Bangladesh gears up for growth

The country faces many challenges as it prepares to make itself the global growth leader of tomorrow, not least in infrastructure, capital-market development and up-skilling its workforce. Part of the solution is to make itself more attractive to foreign investors

Euromoney Bangladesh's economy is performing well, growing at between 6% and 7% on a regular basis and set to pass more than $200 billion in size during the current fiscal year. What can be done to convert strong growth into quality growth: the sort that attracts new foreign direct investment?

AMM The challenge is to push economic growth to a higher level. We have been stuck at an average of 6.2%, 6.3% for the past 15 years, and moving out of that bracket is the challenge. One headwind that has been removed is the political uncertainty, which gives me hope that the economy will grow at more than 6% in the current fiscal year to June 2016. Our longer-term target is 7%, which should be realistic in the next full fiscal year. One of the impediments to investment is that there are so many licences and approvals needed to secure land or get permission to build a factory. We are getting better at apportioning land in export-processing zones (EPZs) and special economic zones (SEZs). There are 44 public-private partnerships either approved or in the process of being built, ranging from hotels and highways to high-tech parks and port terminals. But we need to attract more investment and more skilled workers into those zones – that is the key to our economic future. On the plus side, tax revenues have risen by an average of 10% a year over the last six years.

AR, Bangladesh Bank Our latest five-year plan envisages an 8% growth path. For that, we have prioritized power, energy, infrastructure and land management. The government has already launched the first 10 of our planned 100 privately run SEZs. Under-construction mega projects – expressways connecting Dhaka with the port city of Chittagong; the Dhaka metro; the deep-sea port – will transform our infrastructure. Let me share some good news: exports are growing by 8% a year, defying global gloom and a strong currency, and outstripping our regional peers, all of which is a testament to our competitiveness. Foreign direct investment is rising, as companies relocate factories from China, Thailand, Japan and elsewhere. We expect FDI to make up a quarter of total investment in the coming years. Remittances, now running at $16 billion annually, comprise 8% of GDP, supporting domestic demand and laying the foundations for social inclusion.

MAK, Summit This is an amazing time for the domestic private sector. Materials – copper, metals, plastics, materials to build power plants – have become so inexpensive. But we face some challenges. First, we need to educate our workforce: to create a generation of skilled workers able to take the economy to the next level. Second, we need to cut the taxes we levy on business. A 37% corporate tax is not a reasonable tax; nor is a 20% dividend tax or a 30% personal income tax.

MA, FBCCI The world's big multinationals are coming here. Their fears surrounding Bangladesh's erstwhile political unrest are more or less over. But we need to make it easier for companies to list shares in their firms, both domestically and overseas, and to be able to decide when they want to pursue a listing. Business people want to be able to pay their taxes far more simply and easily, preferably online. The process should not be a chore. That is one cancer eating away at Bangladesh, the other being how to deal with the level of non-performing loans in the banking sector.

SH, City From my conversations with local and foreign customers, I can tell you that 8% to 9% annual GDP growth is considered realistic and sustainable. But we do see the low rate of investment in infrastructure as a key impediment to growth. Bangladesh needs to spend $100 billion over the next 10 years on infrastructure, including $7.4 billion to $10 billion each year until 2020 on power grids, roads and water supplies – sourcing capital from government and from local and foreign private investors – to bring those services up the level required to service our growth momentum. We should target sourcing a quarter of all capital injected into PPP [public-private partnership] projects from external sources; for that to happen, foreign investors will need to see a certain level of infrastructure already in place.

The PPP Authority of Bangladesh has identified 39 PPP projects worth $10 billion, with another $15 billion-worth in the pipeline over the next five

EXECUTIVE SUMMARY

- The central bank is forecasting growth of 8%
- Barriers to that include poor infrastructure and low-skilled workers
- Bangladesh has won awards for bottom-up development
- Now is the time for top-down solutions
- The government wants to open 100 special economic zones
- Privatization successes so far include the power sector

Participants

Abdul Maal A. Muhith, (AMM) has been Bangladesh's finance minister since January 2009. He is a trained economist, who studied at Oxford and Harvard, acted as the country's finance and planning minister in the 1980s, and has worked for the World Bank and the United Nations.

