Improving Investment Climate in Bangladesh

The World Bank

Bangladesh Enterprise Institute

Pan Pacific Sonargaon Hotel, Dhaka

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1. OPENING SESSION

Chair: Christine I. Wallich, Country Director, World Bank

1.1. Opening Remarks

Christine I. Wallich opened the workshop by stating that the investment climate was critically important as investment leads to growth, prosperity, and job creation. On her previous visits to the country, she had felt a strong sense of vibrant entrepreneurship in Bangladesh that should be encouraged to develop further. She said that there were many stories of success in the country, such as those of the tile industry and the garments industry, and yet these stories ended without industries gaining critical mass.

Ms. Wallich pointed out that, with rapid economic growth taking place in neighboring countries such as India, Thailand, Myanmar, and Pakistan, Bangladesh would have to progress as quickly as possible to keep pace. She noted that a 5 percent growth target was no longer acceptable as it was in the previous century and the only way in which the country could grow at a faster rate would be through higher private investment. She added, however, that public investment would also be necessary, since private investment does not typically gain pace unless public investments are noticeably improved.

She went on to say that two reports would be presented at the workshop. The first report, *Bangladesh's Investment Climate*, was a survey of the investment climate based on the interviews of one thousand firms. Two primary constraints arose from this study: infrastructure deficiencies and regulatory bottlenecks. The report benchmarked Bangladesh's performance relative to neighboring countries such as India, Malaysia, and Thailand, highlighting the need to keep pace with the region. Among the areas that are benchmarked are the reliability of electric power, access to telephones, number of visits by government inspectors, and time to clear goods at the port. Here Ms. Wallich remarked that Frederick Temple, former director of the World Bank in Bangladesh, used to say that Chittagong Port offered Bangladesh all the advantages of a land-locked country. She noted that the report highlights what kind of standards should be met in improving the investment climate and what kind of competition Bangladesh would face going forward. The purpose of the survey is to direct the government's attention to what entrepreneurs consider the most critical investment constraints, for it is important to hear about the drawbacks from the investors themselves.

The second report, *Country Framework Report on Infrastructure*, addressed the infrastructure bottlenecks and laid out different options for overcoming these obstacles. Ms. Wallich stressed the need for policy recommendations to be homegrown, for outsiders such as the World Bank would not ultimately be able to set out a specific action plan or implement policies. She observed that the World Bank experience in other countries had shown that reforms must have internal champions in order to be effectively implemented.

Ms. Wallich went on to describe the proposed structure of the five sector workshops taking place that day. Each workshop was to devise a prioritization of issues and an action plan, and guest speakers from the region were to share their experiences with reform, as there were similarities between the reform processes in India, Pakistan, and other South Asian countries.

Economic security and lawmaking had been left out of the discussions because economists were not equipped to tackle these issues, although criminal laws were clearly very important in improving the investment climate. Ms. Wallich mentioned that South Africa and Mexico had dealt with the problem of law and order successfully and a workshop on this topic could be very useful in the future. She noted that it was important to remember the political implications in formulating any action plans. The participants were not to think as technocrats, for policies must be politically saleable in keeping with the political realities of Bangladesh. Ms. Wallich said that it was important to analyze who the losers would be in any policy reform and how they could be compensated. For example, participants should ask themselves if it would be possible to win an election on the basis of a proposed reform.

She concluded her introduction by emphasizing the need to attract and include the wide diaspora of talented Bangladeshi academics and scholars so that they could contribute their international experience to policy ideas in the future. The following regional guest speakers were then introduced according to their area of expertise:

- Power: Jagdish Sagar, Chairman and Managing Director, Delhi Transco Ltd., India, had been in charge of restructuring the power sector in India ahead of its privatization and, since July 2002, had been Principal Secretary of the Power Department in the Delhi government.

- Telecommunications: Rohan Samarajiva, Advisor, Ministry of Economic Reform, Science and Technology, Sri Lanka, had been the Director-General of the Sri Lanka Telecommunications Commission from 1998 to 1999. He had pursued academia in the United States and Europe before, and after this experience had returned to Sri Lanka to work on infrastructure regulation.

- Ports: S. Sundar, Distinguished Fellow, Tata Energy Research Institute, New Delhi, had formerly been Secretary of Transport in India, where he implemented reforms in the ports sector in favor of greater private participation.

- Regulatory environment: M. Velmurgan, Additional Director, Tamil Nadu, Industrial Guidance and Export Promotion Bureau, India, was to speak about the very successful reform experience of Tamil Nadu, the state which attracts the highest level of foreign investment in India.

- Civil service: Javed Hasan Aly, Secretary, Establishment Division, Government of Pakistan, had led a very distinguished career in the government of Pakistan since 1969 and had become the principal architect of civil service reform.

1.2. Presentation on *Bangladesh's Investment Climate Assessment*

Mr. Farooq Sobhan, President, Bangladesh Enterprise Institute or BEI, thanked the World Bank and the South Asia Enterprise Facility or SEDF for supporting BEI in undertaking the survey he was about to present. He said that it was the first of its kind in terms of comprehensiveness, including interviews of one thousand companies with 150 questions on investment constraints. He noted that the survey was not a discussion of the economic performance or conditions for foreign direct investment in the country. Instead, companies were interviewed on what areas they felt would improve the private sector's productivity and competitiveness. Six sectors had been surveyed: garments, textiles, food, leather, electronics, pharmaceuticals, and chemicals. Garments and textiles were the primary focus of the study, given their significance to the Bangladeshi economy, with 559 companies in garments and textiles surveyed. Mr. Sobhan pointed out that efforts were made to cover both Small and Medium-size Enterprises or SMEs and large enterprises, with SMEs reaching 45 percent of surveyed firms. He went on to say that while Bangladesh had been doing well, it was important to analyze the country's performance relative to its neighbors, such as India, Pakistan, Vietnam, and China. The survey showed that, in terms of GDP growth and poverty reduction, Bangladesh had shown better performance than Pakistan only.

