

**Chandrawat
& Partners**

DOING BUSINESS IN BANGLADESH

A comprehensive guide to Bangladesh

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INTRODUCTION

Bangladesh has a well-educated, highly adaptive and industrious workforce with the lowest wages and salaries in the region. Over 50 percent of the population is under the age of 25, providing foreign investors with a youthful group for recruitment. Furthermore, Bangladesh's location next to India, China and the Association of Southeast Asian Nations ("ASEAN") markets provides foreign investors with a strategic location to access these markets and their economy. With a population of 168.9 million and robust, sustained economic growth driven by strong domestic demand, Bangladesh has emerged as an attractive investment destination.

Bangladesh offers the most liberal Foreign Direct Investment ("FDI") regime in South Asia, allowing 100 percent foreign ownership with an unrestricted exit policy, easy remittance of royalties and repatriation of profits and incomes. Bangladesh also offers a number of export-oriented industrial enclaves with infrastructural facilities and logistical support for foreign investors.



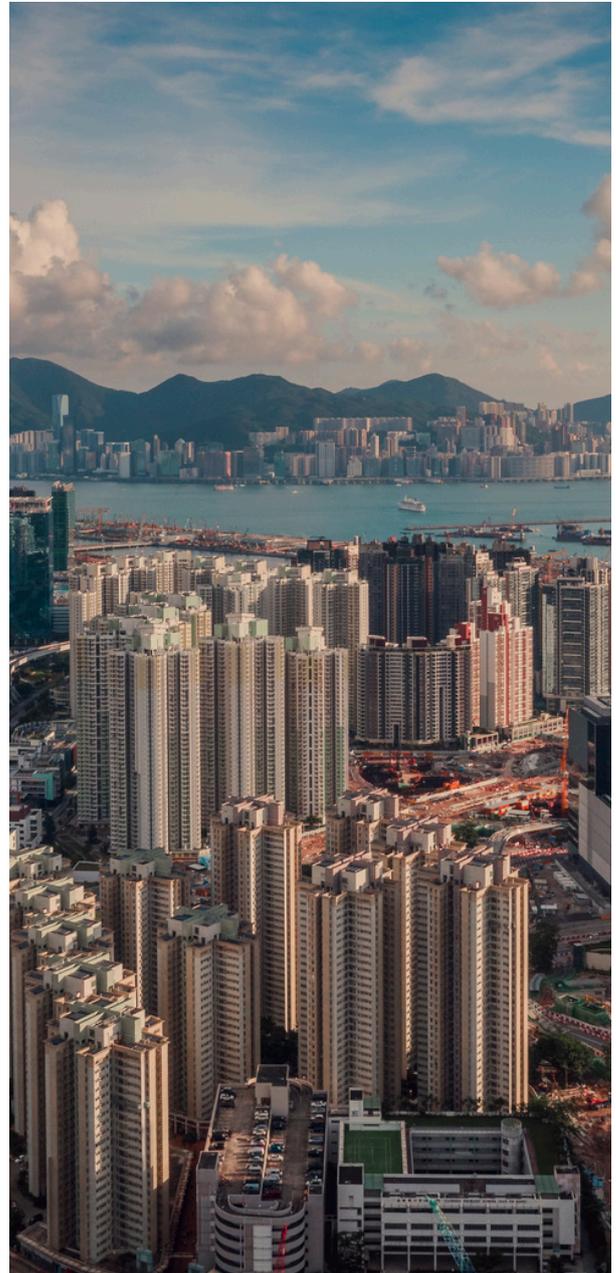
ECONOMIC OVERVIEW

"In the World Economic Outlook ("WEO") April 2023, International Monetary Fund ("IMF") projected that the global economy grow by 2.8 percent in 2023 and 3.0 percent 2024."

Sectoral Growth

- Agriculture sector- 2.61 percent in Financial Year ("FY") 2022-23
- Industrial sector- 8.18 percent growth in FY 2022-23
- Services sector- 5.84 percent growth in FY 2022-23

The projections for 2023 and 2024 are 0.1% points lower than in the January 2023 as per WEO update. Bangladesh economy has been growing consistently high over a decade crossing 7.0 percent milestone in FY 2015-16 and 8.15 percent. However, the COVID19 pandemic reduced the growth rate to 3.51 percent in FY 2019-20. The economy grew by 6.94 percent in FY 2020-21 and 7.10 percent in FY 2021-22.



FOREIGN DIRECT INVESTMENT POLICY

Since the last decade, there has been a considerable change in global flows of trade and finance including a surge in FDI. Despite being a recent phenomenon, several underlying factors have contributed to increasing the FDI inflow in Bangladesh, such as trade and exchange liberalization, current account convertibility, emphasis on private sector-led development, liberalization of the investment regime, opening up of infrastructure and services to the private sector both domestic and foreign investors, and above all the interest of foreign investors in energy and telecommunication sector.