Atiur Rahman (AR) was governor of Bangladesh Bank. He worked at the Bangladesh Institute of Development Studies for three decades, retiring as a senior research fellow in 2006. Three years later, he was appointed governor of Bangladesh Bank, standing down from his post in March 2016.

Wendy Jo Werner (WW) is country manager for Bangladesh, Bhutan and Nepal at the IFC. Based in Dhaka, she is responsible for overseeing and developing strategy, managing client relationships and delivering the IFC's business in these countries.

Muhammed Aziz Khan (MAK) is chairman and founder of Summit Industrial and Mercantile Corporation, the largest infrastructure group in Bangladesh and one of the country's leading private-sector corporates, employing more than 5,000 people.

Matlub Ahmad (MA) is president of the Federation of Bangladesh Chambers of Commerce & Industry. He started Nitol Motors in 1981, later forging an alliance with the Indian automaker Tata Motors. Ahmad is also a founder president of the Bangladesh Automobile Assemblers & Manufacturers Association.

Ahsan Mansur (AM) is executive director at the Policy Research Institute of Bangladesh. He joined the IMF in 1981. He worked in the Middle East, Africa, Asia and Latin America. He joined the PRI as its founder director.

Sohail Hussain (SH) is managing director & CEO of City Bank. Before taking charge, he was additional managing director and chief business officer at the Dhaka-based lender. Hussain is a co-convener in financial institutions and services at the Dhaka Chamber of Commerce & Industry.

Faisal Ahmed (FA) is senior economic adviser to the Bangladesh Bank. Previously, he served as the IMF's representative in Cambodia between 2011 and 2015. Before joining the IMF, he worked for the central bank of Turkey and as a visiting scholar at the Federal Reserve System in Washington.

Aziz Al Kaiser (AAK) is a director and former chairman of City Bank. Under his tenure, he transformed City Bank's management and operating structure. Kaiser is also vice-chairman of Partex Star Group, one of the country's largest and most successful diversified private conglomerates.

years. But we are always looking for ways to get more private local and foreign investment involved. It's vital to note that FDI is about more than just equity; it's also about the transfer of technology and standards; improving compliance to international standards; and improving corporate and project governance.

We have a genuine demographic dividend in play – the average age of our workforce is 24 years – but we need to convert this workforce into a technologically skilled set of workers, and that requires more investment in education.

Foreign investors want to see facilities in place before they put their cash to work, along with skilled workers, good vocational training, and better infrastructure. Bangladesh may be a bright spot in the emerging world, but we need to consolidate our strength, usher in more FDI, improve our sovereign rating further, and improve our position in the World Bank's Doing Business rankings.

We should raise our sovereign rating to investment grade and issue a sovereign bond with the express aim of building an international yield curve. Eventually, local firms will raise bonds locally and internationally, and will list on bourses here and around the world.

Local banks will have a big role to play when it comes to securing more FDI. The first port of call when foreign capital crosses the border is the Board of Investment. The second is local banks: we have done a good job in creating networking relations with foreign correspondent banks, bilateral and multilateral institutions, offshore funds, rating agencies and export credit agencies.

WW, IFC Infrastructure financing is a critical point. In recent years, the government has turned the previously moribund power sector around, transforming it into a genuine investment opportunity. Bangladesh now has a highly positive track record in terms of building IPPs [independent power plants]. Investors are given clear construction parameters and clarity on contracts, returns and land ownership. The next stage is transforming the transport and logistics spaces and integrating them with global supply chains. Those two factors will be vital, certainly in terms of building all-important SEZs. That would send a powerful signal to the global business community. There are two big assets that primarily need to be transformed and exploited: Dhaka Airport and Chittagong Port, both of which are huge enablers of the economy, able to integrate the country more deeply into global value chains and generate a big new

source of income for the government. Making the most of those two physical assets is key to the country's future.

