

Bangladesh
Private Sector Development
Support Project



Workshop
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Enhancing Economic Zones

Key Findings

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- Objectives of the workshop
- Rationale for supporting economic zones
- Scope of the project
- Policy and regulatory context
- Evaluation of key institutions
- Infrastructure needs assessment
- Key take-aways

Objectives of the workshop

- Work in progress – obtain stakeholder feedback
- Understand best practice principles for a modernized zones regime, including an increasing role for the private sector
- Allow for substantive public-private dialogue on key issues related to the development and management of economic zones
- Discuss options for a new economic zones strategy that will allow economic zones to contribute to the country's growth and development according to potential
- Formulate a stakeholder-supported Action Plan with specific, sequenced, time-bound, and feasible implementation steps

What are economic zones?

Type of Zone	Development Objective	Physical configuration	Typical Location	Eligible Activities	Markets
Single Factory EPZ	Export manufacturing	Designation for individual enterprises	Country-wide	Manufacturing, other processing	Export market
Enterprise Zone, Empowerment, Urban Free zones	Urban revitalization	Size < 50 hectares	Distressed urban or rural areas	Multi-use	Domestic
Traditional EPZ	Export manufacturing	Size < 100 hectares; total area is designated as an EPZ	None	Manufacturing, other processing	Mostly export
Hybrid EPZ	Export manufacturing	Size < 100 hectares; only part of the area is designated as an EPZ	None	Manufacturing, other processing	Export and domestic market
Free Trade Zone (Commercial Free Zone)	Support trade	Size < 50 hectares	Ports of entry	Entrepot and trade-related activities	Domestic, re-export
SEZ/Freeport/Free Economic Zone	Integrated development	Size >100 km ²	None	Multi-use	Domestic, internal and export markets

Rationale for economic zones

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- Boost employment
- Increase and diversify exports
- Streamline administrative and regulatory interfaces
- Pilot new economic policies
- Attract FDI
- Transfer technology and skills
- Stimulate local economy through linkages
- Reap benefits of industry clustering



Catalyst for Scaling Up Reforms Nation-wide

A note of caution on economic zones

- Economic zones are not a panacea
- Poorly implemented zones stall an economy's growth and development trajectory: low net exports due to low value added; under-utilized sites due to poor market access (locations based on political considerations rather than economic feasibility) and inadequate infrastructure services; adverse environmental and economic impacts due to poor regulatory policy and capacity
- Zones with little or no linkages to the rest of the economy remain enclaves and have very little impact
- The “demonstration effect” of zones needs to be emphasized so that reforms are scaled up

Economic zones in Bangladesh

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Economic zones in Bangladesh have a noticeable economic impact...

- The 6 public EPZs currently in operation are housing more than 200 companies that employ 150,000 workers, generate 20 percent of exports by value, and account for 25 percent of annual FDI inflows
- The 67 BSCIC industrial estates currently in operation service 3000 small companies across a wide range of sectors that employ another 96,000 workers

But the impact in terms of investment, employment, and exports could be much greater...

- The zones regime needs to be modernized in line with int'l best practice
- Private participation in zone dev't and operations is key to ensuring higher infrastructure and value added business services to meet growth targets
- Public sector functions in zone regulation should be strengthened to allow for *better* (not *more*) regulation
- Policy frameworks need to be liberalized: wider range of activities permitted; broader duty-free privileges; full access to domestic market on duty-paid basis
- KEPz issue needs to be resolved immediately and the sanctioning and regulation of private EPZs should be expedited and made more transparent
- On-site and off-site infrastructure needs to be developed and upgraded
- Environmentally and socially sustainable development should be promoted

Study Components:

1. Best Practices Benchmarking Study – Policy Framework (Kishore)
2. Core Functions Reviews (this presentation)
3. Infrastructure Needs Assessment (this presentation & break out group)
4. Industrial Land Market Study (under development)



5. Options for an Economic Zones Strategy (Kishore)

Summary of policy framework

Strengths of the current policy framework:

- Envisions private zones under Private EPZ Act
- Encourages backward and inter-zone linkages
- Labor rights being harmonized with national standards

These strengths are balanced by important weaknesses:

- Private EPZ framework not implemented, no transparent procedures for private EPZ licensing
- *De facto* public EPZ monopoly
- Public EPZs have discretionary licensing procedures rather than “negative list” licensing procedures
- Imposes minimum export requirements
- Limits local sales of EPZ products

Institutional evaluation – objectives

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- Conduct institutional reviews of 3 public agencies involved in planning and management of economic zones: BEPZA, BSCIC, EPB (BOI done last year)
- Evaluate the capacity-mandate gap for each agency and recommend capacity building roadmaps
- Assess the inter-relationships among agencies and note any necessary realignments with a view towards implementing a wholistic and modernized strategy on economic zones

Strengths:

- Top level support of PM
- Private sector representation on Board
- Autonomy and authority to implement key decisions
- Higher wages and better working conditions in zones than outside zones
- Reduced administrative and compliance burden
- Availability of serviced land (a rare commodity)
- Duty-free privileges

Areas for further improvement...