As of August 24, 2021, Bangladesh's foreign exchange reserves reached a record high of \$48 billion, primarily driven by significant inward remittances and strong export earnings. However, the reserves have since declined by approximately \$8 billion due to the soaring import bills caused by global price increases. As of May 17, 2023, the foreign exchange reserves stood at \$30.18 billion

Bangladesh has implemented the Foreign Private Investment and Protection Act, which aims to promote and protect foreign private investment within the country. This legislation provides a framework for foreign investors, ensuring their investments are safeguarded while encouraging further capital inflows



KEY SECTORS

Agricultural sector

In 2021, the share of agriculture in Bangladesh's gross domestic product ("GDP") was 11.63 percent, whereas industry contributed approximately 33.32 percent. Bangladesh has remained largely agricultural, with nearly half the population employed in this sector.

Rice is the predominant agricultural product, but jute and tea are key sources of foreign exchange. Bangladesh is one of the world's leading suppliers of raw jute. Other major agricultural products include wheat; pulses, such as peas, beans, and lentils; sweet potatoes; oilseeds and spices of various kinds.



Ready-Made Garments ("RMG")

The RMG sector is a significant contributor to the country's economy, accounting for a large portion of its export earnings.



Pharmaceuticals

Bangladesh has a thriving pharmaceutical industry, both for domestic consumption and export.



Banking and Finance

The Banking and Financial sector plays a crucial role in supporting economic activities and promoting investments.



Energy and Power

Bangladesh is investing in expanding its energy and power infrastructure to meet the rising demand for electricity and promote industrial growth.



ADVANTAGES



Fast development

Bangladesh is a member of a group of developing countries, also known as the Next Eleven.

Despite challenges and disruptions to the global economy since the prediction was made, Bangladesh achieved a GDP growth rate of 7.2% in 2022, which has increased from 6.9% in 2021. This rapid economic growth presents a rising number of opportunities for businesses that are looking to set up in Bangladesh.

Free trade agreements and strategic location

Bangladesh is additionally a member of multiple influential international organisations, including the World Trade Organization ("WTO"), World Bank and International Monetary Fund ("IMF"), as well as regional organisations such as the South Asian Association for Regional Cooperation. The country's links to other members of the organisations play a huge factor in its political and economic stability. With participation in free trade agreements, such as the Asia-Pacific Trade Agreement and South Asian Free Trade Area, Bangladesh enables businesses to export goods with ease and at a reasonable price.

Population size

Bangladesh's huge population of over 165 million people presents a great opportunity for businesses based on the size of the market. The country has seen exponential growth over the past decade, with its population rising approximately 1% every year. As the 5th most densely populated country in Asia, businesses have a greater market to target and more opportunities for development.

Constantly rapid economic growth

Bangladesh's rapid economic development is a significant indicator of its potential on the global stage. According to International Monetary Fund (IMF) reports, the average GDP growth for emerging and developing countries is 4.9%, making Bangladesh's achievement of 7.2% growth in 2022 notably impressive compared to other emerging markets.

Lowest Labor Costs

One of the primary factors driving companies to relocate their manufacturing to Bangladesh is the comparatively low labor costs. As businesses face increasing expenses in developed countries like China, Bangladesh presents an attractive alternative for cost-effective manufacturing.

Sincerity to Foreign Investment

While allowing foreign investment in most sectors and providing favorable conditions for doing business in Bangladesh has shown a very welcoming attitude towards foreign investors. Foreign Investors are getting various incentives, some of them are as below:

- They get tax holidays and exemptions
- Easy to the import of raw materials and machinery
- Simple facilitation of utility connections

Different Trade agreements

Not only the member of the World Trade Organization ("WTO") but Bangladesh has signed memberships and agreements include:

- Bay of Bengal initiative for multi-sectoral technical and economic co-operation ("BIMSTEC") Free Trade Area
- Free Trade Agreement of Pakistan-Bangladesh

The Islamic Conference agreement of the Trade Preferential System of the Organization of

- Asia-Pacific Trade Agreement ("APTA")
- Group of Eight Developing Countries' Preferential Tariff Arrangement
- South Asian free trade area ("SAFTA") agreement

Moreover, there are main trading partners of Bangladesh has been the European Union. It offers duty-free exports for the European Union ("EU")-Bangladesh Cooperation Agreement

TYPES OF BUSINESSES



Private Limited Company

A large number of companies in Bangladesh are registered as private limited companies ("LLC"). The liability is limited to shareholder's share capital and LLCs in Bangladesh can be fully foreign-owned.