Mr. Sobhan observed that a significant finding of the survey was that exporting firms perform better than non-exporters, and there was a visible improvement in sales for companies who made the transition to exports. The problems of infrastructure weaknesses and lack of access to markets was also evident, particularly in the areas of telecommunications, transport, and power. Transport issues such as the functioning of ports was found to be a major difficulty in Bangladesh. There were fewer complaints regarding telecommunications, in part due to private cellular operators. Landlines, however, remain substandard. Ninety-six percent of companies said that electric power is problematic, particularly when compared to countries like China. Seventy two percent of the companies surveyed are obliged to use their own generators for operations. Substantial losses are suffered due to power cuts and outages relative to other countries in the area, although Bangladesh fares better than Pakistan. In terms of initiating services, the survey found that 90 days is the median time required to obtain a fixed telecommunications line, while the average time required is 160 days. Other services such as gas tend to require about 90 days while electricity requires a similar waiting time. Requests for such services, however, are far more rapidly processed for those who have the capacity to bribe those responsible for connections. On a more positive note, Mr. Sobhan pointed out that one area where the waiting period had been effectively eliminated was mobile phones, which indicated that the privatization of service sectors may result in much better performance.

He went on to describe the status of ports in Bangladesh. He said that Bangladesh fails to reach the port standards of every country in the region except Pakistan. The deficiencies in the port system, which are primarily due to corruption and lack of regulation, would have major implications for the post-MFA period. Government inspectors make frequent visits that usually involve some form of payment or bribes by the concerned company. In the case of customs, 424 companies have to pay bribes. When additional bribes to tax inspectors, labor, and social security are considered, the cost of doing business at these ports becomes very high. The number of bribes paid depends on the vulnerability of the company, but bribes to customs are generally the highest of all such payments. Smaller firms pay the greatest amount relative to their ability to pay and are thus the worst off in terms of bribery. Although corruption is hardly surprising in business, the incidence of corruption in Bangladesh appears to be the highest in the region, with Indonesia ranking as a close second.

Mr. Sobhan then talked about access to finance and pointed out that it is most difficult for SMEs. Even in the case of large firms, lines of credit were nearly exhausted and access to bank finance is becoming a progressively more difficult issue. One area where Bangladesh fares relatively well, however, is workers' turnover. The ease with which Bangladeshi firms can "hire and fire," however, does not address the issue of productivity. Relative to China, labor is three times less productive in Bangladesh.

Despite such drawbacks, Mr. Sobhan said that the potential for improvement in Bangladesh is enormous. Improving the investment climate, infrastructure, and governance and cutting back on corruption could move the country from a 5 percent to almost 10 percent growth rate. He added that a matrix, recommending priorities for reform and listing critical issues in implementation in each sector, was provided at the end of the study. Among these recommendations is the need to reduce inspections and informal payments. Deficiencies in the power sector should be addressed by increasing capacity and delivery and cutting back on corruption, and while port and customs reforms had already been initiated, much more should be accomplished in this area. Mr. Sobhan stressed the importance of Chittagong Port in the post-MFA period, when it will have to be at least twice if not four times as efficient as it is now. Access to credit must be increased while lending rates should be brought down. In addition, the government must encourage SMEs further, although special support for SMEs would not achieve significant growth rates without serious measures to improve the overall environment. As SMEs are the "heart and soul of success" in Bangladesh, they should be able to mature in a viable, dynamic environment. Overall infrastructure should also be significantly improved. He pointed out that it is important to pressure the government to implement such recommended changes and include the private sector in the process.

He went on to say that the quality of governance must be improved to be seen as an efficient service, because a more efficient and effective administration is of critical importance to investment. Bangladesh must compare its performance with other countries in the region as it strives towards greater growth. Mr. Sobhan concluded by emphasizing the benefits of training. He mentioned a recent visit to Malaysia where he found that the country's most dramatic improvement was in the area of training, and said that he hoped Bangladesh would learn through the progress that its neighboring countries had made in such areas.

1.3. Presentation on the *Country Framework Report on Infrastructure*

Clive Harris, The World Bank, opened by saying that his World Bank report discussed the infrastructure of Bangladesh, the scope for policy reform and improved service delivery by the private sector, and the role that the private sector can play in working with the government on these issues. Private sector institutions included in this assessment were local, foreign, profit, and nonprofit. The study was financed in part by the Public Private Infrastructure Advisory Facility.

He went on to describe successful infrastructure reforms of the past and stressed the importance of looking for strengths in their implementation in order to succeed in future reforms. Some of these achievements were admired throughout the region, such as the impact of rural power co-operatives in expanding services and ensuring bill payment, and the Independent Power Producers program providing over a quarter of power in Bangladesh. Additionally, the rapid expansion of private cellular services has met a huge gap in telecommunications. In many cases, this expansion reached the village level, as in the case of the Grameen Village Phone program. The older, privately financed handpump program brought portable water to rural areas as well.

