a new privately owned company competing with Bangladesh T&amp;T Board.</li> <li>• In the oil and gas sector, a government decision to permit negotiations of an agreement with international companies and an agreement reached to establish a separate, commercially oriented gas and transmission company.</li> <li>• In the power sector, government programs to separate generation, transmission and distribution into autonomous commercial entities.</li> </ul>	<p>i. Accelerate the current moves to encourage private foreign participation in power, gas and telecommunications sectors.</p> <p>ii. Encourage further private sector participation in these sectors offering such forms as management contracts, lease, build-own-operate and build-own-transfer arrangements.</p> <p>iii. Charge same prices of gas to users in the private power generation as charged to the Power Development Board.</p> <p>iv. Eliminate theft of electricity. The government decision to separate generation, transmission and distribution into separate autonomous commercial companies is a step in the right direction. Thought should be given to having these entities run under private management contracts.</p>	<ul style="list-style-type: none"> <li>• Ministry of Energy and Mineral Resources, and the Ministry of Communications</li> <li>• Ministry of Energy and Mineral Resources, and the Ministry of Communications</li> <li>• Gas companies -- for example, Titas, Bakhrabad</li> <li>• Ministry of Energy and Mineral Resources, The Bangladesh Power Development Board, the Bangladesh Rural electrification Board and the Dhaka Electricity Supply Authority</li> </ul>
9. Establish a credible education system with the introduction of educational technology and the reintroduction of English as important components	<p>a. The government has expressed an intention to reintroduce English as a compulsory subject up to the graduate level.</p>	<p>i. Remove all tax on computer and related technology</p>	<ul style="list-style-type: none"> <li>• Ministry of Finance and National Board of Revenue</li> </ul>

Policy Area/Objectives	Current Problems/Status; Recent Measures Taken	Further Actions Needed: Specific Recommended Measures	Agency or Organization Responsible for Action
10. Strengthen the industrial chamber and association movement	a. For many years, the government bureaucracy has received training, technology and technical assistance from donor agencies aimed at developing its planning and policy making capabilities. Now that the country is moving toward a private sector led growth strategy, it is time that both the government and the donor community invest in developing the private sectors ability to analyze, formulate and assist the government in implementing industrial plans and policy.	i. Initiate a donor supported project aimed at strengthening the chamber and association movement through institution building that includes a strong component aimed at strengthening the movements ability to participate in national planning as well as to conduct a strong forward looking policy dialogue with government.	Ministry of Industries and USAID
11. Develop a consumer interest lobby	a. Consumers should be a major force directed toward rationalizing the economy through their desire for low price and high quality goods.  b. The Ministry of Commerce has initiated work on a Consumers' Protection Act.	i. The Ministry of Commerce should initiate seminars and discussions focusing on the proposed act and consumer needs among consumers, chambers of commerce and industry and relevant government officials. The act should focus on desirable standards and correct measurements and steer clear of pricing which should be left to free market competition.	Ministry of Commerce