AM, PRI Total exports in volume and value terms have doubled over the last five years. The big change has been a major improvement in macro-economic stability. We are looking to double the size of our economic base from $200 billion to $400 billion by 2021; the question is whether we are bold enough to take on that challenge. I think we should strive for $500 billion. It is doable, but we need to change our mind-set from one of surviving to one of thriving.

The power sector alone requires an extra $60 billion in fresh investment to meet anticipated demand by 2030. Financing won't be a stumbling block, but proving to local and foreign investors that we can deliver on these major projects, and make them work, will be vital.

Euromoney How can we get everything in lockstep: cutting inflation, boosting growth, bringing in more FDI and keeping interest rates low?

FA, Bangladesh Bank Bangladesh is now going through its middle-income transition. We have a large pool of diligent workers and savvy entrepreneurs who can partner with foreign investors. The government's focus on investing in power and infrastructure in order to cut the cost of business is timely and welcome.

Viewed through the lens of the east Asian economic miracles of the 1960s to 1980s, Bangladesh shares features with both South Korea and Thailand.

Like Korea, Bangladesh has an export-oriented homegrown manufacturing base; like Thailand, the priority is to attract labour-intensive manufacturing FDI. Our plan is to be a part of the evolving Asian production network and then to move up the value chain.

Real lending rates in Bangladesh are now lower than they are elsewhere in the region, reflecting domestic liquidity and high savings rates (at around 30% of GDP). In fact, prime borrowers can now borrow from the banking system in the single digits, implying a real interest of around 3%.

Bangladesh Bank is committed to making continued progress in bringing down inflation (now around 6%) to ensure that nominal interest rates also become more affordable, while sufficiently compensating depositors. We are also working on making sure credit can reach a wider base of investors through our inclusion initiatives.

Euromoney A lot of these subjects interrelate: a desire to double exports, to double the size of the economy, and to push through more PPP and infrastructure projects. What can be done to convince more foreign investors to put their money to work here?

AR, Bangladesh Bank Fortunately, good sense has prevailed, and political stability has resumed. Just look at the confidence and optimism exuded by the average Bangladeshi and our small and medium-sized enterprises. The government's commitment to solving power, transport and logistics bottlenecks has reinforced that positive sentiment.

MA, FBCCI Bangladesh has been a bottom-up growth story for so long. Now the opposite is happening: it's a top-down story, driven by sensible policy making and building quality infrastructure. It is something that east Asia has been good at in recent times but not south Asia, but that is changing.

AAK, City Lee Kuan Yew was a dynamic voice for Singapore: a political giant and business visionary. He made the strategic decision to attract global multinationals, developing a dynamic business environment and a tax-efficient economy. Global firms arrived, shifting their operations to the city, paying their taxes, and transforming Singapore into a mature and developed economy.

I recall an incident involving the CEO of a global corporate. Singapore was trying to convince him to move his Asia operations to the Lion City. But while he was in town, his beloved dog got sick. The local handlers hustled around town trying finding a veterinary practice, so determined was the city to get the company's business. That is what we should all be doing here.

We still suffer from a lack of basic infrastructure: it's a huge concern that we factor in here every day of our lives. We despatch 300 trucks a day from our headquarters, yet we have to send many of them of them out half-empty. We could do the same amount of business with half that number of trucks. But if they were fully packed, the axle would snap, or a pothole would shatter the undercarriage. We would rather send 100 or 150 trucks, cutting the cost of distribution, but we can't.

The government has set up 100 SEZs to allow us to diversify our economy, but we need to connect the dots, linking up each zone. We need to brand Bangladesh aggressively as a quality, trusted business destination and a safe investment environment, building a coherent message around the country.