Nevertheless, Mr. Harris pointed out that such successes have not transformed themselves into larger infrastructure improvements. The report found that electric power is probably the most significant challenge due to its fairly low coverage compared to other countries in the region and the low productivity of the State-Owned Enterprises or SOEs operating in this sector. Substantial revenue leakages are apparent, as well as the lack of bill collection or even bill mailings. User fees do not reflect costs. While infrastructure services should be affordable, at the end of the day services have to be either paid for by users or taxpayers. If revenues from both sources are not adequate, performance will deteriorate. The, substantial amounts of support that the government has provided to the infrastructure sectors have not been targeted at the most needy.

Mr. Harris said that relevant figures show that Bangladesh is well behind most of the region in tele-density. Tele-reach is also very poor, evident in the scarcity of phones in village areas despite programs such as the Grameen Village Phone program. Access to electricity is very low although higher than Nepal, and access to safe water in urban areas is also well below that of regional peers. Differences in coverage compared to neighbors hides other deficiencies, such as the fact that only one-fifth of rural households have electricity connections, and very few of those in the bottom quintile of this category actually have access to electricity whereas nearly all of those in the top quintile have such access. Mr. Harris went on to point out that one could argue that electricity was not the first priority for the poorest in the country, for safe water, health care or education may well be a greater priority. However, substantial public support is invested in the power sector and arrangements that are effectively subsidies from taxpayers are not being well spent. Productivity in many SOEs, such as Bangladesh Rail, is poor compared to regional peers.

Tariffs have failed to keep up with costs, and an analysis of the costs of the Bangladesh Power Development Board or BPDB, with its stated tariff and effective tariffs, the latter adjusted for losses and non-billing, showed that SOEs like PDB are not recovering costs. Viable services to overcome these inefficiencies are necessary, for weak finances hinder reforms and expansion of services. Losses are about a third of the proposed $300 million investment plan in the electric power sector. Similarly, the Bangladesh Telegraph and Telecommunications Board or BTTB has seen only 50 percent of its surplus retained as investments, as much of it was transferred to the government since it is responsible for the BTTB's financial obligations. Investment returns had shown a declining trend. Bangladesh Rail, moreover, loses about a quarter of its annual investment, predominantly due to overstaffing and low productivity. Mr. Harris observed that this hinders public investment in the system's expansion due to revenue leakages and inefficiencies that are absorbing investments made by the government on behalf of taxpayers. As for private investment, Mr. Harris pointed out that Bangladesh was one of the first countries to introduce private mobile services in the region. However, on a per capita basis, the country has not performed anywhere near as successfully as its peers in terms of attracting investment.

Progress had been seen in the telecom area. Increasing competition had led to the creation of new institutions in the form of regulatory boards such as BTRC for telecom and another board had been recently created for the power sector.

One example of the slow pace of reform is the fact that about half of private mobile subscribers are unable to terminate calls on the BTTB network, which indicates incredibly high deficiencies in physical interconnections. Turning around SOEs, moreover, has been very difficult in terms of corporatization and offering reform incentives to bring in more effective management. In sectors where competition could be introduced such as ports, new entry by the private sector has not truly occurred. Basic sector legislation has taken an extended period of time to pass and many years more to be implemented, as in the case of telecommunications and power. Reforms have taken place at a slower pace in Bangladesh compared to most neighboring countries. Telecommunications has been privatized in both India and Sri Lanka with a reasonably robust regulatory framework, much greater competition, and better expansion. There have also been efforts to privatize power in India with both progress and reversals in policy. In addition, a few countries have privatized existing port operations and introduced competition, as well as introducing new services.

Mr. Harris then highlighted issues for further discussion. Besides improving the quality of services such as the reliability of power and fixed line telecoms, access should also be expanded. Data suggests that higher income levels coincide with greater infrastructure development because opportunities open up for smaller firms, which are the engine for growth in Bangladesh. Expanding services will require users to make greater contributions via higher average prices and through more efficient collection of revenues, since Bangladesh has very limited fiscal resources with which to implement change. Plan allocations over the last five years or so indicate that other sectors of concern, like health and education, have not enjoyed as large increases as infrastructure, and the fruits of the latter are yet to be fully experienced. Fundamental changes will meet a great deal of resistance due to vested interests and strong trade unions. Such political resistance must be dealt with, and in doing so, past successes will provide useful models on which to base reforms, such as the increasing role of co-operatives and the effective introduction of private generation.

He then discussed the types of policy directions that the World Bank report recommended. Competition should be relied on as much as possible to increase efficiency among providers. Other priority areas include private participation in SOEs which, besides privatization, could take the form of management contracts or leases. Prices should also be rationalized, with subsidies better targeted, for example, by targeting coverage expansion rather than consumption subsidies for existing consumers. New services should also be explored for rural service provision, such as working with villages to explore pipe water provision in order to overcome the problem of arsenic traces. All of these reforms should be implemented under as broad a consensus as possible.

Mr. Harris said that the privatization of BTTB would not only help operations but would also improve policy performance. In India, for example, corporatization introduced a more level playing field. Interconnection problems must also be addressed, and private companies have already been enlisted to help deal with this issue. Simultaneously, the development of new regulatory bodies relevant to the three sectors requires funding, technical assistance, and the backing of the government in order to develop independence -- key to establishing a level playing field. Introducing competition is the quickest route to expanding services, as well as encouraging the lowest possible pricing and best quality. Given present levels of private sector interest and scarcity of government funds, the proposed entry of the public sector in the cellular industry is perhaps not the best use of public funds. Public funding could be used in service expansion rather than in a market where the private sector is already doing reasonably well. For example, the main constraint in telecom so far is the inability of the SOE to provide interconnections. In power, short-term improvements, enforcement of anti-theft legislation, a rebalance of user fees, and the development of a new regulatory framework with the possibility of private investment in distribution and generation are all reforms that can be implemented. In ports, establishing competition by developing new terminals and restructuring operations of existing service providers along the lines of a landlord model, separating such functions from oversight, would be particularly effective.