Cultivate private sector involvement

- Amend legislation to allow and encourage private zone developers and operators
- Expand the investment promotion division to oversee and develop private sector participation
- Restructure BEPZA towards a regulator rather than a developer operator → fewer staff and different capabilities needed in developing and monitoring contracts with the private sector
- Resolve disparity between BEPZA responsibility for public zones and Executive Cell for private zones and the bias towards private zones

Institutional evaluation – BSCIC

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Strengths:

- Providing key advisory support to small industries
- Facilitating SCI's access to market information
- Offering training opportunities to small industries

Areas for further improvement...

Reallocate IE development to autonomous agency

- Remove responsibility for industrial estate dev't from MoI and create autonomous agency with a Board headed by the PM (similar to BEPZA): Industrial Estates Development Authority
- Refocus mandate of new institution to industrial development broadly, of which small industries are a core (but not exclusive) component
- Develop new industrial estates law to grant autonomy to IEDA and allow private sector participation in development and operations
- Redefine the scope of BSCIC activities: remove some of the social welfare programs under BSCIC's purview (e.g. Poverty Alleviation Program, Women's Entrepreneurship Development Program, etc) ; privatize/ contract out several other services (e.g. Design Centre, etc)

Strengths:

- Monitors implementation of Export Policy
- Commercial, pro-active attitude
- Good relationship with chambers of commerce and network of exporters

Areas for further improvement:

Refocus EPB as a “salesman” of exports, including those from zones

- Grant autonomy to EPB – move outside MoC; Board of Directors with majority private sector; sufficient budget
- Develop better HR policies – reform pay scale; hire new staff; eliminate staff rotations from Gov’t agencies; professional management
- Restructure EPB – multiple divisions to be rationalized; key divisions to be strengthened,
- Increase automation

Infrastructure assessment – objectives

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- Survey current infrastructure in a set of short-listed sites and document key indicators of service quality, pricing, and provision
- Ascertain the infrastructure servicing gaps at these sites in light of current investor demand in Bangladesh as well as international best practice, and to recommend efficient options to bridge these gaps
- Assess infrastructure requirements at potential expansion sites/ new developments and to estimate the cost of meeting these requirements

BEPZA & BSCIC sites assessed against following characteristics:

- Land – current and potential expansion area, land tenure, land quality (slope, drainage, soil)
- Markets – access to input markets (e.g. labor, raw materials, etc) and destination markets (domestic and international)
- Demand – current occupancy and investor base, scale of tenant operations, potential for attracting private investment
- Infrastructure – capacity to fulfill current and expansion needs (electricity, water, waste, roads, telecom)
- Facilities – condition of factories & common areas
- Land use – compatible with surrounding uses
- Environmental considerations in development

EPZs

- 1 – Dhaka
- 2 – Chittagong
- 3 – Comilla

Valuable infrastructure services available at the sites:

- Physical layout efficient
- Power outages very rare
- Access to major transportation networks and port
- Availability of gas supply

Problems Observed:

- Effluent treatment – no CETP; BEPZA unable to monitor compliance of individual factories
- Water – untreated; shortage due to reliance on WASA (CTG)
- Shared facilities – limited range of services; poor maintenance of common areas
- Security – insufficient surveillance; entry/ exit controls
- Road signs – minimal/ absent
- Zoning – no zoning in plot allotment resulting in mixed development

Industrial Estates

Adjacent to Dhaka – high performers:

- 3 – Joydepur
- 4 – Narayaganj
- 5 – Manikganj
- 6 – Mymanshingh
- 9 – Narshingdhi

D-C Corridor – under performers:

- 15 – Kalurghat extension
- 27 – Comilla
- 30 – Tangile
- 31 - Feni

Western Region – high performers:

- 1 – Khulna
- 2 – Jessore
- 12 – Bogra
- 14 – Rajshahi

Sectoral Parks (under consideration)

- API Park
- High-Tech Park
- Garments Park
- Plastics Park
- Auto Mobile Workshop Park
- Leather Park

Valuable infrastructure services available at the sites:

- Access to transportation networks
- Facilitates small industries development
- Access to labor market

Problems Observed:

- Narrow roads restricting usage
- Road crust damaged since it is not built for heavy loading
- Narrow drains for effluent discharge leading to spillovers on roads
- No treatment plants or BSCIC ability to monitor compliance of effluent discharge from individual factories
- No water treatment prior to supply despite having high iron content
- No access control at entry/ exit
- Signage absent
- Poor maintenance of common facilities
- Location based on political rather than economic considerations

- Private participation in development and management of economic zones critically needed
- Infrastructure services must be upgraded and properly maintained
- Currently absent value added services in zones to be developed
- Institutional change and realignment envisioned to support a modern economic zones regime
- Policy regime needs to be liberalized and encourage greater linkages between zones and the rest of the economy
- Required policy and regulatory changes mandate legislative action