

# Bangladesh Policy Notes

## Back in Business to Create Jobs

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### The Doing Business Reform Agenda: From Vision to Action

#### Key Issues and Challenges

**Bangladesh slipped one place to 177 in the Doing Business rankings for 2018.** This is the second lowest among South Asian economies (Afghanistan is at 183). The country's dismal performance on the doing business indicators is attributable to the absence of meaningful reforms in Bangladesh.<sup>1</sup> The overall Distance to Frontier (DTF) score of 40.99 in DB 2018 is virtually unchanged from the 40.84 in DB 2017. The trend in DTF indicates that Bangladesh is narrowing its gap with the global regulatory frontier, but the pace, size and quality of improvement remains slow and insufficient. The Doing Business project also recorded two negative reforms in the past two editions of the report, one relating to business start-up<sup>2</sup> and the other to paying taxes<sup>3</sup>.

**In late 2016 the government set a goal of attaining a double-digit rank on the DB indicators by 2021, requiring targeted and systematic reforms.** Bangladesh has taken some initiatives in the past 12 months, including commissioning a DB Reform Memorandum outlining key reform opportunities, and preparing a detailed reform action plan for eight indicators. The Bangladesh Investment Development Authority (BIDA), under the Prime Minister's Office, has also recently created an inter-ministerial task force that will focus on concrete and measurable actions aimed at improving the business environment in the country. As the DB rankings tend to reflect the overall business environment, improving the ranking is likely to give potential private investors a more positive image of Bangladesh's business environment as well as foster private sector growth through SME development at the local level.

**Complex and cumbersome Government to Business (G2B) service delivery impedes business startup and growth.** The service delivery process of government agencies, which involves multiple reviews and approvals, is neither systematic nor clear, resulting in difficulties and delays for investors. The absence of a well-structured Standard Operating Procedure (SOP) for service delivery at the agency level often leads to a lack of transparency, increasing the jurisdictional power of government officials and consequently allowing a preferential delivery of services to select businesses. In addition, the lack of coordination among government agencies causes delays in business operations. An investor must navigate over 36 uncoordinated agencies to obtain the licenses and permits needed to start a business. Lack of coordination among inspectorates often leads to multiple inspections on the same regulatory compliance issues, adding time and cost for both the government and the investors.

**The archaic legal framework cannot accommodate existing and new businesses.** Obsolete laws and regulations governing the private sector, such as the Companies Act, do not support modern practices. An overlap of jurisdictions among government agencies caused by the introduction of new laws without a thorough analysis of their impact poses an additional burden on the private sector.

**The recent initiatives for improving DB will likely address many of the aforementioned challenges but the absence of task forces impedes systematic and comprehensive reforms.** The absence of topic-specific task forces impedes proper implementation of disaggregated DB Reform Action Plans. Improving

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<sup>1</sup> It is worth noting that the methodology for post-filing processes under the Paying Taxes indicator was further refined in accordance to best practices. Hence, this rank is not comparable to the one published in the Doing Business 2017 report.

<sup>2</sup> According to Doing Business 2018, Bangladesh made starting a business more expensive by increasing the cost of business registration at the Registrar of Joint Stock Companies and Firms.

<sup>3</sup> According to Doing Business 2017, Bangladesh made paying taxes more complicated for companies by increasing the time it takes to prepare VAT and corporate income tax returns

the performance of a country in a specific regulatory area requires action by multiple government agencies and strong inter-agency coordination. Successful countries have developed topic-specific task forces comprising designated officials from relevant agencies responsible for implementing recommendations. The absence of topic-specific task forces delays the implementation of DB reform recommendations in Bangladesh. These task-forces should work in close coordination with or include private stakeholders to ensure that the private sector's concerns are addressed.

**Furthermore, the absence of a holistic monitoring and evaluation mechanism hinders adequate tracking of the implementation progress.** Several government agencies have taken individual initiatives to support the DB reform agenda. However, those efforts are dispersed and some are not aligned with the DB reform recommendations. There is no mechanism in place to understand the planned activities of the respective agencies related to DB reform initiatives. In addition, there is no system in place to monitor the progress in implementing the disaggregated DB reform action plan. It is also important to have a designated reform champion with political leverage to ensure that the reforms are implemented. Empowering BIDA – within the Prime Minister's Office – as the clear reform champion and strengthening its capacities will be key for successfully delivering on the country's reform agenda.

**Lack of capacity among government agencies also impedes the implementation of reforms.** Government agencies often lack the necessary resources, including technical know-how, human resources and infrastructure, to make progress on the necessary reforms.

## Policy Recommendations

**To address these issues, in the short term, the government needs to:**

- Develop inclusive topic-specific task forces comprising representatives from respective line agencies to implement Disaggregated DB Reform Action Plans. The task forces should remain accountable for delivery of reform actions to a central high-powered coordination committee or to the Prime Minister's Office.

**To address these issues, in the medium to long term, the government needs to:**

- Simplify G2B service delivery as indicated in the DB disaggregated action plans and develop Standard Operating Procedures (SOP) outlining responsibilities/authority of the officials, time and documents required to ensure a transparent, time-defined and effective delivery of services.
- Strengthen Public Private Dialogue (PPD) mechanisms through BIDA, task-forces and relevant agencies to collect inputs and feedback from the private stakeholders. Develop a monitoring and evaluation mechanism to govern the implementation of the recommendations, and establish clear reporting lines and escalation mechanisms to the highest levels of government.
- Set up an institutional mechanism for regular follow up by the Prime Minister's Office (PMO) for ensuring better inter-agency coordination.
- Review and update the existing legal framework such as companies act and the arbitration framework to bring in more transparency and efficiency in the regulatory service delivery.