Mr. Harris observed that some analysts questioned whether private sector projects will head to Bangladesh due to the global downturn in private infrastructure projects. Figures show a continuous fall in private infrastructure investment in developing countries to about US$47 billion in 2002. However, the risks of investing in Bangladesh have not changed significantly. The global downturn reflects instead a correction of risk and return on projects in Latin America and East Asia. In Bangladesh, as in the rest of the region, private projects in most infrastructure sectors, with the exception of telecoms, will require substantial public support either through risk bearing or the provision of public support. Mr. Harris concluded by pointing out that international financial institutions such as the World Bank can assist the process with complimentary public investments for private financing, helping to meet the costs of policy reform, and the provision of risk-bearing instruments which can help to shore up regulatory frameworks.

1.4. Summing up

Ms. Wallich thanked the speakers. She noted that their presentations had shown that SMEs experience most intensively the adverse impact of corruption and are not allowed to grow. Scale matters in a competitive international market, but the industrial landscape of Bangladesh includes the fewest large industrial houses in the region. Ms. Wallich went on to stress the importance of regulatory commissions and formulating them effectively from their inception. She indicated that Mr. Samarajiva would be able to share his experiences in regulating telecommunications, an area where a regulatory body was set up recently in Bangladesh. She also pointed out that a similar regulatory board was in the works for the power sector. Ms. Wallich concluded by stressing that the government of Bangladesh should not compromise on the transparency and quality of the staff recruited for such regulatory boards.

Following the conclusion of the opening session, participants proceeded to the five working group sessions on (i) Unhindered Power Supply for a Sound Investment Climate; (ii) Modern Telecommunications for Improving the Investment Climate and ICT Growth; (iii) Importance of Ports in Efficient Business Operations; (iv) Business Friendly Regulatory

Environment for Improving the Investment Climate; and (v) The Role of Civil Service in Improving the Investment Climate.

2. CONCLUDING SESSION

Chair: Dr. Kamal Uddin Siddiqui, Principal Secretary to the Prime Minister

2.1. Presentations on the working group sessions.

The Chairmen of the five working groups made presentations to the plenary on the results of their deliberations.

2.1.1 Working Group 1: Unhindered Power Supply for a Sound Investment Climate

Chair: Azimuddin Ahmad, Former Secretary, Ministry of Home Affairs

Mr. Ahmad said that his group had analyzed the Bangladesh Power Development Board or BPDB in terms of generation, transmission, and distribution. He proceeded to give a brief overview of the power sector. The sector was initiated in 1972, and BPDB was created with only 85 MW of power. Today BPDB has 4,711 MW and has far outstripped population growth. Per capita consumption grew from 20 kWh in 1972 to136 kWh today, although it remains well below that of India, 480 kWh. Generation is currently provided by BPDB, Independent Power Producers or IPPs, and the Rural Power Company or RPC in Mymensingh. IPPs have over 1200MW of production capacity and have grown rapidly in reputation, selling power to the Dhaka Electricity Supply Authority or DESA, and the Rural Electrification Board or REB. Mr. Ahmad went on to list constraints in the power sector but stressed that he would only describe part of what was discussed in the workshop presentations. Additional constraints and recommendations would be listed in the workshop matrix reports:

- The power sector faces high technical losses. While transmission is carried out on 230 kV and 130 kV lines, distribution is carried out on 32 kV, 11 kV, 230 kV, and 400 kV lines. Pilferage of electric power generally takes place at the 11 kV, 230 kV, and 400 kV levels at a rate of about 30 percent. If generation and transmission losses are excluded, such technical losses still amount to as much as 25 percent. The group felt that the power sector should aim to control losses at 12 percent. The REBs have already managed to lower technical losses to less than 14 percent, so the goal appeared to be achievable.

- High commercial losses are also characteristic of the power sector. The sector suffers from low collection of bills due to both non-collection and unbilled supply of electricity. The group suggested disconnecting non-paying consumers and performance verification audits. Such audits were in fact initiated in 1991 in relation to 11 kV consumers to investigate whether there was pilferage on those lines. Mr. Ahmad added that Mr. Sagar had pointed out that performance verification could be computerized eliminating the human element, and pilferage could be monitored and subsequently lowered by providers like DESA. Staff integrity and improving accountability are also important. Mr. Ahmad noted that the Union President of BPDB had indicated his co-operation when the group suggested that Strategic Business Units or SBUs be introduced by converting targeted plants or generation units. SBUs could be put in charge of improving maintenance and accountability in the short term. The SBU model had already been initiated in portions of the distribution sector with positive results in terms of reducing losses and should be extended to other areas as well.

- Generation is inadequate in terms of satisfying demand. Installed generation capacity is over 4,000 MW but available capacity is less than 4,000 MW due to rundown generation facilities. The group suggested replacing certain systems, providing preventive maintenance, and expanding power generation to 50 percent provision by low-cost combined cycle IPPs. Meghnaghat and Haripur were noted to be exemplary combined cycle IPPs that should be replicated, with rates as low as 2.72-2.79 U.S. cents per kWh compared to other plants at rates of about 6 U.S. cents per kWh. However, BPDB will not be interested in parting with its territory in favor of IPPs, so the process should be implemented gradually and only up to 50 percent of privatization until generation can be fully privatized years from now.