That's the only way we can become south Asia's leading manufacturing and logistics hub, utilise our strategic location, educate our predominately young workforce and make a genuine, sustainable difference to our rate of economic growth.

MAK, Summit Summit is a leading player in the infrastructure space, in power generation, ports, communications. We have received $500 million as investment via loans, and I feel there is more investment coming in and taking place.

It's an exciting place to be. The challenge for foreign investors lies more outside Bangladesh than inside. Some look at the region and worry about terrorism, but that is not a concern here.

The big challenge for us is to broaden and open up our capital markets. That is key to a free-market economy: how else can companies raise capital or people viably manage their savings? We need to instil depth and vibrancy in our capital markets, and to give comfort to local and foreign investors. Capital-account convertibility is a subject very dear to my heart. We have invested $1.5 billion in domestic infrastructure. But what if we want to list our companies abroad? I have asked Bangladesh Bank and the securities regulator, but they have no answers, as there are no such laws in place yet.

AMM Several issues are important to us here. First, tax collection. I have set a target of increasing the number of registered taxpayers by 800,000 but the National Board of Revenue puts its expectation at closer to 500,000. I find it disgraceful that just 1.1 million people pay tax in this country. So yes, we are in a serious jam.

We have a construction programme in place to build a third terminal for Dhaka Airport, which may meet projected demand over the next 50 years. Financing the project will be critical. We have received interest from six parties and I am on the verge of making up my mind as to who will secure that contract. Chittagong Port also needs a lot of improvement, but there is another port, Mongla, that wasn't much used when we came to power. A third, in Chalna, is also being considered for expansion.

Then there is the planned North-South Dhaka-Chittagong road, which will cost $3 billion to $4 billion. Dredging the Karnaphuli and Meghna rivers are contracts worth $2 billion to $3 billion.

Those are very attractive infrastructure investments that I will put in the budget for parliament's approval in the near future.

I would say that we now have a solid capital-markets foundation in place. Our capital markets didn't really exist until 2011 and while it remains relatively small, it has taken root now

Euromoney International banks are keen to set up joint ventures or acquire stakes in local lenders; at the same time there is a concern about rising NPLs. How can Bangladesh create a banking sector that is fit, well-financed and able to fund a growing economy?

SH, City At City Bank, we aim to raise our capital-adequacy ratio (CAR) to 14% this year. But I think the big change lying ahead for the banking sector will be a rise in the number of joint ventures and strategic equity investments between domestic lenders and foreign institutions. That would be good for local banks, particularly listed ones, as it would boost the perception of the market's – and the industry's – quality of governance. More ratings on Bangladeshi banks are a good thing. More internationally accredited auditors are a good thing.

Another future focus should be on allowing more Bangladeshi corporates and lenders to list – both equity and debt – outside the country. Our best ambassadors are the multinationals that are already here.

The banks' roles are multifarious: they are conduits for various investment proposals, and also they can be investment conduits themselves.

When it comes to the NPL problem that developed over the past four-to-five years, we are now seeing light at the end of the tunnel. Yes, state banks have high levels of NPLs, but at private banks, which make up 70% of the market, they are coming down rapidly. At City Bank, the level of NPLs is falling rapidly.

FA, Bangladesh Bank The IFC taka bond will help benchmark the currency risk. That in turn would allow our investors to issue local-currency bonds abroad. It would also aid foreign investors to better price local-currency government and corporate bonds. The size of the bond market in Bangladesh is around $30 billion. We are working on making it easier for foreign investors and non-resident Bangladeshis to access our domestic bond markets. Amid the recent emerging and frontier market volatility, Bangladesh stands out for its external stability. The good news is that exports have performed well despite trade headwinds and the global slowdown. External debt remains sustainable, with public external debt at only 13% of GDP. This also provides ample room for prudent external borrowing, as needed.