Any person who is above the age of 18 is eligible to register a company. Furthermore, the law prescribes a minimum of two and a maximum of fifty shareholders, and two directors.

Public Limited Company

In contrast, a public limited company can invite the public to hold shares and is usually registered on a stock exchange.

A public limited company has a minimum of seven members, three directors, with no maximum number of shareholders. Its shareholders can be any legal person or any individual who is above the age of 18, qualified by Bangladesh Law.

It can raise funds from the public. Aside from Companies Act 1994, it should also comply with Securities and Exchange Commission Act 1993

One Person Company

One Person Company ("OPC") means and includes a company whose shareholder is merely a natural person. The minimum paid-up capital of such a company is Bangladeshi Taka ("BDT") 2,500,000.00 only and the maximum is BDT 5,00,00,000.00 (Five Crore) only.

Branch

A Branch is an extension of its parent company and not a separately incorporated entity. In other words, the parent company is responsible for its branch's liabilities. A Branch can engage in commercial activities, given Bangladesh Investment Development Authority ("BIDA's") approval. However, the Exchange Control Guidelines monitors its operations strictly.

Representative/Liaison office

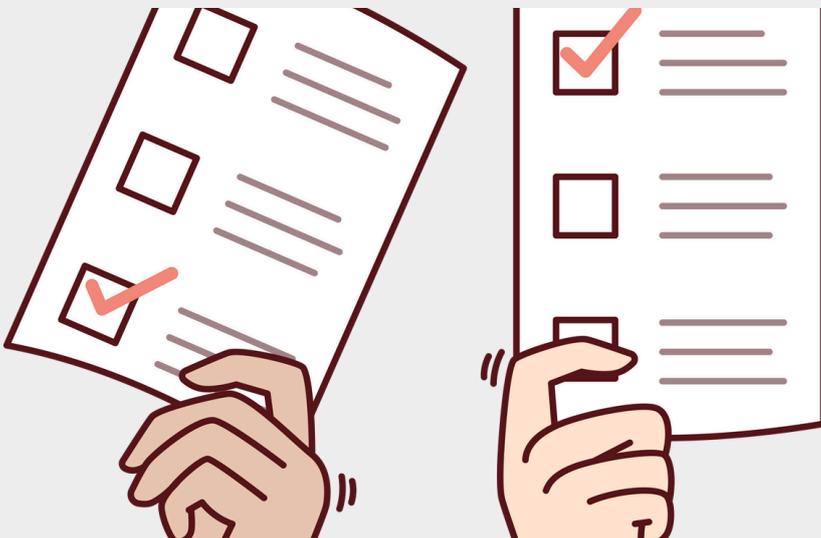
A liaison is also subject to BIDA's approval as its primary requirement. It must have a parent company abroad and its activities are limited since it only serves as a communication or coordination instrument of the business resources in Bangladesh. A liaison office cannot earn any local income in Bangladesh. The parent company shoulders all of its expenses and operational costs through remittance.

Sole proprietorship

In the case of Sole proprietorship, the business entity is not a separate entity from the owner. Hence, the owner is personally liable for all the liabilities accrued from the business. An 18 year old Bangladeshi can register themselves as a sole proprietor for a particular business and obtain a trade license on a yearly renewal basis. A sole proprietor does not require to register before RJSC

COMPANY REGISTRATION

| Type of Entity | Maximum allowed foreign ownership | Minimum paid-up capital | Minimum no. of shareholders |
|-------------------------|-----------------------------------|-------------------------|-----------------------------|
| Private Limited Company | 100% | \$1 | 2 |
| Public Limited Company | 100% | \$1 | 7 |
| Subsidiary Company | 51%-100% | \$1 | 2 |
| Branch Office | 100% | No capital | No shareholders |
| Representative Office | 100% | No capital | No shareholders |



Requirements for company registration in Bangladesh

Allowed foreign ownership

Bangladesh is very open regarding foreign ownership, allowing up to 100% of foreign ownership in most sectors. In some sectors, however, prior approval from the government is required and a few sectors restrict both local and foreign investment.

Minimum capital requirement

There is no official minimum capital requirement in Bangladesh. For this reason, \$1 is considered the minimum capital contribution. However, investors should keep in mind that they need to make an inward remittance of no less than \$50,000 if they intend to hire foreign employees.

Any Name

The name must be approved (cleared) before incorporation of the company in Bangladesh.

Directors

Minimum two directors are mandatory. Directors can be either local or foreign. Directors must be at least 18 years of age and must not be bankrupt or convicted for any malpractice in the past. The law requires that a director must own qualification shares stated in the Articles of Association. A shareholder which is not a natural person (i.e. a company) can select nominee director.