- The tariff structure of the power sector is highly distorted. Farmers, the majority of whom use diesel pumps, pay significantly more on average than domestic consumers, that is, those served by BPDB and DESA. The group proposed that tariffs for agriculture between REB and BPDB be equalized. Domestic household consumption, surpassing 40 percent of consumption, should also be rationalized in terms of tariffs, with some social consideration in mind for lower income groups. Tariff adjustments made recently have brought about some gains in BPDB and DESA, but these should be further extended to bring rates as close to Long Run Marginal Costs or LRMC as possible. One area of difficulty will be the reduction of high system losses to acceptable levels, but this may be achieved through SBUs, tariff adjustments, and other mechanisms.

- Account receivables across the sector are in poor condition. Mr. Ahmad said that when he was involved in the energy sector in 1991, accounts receivable had been brought down to about four to five months of sales. Now, DESA had accounts receivable of 18 months and BPDB of 11 months of sales. The group suggested privatization of distribution and transmission to overcome this problem. One example of success on the distribution side is an NGO that buys power and sells it to slum-dwellers at slightly subsidized rates. The NGO's payment rate is close to a 100 percent and such private sector models and achievements indicate that further contracting out of services should be employed in urban areas of Dhaka and possible elsewhere as well.

(Please see the Matrix summarizing the discussions prepared by participants for a more comprehensive list of constraints and recommendations for the power sector.)

2.2. Working Group 2: Modern Telecommunications for Improving the Investment Climate and ICT growth

Chair: Dr. J. R. Chowdhury, Vice Chancellor, BRAC University

Dr. Chowdhury opened by saying that the group had identified six constraints in reforming telecommunications, after Mr. Samarajiva discussed the Sri Lankan experience in the telecom sector. He said that there were two aspects in analyzing the challenges of reforming this sector in Bangladesh: telecommunications as infrastructure to attract investment and telecommunications as a sector for investment in and of itself. He proceeded to list the following constraints, in order of importance:

- There is an absence of an effective, independent, transparent regulator. The Bangladesh Telecommunications Regulatory Commission or BTRC was created about twenty months back but the group felt that BTRC should have achieved much more in that time. However, the Telecom Act has led to weaknesses in the composition and power of BTRC and should be modified in order to improve the Commission's independence. In addition, higher compensation packages should be offered to attract competent personnel and obtain required skills. At the moment, expertise is lacking within the Commission, particularly in the areas of economics and finance. Obstacles to suggested reforms include the resistance of bureaucracy and weak political commitment.

- The interconnection regime is inadequate. This constraint refers to interconnections between fixed-line BTTB and mobile operators and between mobile operators themselves. The group recommended that BTTB should be restructured into separate companies, one for service, and the other for network provision. Open, cost-based access to all backbone networks was also recommended. At the moment, there are only two networks, BTTB's network and another that is leased by Grameen Phone from Bangladesh Railways. The group foresaw obstacles to implementation such as the strength of trade unions and executive management at BTTB and the limited capacity of regulators. BTRC may not be adequately equipped to implement such change in terms of expertise.

- The nationwide data network is not accessible to most people as it is very expensive. The group recommended increasing the number of licenses as well as allowing licenses for both voice and data, because data services only are not an attractive investment. There should be no obstacle to these reforms, as they do not involve a difficult process.

- The international gateway is deficient in that there is no submarine cable connection, so connections are satellite-based. Although Bangladesh is a signatory to the new submarine cable project known as 'Southeast Asia-Middle East-Western Europe-4' or 'SAMEWE-4,' BTTB is not equipped to operate the cable once it is finished. The group proposed replacing BTTB with a new international gateway company but felt that there would be a great deal of resistance from BTTB and the Ministry of Post and Telecommunications. Existing telecom policy, moreover, does not facilitate the proposal as it only allows for the opening up of a new international gateway in the year 2010, so the year of its opening must be brought forward.

- Entry into certain services is restricted. The group proposed an open access, transparent regime, although there will be great resistance from BTTB and the Ministry of Post and Telecommunications and the time frame laid out in the existing telecom policy must be brought forward.

- Scarcity and corruption is rampant in the sector. The group recommended unbundling BTTB, open access, transparent entry, and reduced discretion, but foresaw opposition in the form of BTTB and the Ministry of Post and Telecommunications. Some reforms have already been initiated and resistance has already been apparent.

Dr. Chowdhury said that eliminating these constraints would lead to improvements in infrastructure, and concluded by listing the four suggestions that the group had formulated for follow up:

- BEI should send the recommendations to Parliamentary Standing Committees, that is, the Ministry of Post and Telecommunications, the Ministry of Science and the Ministry of Information and Communication Technology or ICT.

- The ICT Task Force headed by the Prime Minister should also address these recommendations.

- BTRC should issue voice and data licenses. The group included two commissioners from BTRC, and they indicated that such issuances would not pose a significant challenge as the Commission had the relevant authority to implement this proposal.

- BEI and the World Bank should send recommendations to the Ministry of Finance.