BEST AVAILABLE COPY

Attachment 2

# **Industrial Policy Quarterly Contents**

# INDUSTRIAL POLICY QUARTERLY

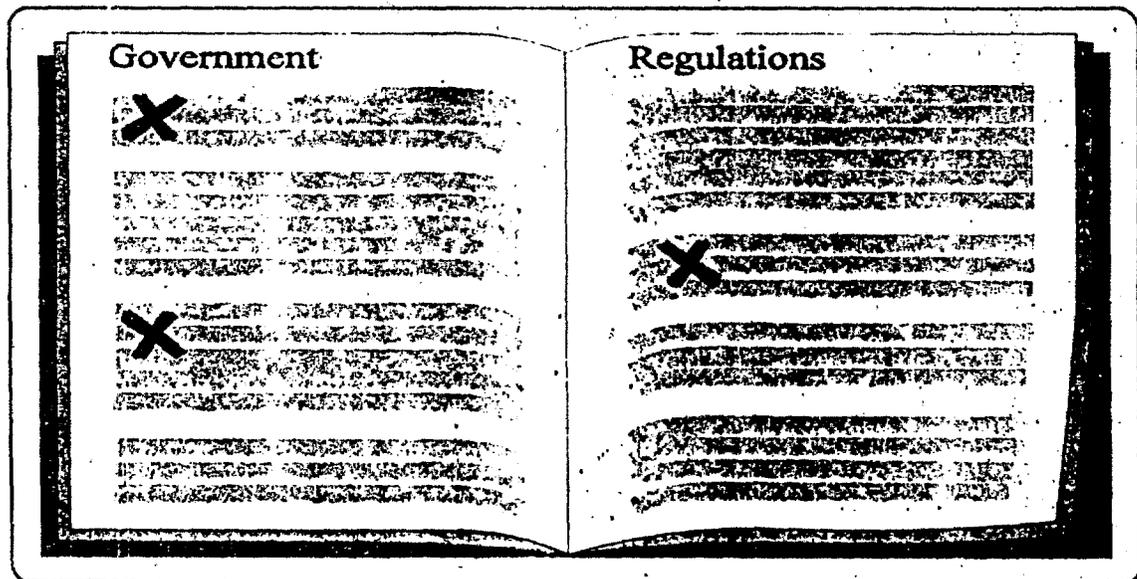
A publication of the Policy Implementation and Analysis Group  
A Ministry of Industries/USAID Project

Issue 1 Volume 1 November 1994

Quarterly Focus: Industrial Deregulation

## Contents

- Editorial Comment
- Current Issues: GATT and the Bangladesh Economy, Company Law 1994
- Economic News Update: Is Investment Increasing? Banking Sector Struggles Forward
- Quarterly Focus: Industrial Deregulation in Bangladesh
- Policy Implementation Watch: Privatization in Bangladesh
- International Publication: *Beyond Bretton Woods* by Professor Jeffrey Sachs
- Guest Column: *Privatization With a Human Face* by Hasanat Abdul Hye



**Policy Implementation and Analysis Group**

115-120 Motijheel Commercial Area, Dhaka

Phone (880-2) 863855.

Fax: (880-2) 863855

BEST AVAILABLE COPY

35

# INDUSTRIAL POLICY QUARTERLY

A publication of the Policy Implementation and Analysis Group  
A Ministry of Industries / USAID Project