AR, Bangladesh Bank Bangladesh Bank has been championing the

government's agenda of inclusive growth and macro-financial stability. We place the highest emphasis on good governance, while being mindful of current challenges. We have leveraged digitization to upgrade our supervision and real-time monitoring of loan quality and terms. We have taken strict measures to make bank boards more functional. We are also encouraging banks to increase their capital buffer proactively.

MAK, Summit Our financial sector is in very good health. Not a single lender in Bangladesh has ever gone bankrupt. There has never been a Lehman Brothers here. Still, we could improve the industry by pushing through better bankruptcy laws for troubled companies, and laws to deal with the resolution of failed assets and non-performing loans. Our bankruptcy laws are inefficient.

Capital gains taxes are too high, and local capital markets too shallow. We do not do enough to create a working, deep and liquid bond market. So while the banking sector is doing well, we struggle to generate enough working capital. We must work toward deepening our capital markets. That will support our banks, as well as increasing CARs.

WW, IFC IFC will issue offshore taka-linked bonds. This will go a long way to boosting confidence in the markets, while ensuring that portfolio investors who want to gain access to Bangladesh, but who are limited in terms of what instruments they can put to work in the country, can add that instrument to their portfolio.

Then in each tranche, we can increase tenors over a period of time to build a yield curve, which will allow corporations to build on that yield curve, leading in time to Bangladesh starting to issue sovereign bonds. And that will secure the higher levels of capex that Bangladesh needs to fund its future.

Euromoney How fast can the taka bond market grow?

WW, IFC Look at India's masala bond market. It's only been in place for a few years, but already we have seen tenors rising from three years, to five years and then 10 years. Then multilaterals started diversifying, issuing rupee-denominated green bonds offshore.

FA, Bangladesh Bank Foreign investors need to take a nuanced view of the banking sector. Most of them would work with the private banks – domestic and foreign – that now provide world-class services. Bangladesh Bank is continually upgrading its supervisory capacity to ensure a sound banking system. State-owned banks constitute only 30% of the system and mostly cater to public entities.

AM, PRI At some point, you need the market to accept a round of mergers or acquisitions. Not all banks are as strong as the others. A round of consolidation in the banking sector would be a positive step, and it needs to be done. We need to brand our government as a corporate would brand itself. Something along the lines of 'Bangladesh Incorporated'.

AR, Bangladesh Bank At Bangladesh Bank, we have a tireless focus on financial inclusion and stability, to ensure that growth touches all of our citizens. Bangladesh is also enjoying increasing global recognition for its developmental innovation and inclusive growth. That said, we are aware that more needs to be done, but work is under way.

Euromoney To return to your earlier point, perhaps a new sovereign bond, issued by the People's Republic of Bangladesh, would be a good start?

AR, Bangladesh Bank We take the debut sovereign issuance seriously, and we are determined to do it right in terms of timing and usage of proceeds. We are being methodical in building a responsible track record. In this regard, the IFC's upcoming $1 billion taka bond will provide useful lessons. In terms of domestic-market development, we are also working on floating the first taka-denominated green bond.

FA, Bangladesh Bank Bangladesh is taking a gradualist and building-block approach to its sovereign bond issuance strategy. We would like our sovereign issuance to finance specific projects that can generate sufficient economic and cash returns. We want to avoid using the proceeds for general budgetary purposes. This approach would also comfort our foreign investors that proceeds are used judiciously, minimising any repayment risks, a lesson many emerging markets learned through costly mistakes. We believe a methodical approach will go a long way in guaranteeing that we can tap international markets sustainably to finance our large infrastructure projects.

Euromoney Bangladesh has an abundance of large infrastructure projects that would return plenty of long-term cash to investors, from toll roads to airports to deep-water ports. Why not speed up bond issuance to fund those plans?

AR, Bangladesh Bank The government has ample reserves – $28 billion, or around seven months-worth of imports – and generous access to multilateral funding from the World Bank, the Asian Development Bank and the new Asian Infrastructure Investment Bank. The pipeline donor support is also sizeable, at around $20 billion.