2.1.3 Working Group 3: The Importance of Ports in Efficient Business Operations

Chair: Mr. Abdul Awal Mintoo, President-elect, Federation of the Bangladesh Chambers of Commerce and Industry or FBCCI

Mr. Mintoo said that the group had identified constraints in three main areas of the port sector: labor, infrastructure and management. He then discussed these constraints in greater detail:

- Labor is problematic in terms of the ineffective Dock Labor Management Board, overstaffing in the number of workers assigned to each gang for loading and unloading containers, political influence on port operations, and an excessive number of unions. By law, a union can only be formed if it garners support from at least one third of labor, so there should only be three unions, but in reality there are as many as 25. Mr. Mintoo said that before the board came into existence, the stevedores would book gangs and decide on the number of workers in each gang. Since the board was formed, however, the number of workers in each gang has risen from 12 to 32. The group's proposal in this regard was to abolish the Dock Labor Management Board and train and motivate labor so that their productivity increases. The group also recommended that the number of unions should be reduced to a more reasonable number of three or below, but noted that there was an absence of political will to overcome this issue. The lack of incentives for labor to support reforms would also be problematic in the future, as would legal obstacles in reducing the number of unions. The group felt that it was important, therefore, to initiate labor reform and human resource development with a well structured incentive scheme to attract labor support.

- Infrastructure is deficient in terms of lack of access to roads, Inland Container Depots or ICDs, highways and rail facilities for container movement, equipment and berthing facilities, Inland Container Terminals or ICTs. Among its recommendations to overcome these deficiencies, the group suggested the provision of more access roads and bridges to Chittagong and Mongla, private sector participation in ICDs, and full-fledged ICDs for export and import cargoes administered by the private sector. Mr. Mintoo pointed out that at the moment, all off-the-dock ICDs are for export cargoes only. In addition, containers cannot be moved through river ports because they do not have the facilities required to handle such containers. Inland water ports should thus be equipped with container landing facilities as well as customs facilities, as should rail and road transport. The Dhaka-Chittagong highway should also be improved so that containers can be transported more easily. Land ports should be enhanced through private sector handling and provision of equipment, for almost one third of imports arrive in Bangladesh through land ports. Most vital equipment such as heavy machinery and raw materials arrive through land ports. In addition, a great deal of existing equipment remains unused, so cargo handling and provision of equipment should also be privatized and the management of available resources should be made more efficient. The group foresaw obstacles such as the lack of an integrated plan for national freight distribution by different modes. The group suggested prioritizing the formulation of integrated plans for connectivity through road, rail, and water, for the creation of full-fledged ICDs, and the upgrading of port facilities. Private investment, moreover, should be encouraged in facilitating these reforms.

- Management problems include the lack of interface between customs and ports, outdated legislation, and lack of guidelines for private sector participation. The group proposed integrating the Management Information System between customs, ports, and port users, and the immediate set-up of a coordination committee for all stakeholders such as the ports, customs, shipping, and exporters and importers. Mr. Mintoo commented that Mr. Sundar had conveyed a vibrant story of reducing the time to process cargoes through ports in India. Pre-berthing delays that took 3.8 days in 1995 are now 0.34 days while vessel turnaround that took 8.9 days per vessel were reduced to 3.3 days per vessel by 2002. In addition, existing rules and regulations should be updated and guidelines should be issued for private sector participation since port management has indicated that they are unaware of how to engage private sector participants. The group also recommended implementing the shipping policy that was formulated last year with input from a wide range of stakeholders but never implemented. Furthermore, the ports should be corporatized and commercialized. The group added, however, that implementation of such reforms would face the problem of limited financial authority for port management. Mr. Mintoo quoted Mr. Sundar as mentioning that, while India's quota for buying equipment and port infrastructure development went from 10-20 crores, given directly to port authorities, to 50 crores, the maximum amount that is given in Bangladesh is five crores. Mr. Mintoo added that the kind of equipment and facilities required to upgrade ports needed far more funding. The group recommended prioritizing the commercialization and corporatization of port operations in addition to a rapid movement towards the landlord concept of port operation, that is, leasing out operations, and enhancing the autonomy of port administration.

2.1. Working Group 4: Business Friendly Regulatory Environment for Improving the Investment Climate

Chair: Mr. Yusuf Abdullah Harun, President, FBCCI

Mr. Harun began his presentation by pointing out that basic preconditions to ensuring a friendly regulatory environment were good governance, law and order, and law enforcement. He also noted that close relationships between the government and private sector were already apparent in many areas and this two-way support was necessary for the private sector to act as an engine for growth. He listed twelve issues that the group had identified as constraints in the regulatory environment:

- Many commercial laws are outdated and must be updated and rationalized. However, the amendment of laws is a very slow process and lawmakers are unaware of necessary commercial regulations. Enforcement of law, moreover, must be made less feeble.

- The single-window agency or Board of Investment has inadequate authority. Pre-investment applications in many countries are initiated with one application at a single window, so the group recommended that existing regulatory bodies be similarly empowered and time limitations be enforced. Many countries offer decisions within 30 days, and if any decision has not been made on an application within that time, the application is considered approved. The group's proposal to overcome the kind of red tape seen in Bangladesh was to ensure the presence of high-level decision-makers such as CEOs at regulatory body meetings, as subordinate officers often do not have the authority to make quick decisions. Moreover, the relationships between regulatory commissions and relevant ministries must be limited, particularly in terms of financial dependence, because commissions now find themselves subservient to concerned ministries due to their lack of independence.

- Staff capacity in statutory bodies has so far been weak. Many sectors require specialized knowledge, and a greater level of relevant expertise must be attracted through improved compensation and better and regular training of officials.