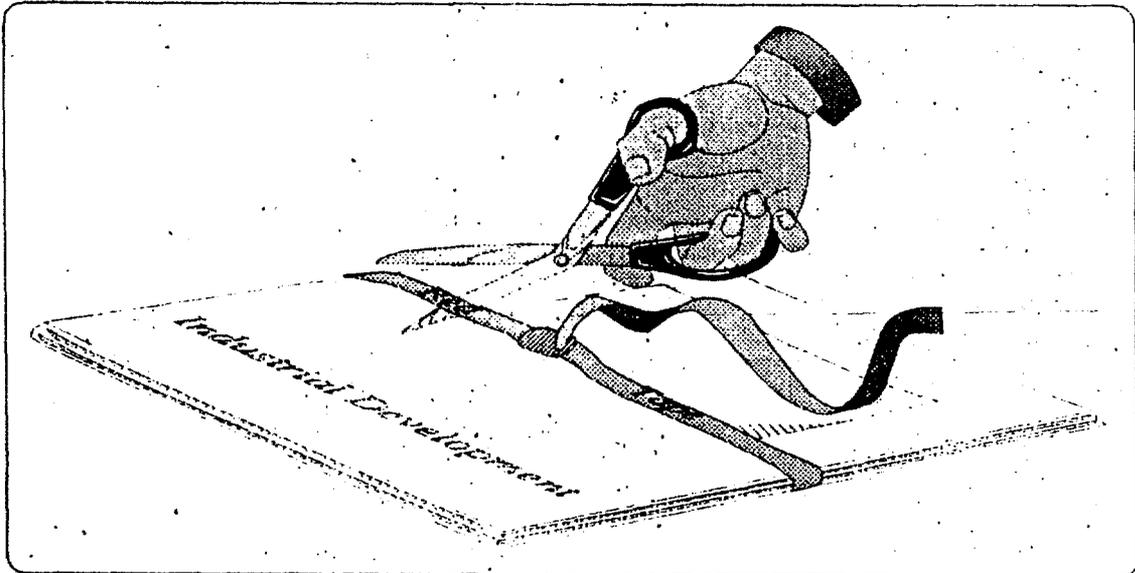
Issue 2

February 1995

## Quarterly Focus: Speeding Industrial Development through Administrative Reform

### Contents

- Editorial Comment: The Country's Number One Problem
- Current Issues:
  - Deregulation and Privatization as Approaches to Administrative Reform
  - Civil Service Compensation -- The Bangladesh Context
  - Application of Computer Technology Can Help Administrative Reform
- News Update:
  - Revised Trade Organization Rules Fail to Meet Expectations
  - UNDP Mounts a Study on Strengthening Local Government in Bangladesh
  - UN Decides to Devote Its 50th Session to Public Administration and Development
- Quarterly Focus: System and Procedures for Policy Implementation -- The Public Sector Environment
- Policy Implementation Watch:
  - Public Administration Reform -- Progress Report
  - Foreign Investment in Padmasthan -- A Case Study
- International Publication: It Happened in India
- Guest Column: *Administrative Reform -- Contribution to Industrial Development* by M. A. Syed



**Policy Implementation and Analysis Group**

115-120 Motijheel Commercial Area, Dhaka - 1000

Phone (880-2) 863855 Fax: (880-2) 863855

# INDUSTRIAL POLICY QUARTERLY

A publication of the Policy Implementation and Analysis Group  
A Ministry of Industries / USAID project

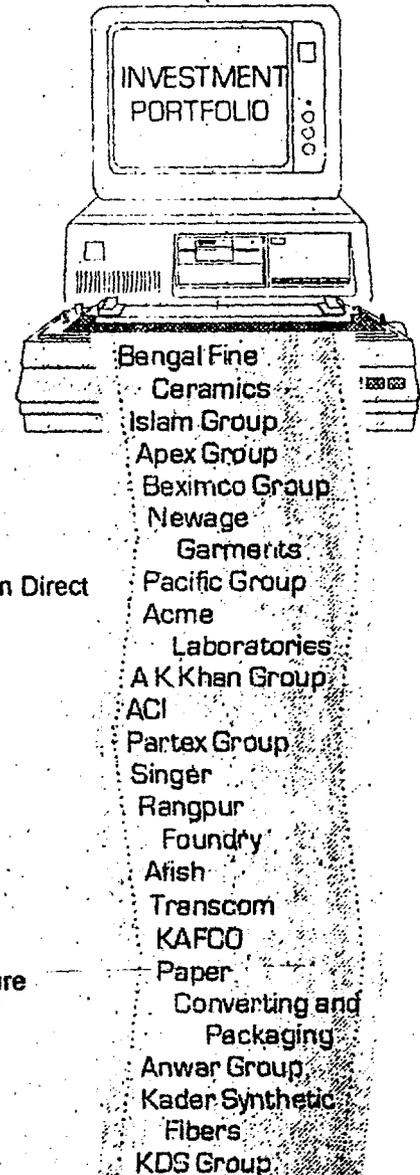
Issue 3

July 1995

## Quarterly Focus: Industrial Investment

### Contents

- Editorial Comment: The Country's Number One Need
- Current Issues:
  - Why Is There Not More Foreign Direct Investment?
  - Does Trade Liberalization Affect Investment?
  - KAFCO's Impact on Future FDI Flow Into Bangladesh
  - Is The "Lock-In" What the Country Needs?
- News Update:
  - Industrial Investment in Bangladesh
  - Implications of the FY 96 Budget for Industrial Investment
  - A New Unit to Help Attract Foreign Investment
  - Prime Minister Seeks Investment from South Korea
  - Investment Guarantee by Japan
- Quarterly Focus: Bangladesh's Prospects for Increasing Foreign Direct Investment
- Policy Implementation Watch:
  - Export Processing Zones -- Progress Report
  - Getting an Investment Bank Loan in Padmasthan
- International Publication:
  - Not a Boom Economy Yet!
  - Letter from Our Man in Vietnam
- Guest Column: *Investment -- The Elixir to Economic Takeoff*  
By R. Maksud Khan
- A Message from IMCC Management: PIAG at a Critical Juncture



Policy Implementation and Analysis Group  
115-120 Motijheel Commercial Area, Dhaka - 1000  
Phone: (880-2) 863855 Fax: (880-2) 863855

BEST AVAILABLE COPY

37