MA, FBCCI I'd like to turn to the manufacturing sector. We've seen some major corporates invest in Bangladesh in recent years, such as Hero

MotoCorp and Tata Motors, which are putting money to work in new motorcycle facilities. This shows Bangladesh can attract quality investments, and that global firms can profit here.

Hero combed the world and chose Bangladesh as its next big investment destination. It is investing very heavily in motorcycle production with the aim of exporting back to India. Both participated in a recent trade conference sponsored by the BOI and the Federation of Bangladesh Chambers of Commerce & Industry. When companies like that arrive, others follow.

Two sectors key to manufacturing are truly taking off. One is to improve urban infrastructure and to develop new smart cities – there are too many people living in Dhaka. Second, the country needs more cargo planes. Our exporters are struggling to satisfy demand for air shipments, and that needs to be resolved.

WW, IFC IFC is a long-term investor here and our investments here are very successful. There is huge potential in the domestic market, and all of the challenges are being addressed, be it infrastructure in the energy sector.

We can see active changes being made and value being created. There are more opportunities to be had here. Investors want to be here. The prime minister is very ambitious. Yes, there are perception problems, but those who visit, who set up shop here, quickly see that their perceptions were wrong. The harder they look, the longer they stay, and the more they understand.

Euromoney What is the final key message you would like to send to investors?

SH, City We are at a critical juncture in Bangladesh's evolution. At City Bank, we expect several very complex large-scale markets to develop over the next two to five years. We believe export-led growth is here to stay, and that opportunities abound for both domestic and foreign investors. The government has undertaken a lot of major projects, and getting them implemented quickly is a key challenge. They are also working to boost citizens' skill sets. We have positive macroeconomic indicators, a large market, and we are moving up in the World Bank's Doing Business index.

AM, PRI Bangladesh has come a long way. We have plucked almost all the low-hanging fruits. Now we have to prepare for a bigger shift, as doubling GDP every five years will require significant institutional change. If the government really wakes up to that reality and adopts a more corporate mind-set, we can achieve our ambitions.

AAK, City Business-process outsourcing (BPO) is key. If we can train the right people in the right way, we will see a lot of BPO investments coming here.

FA, Bangladesh Bank Bangladesh had a perception problem in the past, but the good news now is that perceptions are moving in the right direction. In the 1970s, we were viewed as a basket case, struggling with war reconstruction efforts and food shortages. Then came the floods of the 1980s. Fortunately, those were also the decades of green revolution, disaster management, and social and microfinance innovation, which later made Bangladesh a positive outlier in human development indicators. During the 1990s and 2000s, Bangladesh laid the foundation of a manufacturing- and export-led takeoff.

From the 2000s, multilateral development partners started describing Bangladesh as a development surprise for defying its initial conditions. It is also around this time that Bangladesh came onto the radar of the investment banks and ratings agencies as a confident frontier economy.

In 2012, the Economist published a special report titled 'Out of the box', highlighting our growth and potential.

Perceptions are sticky, so they take time to change. But look at the trend and its slope. We definitely have crossed the threshold.

MAK, Summit Digital Bangladesh is a reality. At Summit, we have laid out more than 30,000 kilometres of fibre-optic lines, covering a total of 55,000 square miles. Three quarters of the population is connected digitally to the grid. The country will take off like a rocket and I invite everyone to get on board.

AR, Bangladesh Bank Let me again echo all the optimism voiced here. Our economy is transforming rapidly. So are global perceptions. A recent Gallup poll showed Bangladesh to be the most optimistic country in the world. This year, Bangladesh is expected to be the second-fastest growing large economy after India.

My message to foreign investors is simple: please come and join this $200 billion-dollar economy, with its 160 million-strong populace, as it takes off. Let me assure foreign investors that we are working on both hard and soft infrastructure, improving areas such as skills and our regulatory framework. Working together, I have no doubt we can be the global growth leader of tomorrow.