- There is a lack of policy consistency and predictability in Bangladesh, which is very important in attracting long-term investments. Inter-ministerial problems often delay policy coordination due to the need of more than one minister to come to decisions jointly. The group recommended establishing a ministerial body for such coordination. Accountability, so far lacking, must also be built into the system to encourage delivery and coordination of policy decisions.

- Regulatory bodies are not transparent, due to excessive discretionary power, multiple forms, and unclear instructions. The group suggested a Citizens' or Stakeholders' Charter so that a stakeholder is given the right to access certain information and receive certain decisions within specified time periods based on single applications. The group also felt that transparency would be encouraged through the introduction of e-governance.

- SMEs are particularly vulnerable to the harassment of taxpayers and corruption. There should be special arrangements made for them to simplify procedures and educate taxpayers about the system.

- The lack of e-governance must be dealt with but there is little knowledge on this issue and consequently great resistance. More funds are required to implement this reform although inadequate political will and vested interests will cause resistance to change nevertheless.

- The framework for businesses to exit is inadequate, so bad debts will continue to pile up with no solution in sight. Some reforms have been made to deal with this problem in the banking sector but more initiative should be taken in this area.

- Investors are forced to cope with the lack of reliable statistical data. For example, six different ministries will show six different sets of statistics and clashing information in the same area. Information offered by data-gathering agencies should be better integrated with more uniform coding and classification of data.

- Auditing and accounting standards remain poor. The group suggested the introduction of corporate governance and the establishment of a monitoring body to bring Bangladesh up to international accounting standards.

- The regulatory environment in Bangladesh suffers from slow dispute resolution and ineffective contract enforcement. A more satisfactory and efficient system of resolution must be offered through legal reform.

- Bangladesh lacks industrial parks, land registration, and adequate zoning. Finding land when entering a new industry poses great difficulty. The group proposed computerizing records and land banks to deal with this problem. Industrial states lie idle because they are not conceived properly, so their conception should be undertaken only after proper consultation with the private sector. Formal zoning of the country into agricultural land, industrial sectors, and residential sectors is also important to avoid more complex land problems in the future.

The group recommended following up on their proposed reforms by forming a Coordinating Committee with 15 to 20 members consisting of private sector participants as well as government officials. This committee would meet at regular intervals, suggest necessary actions, and monitor progress on agreed plans. The group also pointed out that many of their recommendations were related to three main ministries, the Ministries of Commerce, Finance and Industry and that the Prime Minister’s office could make changes very quickly on a number of proposals.

2.1.5 Working Group 5: The Role of Civil Service in Improving the Business Climate

Chair: Mr. Hafizuddin Khan, Former Comptroller and Auditor General and Former Advisor, Finance, Caretaker Government

Mr. Khan began by mentioning that his group had a drawback in that it did not include any investors, and went on to list the constraints that it had identified:

- There is a lack of specialized knowledge in the civil service. For example, employees of the Ministry of Commerce should have some knowledge of commerce, but they often have very limited experience in this area. Moreover, if an employee is sent to another organization for training, he is not posted back to the ministry. The group thus recommended that the option for returning to the same post be available. There are, in addition, an excessive number of Officers on Special Duty or OSDs in the service. In the past, a specific post would have to be created in order to recruit an OSD. Such officers should thus be hired on a need basis only.

- A culture that promotes training is absent, in addition to training being inadequate. Although training is provided at all levels, there is a lack of interest among officers. This is due in part to training being associated with being out of favor with managers rather than being associated with career development. There should be better incentives to receive training, such as a training allowance and relevant curriculum. Furthermore, institutes should interact more with the private sector, trainers and managers of these institutes should be made more efficient, and greater resources should be made available for training overall.

- Due to a lack of transparency mechanisms and accountability towards citizens, civil servants are not responsive to the needs of investors. The group recommended that accountability be enforced through clearly delineated principles and that local government be strengthened. Additionally, the Official Secrets Act should be revised and identified officials should be allowed to talk to the press.

- Innovative ideas are scarce in the service, but this is largely a matter of training and encouraging initiative.

- Recruitment processes are not transparent. Since 1972, recruitment has been irregular, and there are anomalies such as the excessive number of 650 people hired in 1982. This is unsuitable for efficient management, for applicants should have more clear-cut guidelines and have some initial sense of specific career prospects.

- Decision-making is overly centralized. The group suggested decentralization with constitutionally mandated devolution and the sharing of taxes by local government as a solution to this problem.

- The parallel entry process is absent. The group proposed bringing in expertise at different levels and encouraging lateral entry for fixed terms through transparent systems.

- Clear, long-term policy is absent in governance. The group proposed consultations with the relevant private sector group during policy-making to overcome this problem.

- Decision-making institutions lack autonomy. Ministries should have the authority to take decisions and consultations with agencies should be minimized, while inter-agency time should be reduced as well.

- There is an absence of clear rules and procedures for policy-making.

- The recruitment and selection process of the civil service lacks integrity. The group suggested a forum for civil servants in which they could lodge their grievances, as the current tribunal system has not functioned successfully.

- Accountability procedures are flawed.

- Performance is flawed, partly because of historic loyalties.

- Compensation packages are poor.

- Career advancement is highly politicized.

- Corruption is rampant in the civil service.

Mr. Khan concluded by emphasizing that the basic solution to all of the constraints identified was strong political commitment for reform.

2.2. Question and Answer Session

Mohammed Aziz Khan, Summit Group of Companies, questioned whether combined cycle power plants are key to more electricity. He commented that one of the major challenges in power was the high peak in demand that was double that of base load demand. While base load demand is usually supported by combined cycle generation, smaller power plants are necessarily simple cycle and are necessary to mitigate peak demand in Bangladesh. He added that it is important to analyze the difference in the input cost of electricity between industries and BPDB and between private sector power generators so that they can be rationalized. He ended his comment by emphasizing that the volatility of power in Bangladesh required further analysis, as there are low voltage and sporadic service issues.

Azimuddin Ahmed said that Mr. Aziz Khan's initial comment related to increasing the number of mini- and mid-power stations of only about 10 MW or so. The number of mid-power stations has already been recommended to increase to ten in to next five to six years, but this will lead to an increase of only 100 MW and will not materially improve the power sector. He responded to the voltage volatility comment by suggesting a timely upgrading of the system and creation of a grid company with zone-financing would improve transmission. Further investment was required for distribution as well. He stressed that he was in favor of more power, but there should be an emphasis on low-cost power, as in Haripur and Meghnaghat, because Bangladesh could not afford to supply power that costs far beyond LRMC.

Abdul Awal, North South University, introduced himself as a former employee of Bell Labs. He commented that the image of a country is very important in attracting investment, and Bangladesh's international image must be greatly improved. Tourism should be developed, and its location could be useful as a technology and trade hub. Bangladesh could act as an intermediate Web-house between Western countries and the Asia-Pacific market. He asked Dr. Siddiqui how willing policymakers, the bureaucracy, and government are in building the country, opening telecom markets, updating ports to increase imports and exports and increase GDP, and in opening up regulatory barriers. He said he was confident that Bangladesh could surpass Singapore and Japan due to its superior resources if there was a genuine commitment to using those resources effectively.

Dr. Siddiqui said that he would reserve his answers for concluding remarks.

A participant observed that there were only four phone operators in Bangladesh and tele-density was the highest in the region at 179. He questioned why more phone operators could not be allowed to operate in Bangladesh to make the market more competitive and whether there were any BTRC restrictions on this.

Dr. Chowdhury answered by pointing out that past experiences of other countries suggested that there is an optimum number of operators, because market size limits the number of operators in any market. A BEI market study showed that there is not enough demand to justify more than four operators, although more operators would be appropriate if demand rose. He said that he believed BTRC had approved the entrance of two more operators. Further analysis of this issue was required.

A participant said that he did not believe that there were any restrictions whatsoever on the number of operators that could enter the market in Bangladesh. He said that BTRC was aiming for the open regime concept and the only restrictions were those of technology and spectrum. The Public Switched Telephone Network or PSTN was built on an open regime concept, and the scope for mobile networks was similarly open and was being studied by BTRC. He added that the study's results could be expected at the end of September 2003.

A participant emphasized that, after five working sessions, he felt that e-governance was the solution to many of the problems of inefficiencies and other issues that were apparent in every sector discussed. He thought the Citizens' Charter would be effective.

A participant questioned the organizers of the Workshop as to how they foresaw implementing the recommendations made during individual workshop sessions. He underscored the importance that the Workshop extended beyond a mere intellectual exercise.

A participant responded by pointing out that local policy analysts and policy makers were responsible for implementing reforms rather than the World Bank and BEI.

2.3. Concluding speech by Chief Guest

Chief guest Fakhruddin Ahmed, Governor of Bangladesh Bank, opened by observing that while the scale of the reforms necessary may discourage policymakers, it was important to remember that reforms are made in small steps. On many of the issues mentioned, Bangladesh had begun to take small steps and the question lied in how to proceed effectively. For example, the landlord model for ports in Bangladesh was discussed six or seven years ago. The problem here lay, however, in who should implement this particular reform. Such reforms should be moved forward through open institutional arrangements and other initiatives. He concluded by saying that he hoped Mr. Siddiqui would have further direction in this matter and emphasized the need to push the investment frontier in Bangladesh.

2.4 Summing up

Dr. Siddiqui indicated that, during the last two years, the government had been trying to streamline the recruiting and training of civil servants and address the issues of corruption related to the civil service. This resulted in a decision to form the independent Anti-Corruption Commission and serious measures taken against individual officers. Nevertheless, he agreed with the problems that Mr. Khan raised and admitted that reforms were far from having created an exemplary civil service.

He went on to say that some progress, albeit modest, had been achieved by the ICT commission. As Mr. Abdul Awal mentioned, political will is essential in carrying out reforms, and while the government is indeed willing, all governments require external pressure to carry out reforms. Dr. Siddiqui stressed that he would mention the workshops' recommendations to the Prime Minister, and he aimed to form a committee of secretaries to help push these recommendations. Development partners had a significant role to play as well, but the primary responsibility to carry out reforms lay, of course, with the government. He said he would push reforms as much as he could, and he was confident that progress would be made.

Dr. Siddiqui then said that it was important to identify what class or group of people the best Bangladeshi entrepreneurs came from and whether or not they could be trained. If the wrong group of society was identified as the entrepreneurial class, training would have no significantly positive effect. Dr. Siddiqui said that in his college days he had found that the scholar Everett Hagan had said that entrepreneurs generally came from depressed groups. He questioned whether this was true of Bangladesh or whether they came from the mainstream professional class of the country instead, and emphasized that it would not be the best use of resources to "back the wrong horse." He concluded by thanking the participants of the workshop.