Shareholders

A private limited company in Bangladesh can have a minimum of 2 and maximum of 50 shareholders. A director and shareholder can be the same or a different person. The shareholder can be a person or another legal entity such as another company. 100% local or foreign shareholding is allowed in most sectors. New shares can be issued or existing shares can be transferred to another person anytime after the Bangladeshi company has gone through the incorporation process.

Authorized Capital

Authorized capital has to be mentioned in the Memorandum of Association and Articles of Association. It is the maximum amount of share capital that the company is authorized to issue to shareholders. There is no minimum or maximum limit for authorized capital in Bangladesh.

Paid-up Capital

Minimum paid-up capital for registration of a Bangladeshi company is Taka 1. Paid-up capital (also known as share capital) can be increased anytime after the incorporation of the company.



Registered Address

In order to register a company in Bangladesh, you must provide a local address as the registered address of the company. The registered address must be a physical address (can be either a residential or commercial address).



Memorandum of Association and Articles of Association

The company to be incorporated must prepare a memorandum of association (MoA) and articles of association (AoA).



SETTING UP A BUSINESS

- Verify the uniqueness of the proposed company name on the website of the Registrar of Joint Stock Companies ("RJSC") and Firms

After checking that the proposed company name is available for registration, the entrepreneur must apply for name clearance through the RJSC website. The status of the application can be checked online and is usually accepted or rejected within 1 working day. If accepted, the company name is reserved for 6 months.

- Register at the Registrar of Joint Stock Companies and Firms

To register a company, the following documents must be submitted to the registrar:

- Name clearance certificate
- Memorandum and Articles of association
- Forms I (Declaration on the registration of the company); Form VI (Notice of the registered office); Form IX (Consent to act as directors); Form X (The list of persons consenting to act as directors); and Form XII (Particulars of the Directors, Managers, and Managing Agents)

Once the registration application is filed, the system generates a payment slip that should be printed and paid at a designated bank. This payment slip includes the registration fees, registration filing fees, stamp duties, and certified copies fees.

- Pay all applicable registration fees and duties at a designated bank.
- Obtain a Tax Identification Number

To Commence business operations, every company must register for taxes at the appropriate taxation authority (Deputy Commission of Taxes of Company Circle, Zonal Taxation Department) under the National Board of Revenue (NBR) and obtain a tax identification number.

- Open a Bank Account

In order to register for VAT, the company must first open a bank account.

- Obtain a trade license

Companies obtain a trade license from the City Corporation. The company has to file its application at the nearest City Corporation. The trade license filled-in application form must be accompanied by the following documents:

- A certified copy of the memorandum of association and articles of association
- A copy of the certificate of incorporation
- Tax Identification Number certificate
- The address and nature of business
- A copy of the lease agreement of the registered office
- 2 copies of Authorized Company Representative's NID or Passport

TAXATION

- Corporate tax

In Bangladesh, the tax structure for businesses entails distinct rates applicable to different types of entities and transactions. For corporate entities, the standard corporate income tax rate stands at 20%, with publicly listed companies subject to a slightly higher rate of 22.5%, while private companies face a rate of 27.5%. In the case of branch offices, the tax rate is 27.5% and an additional 20% tax is imposed on remitted profits. Moreover, capital gains tax, applicable to gains from the sale of assets, is levied at a rate of 15%. It is crucial for businesses to adhere to these tax regulations diligently to ensure compliance and avoid potential legal ramifications.

- Foreign tax relief

Under the tax provisions in Bangladesh, resident entities have the opportunity to claim a tax credit for income tax paid on foreign-source income, which can be offset against their domestic tax liability. The credit amount is determined by considering the lesser of two factors: the actual income tax paid abroad on the foreign-source income or the amount of tax that would be payable in Bangladesh on that same foreign income. This mechanism ensures that businesses operating internationally do not face double taxation on their foreign earnings, thereby promoting a fair and equitable taxation system.

Compliance for corporations:

Tax year: The standard tax year is 1 July to 30 June, except for banks, insurance companies and financial Institutions, which may use the calendar year as their income year. The tax authorities may allow a different financial year for a company that is a subsidiary or holding company of a parent company incorporated outside Bangladesh, or a branch or liaison office, where the foreign company is required to follow a different financial year for the purpose of consolidation of its accounts with the parent company.

Consolidated returns: Consolidated returns are not permitted, each entity must file a separate return.

Filing and payment: All resident companies and foreign companies with Bangladesh-source income are required to file an annual income tax return. This includes companies engaged in selling goods or rendering services through digital platforms to recipients in Bangladesh.

The tax return must be filed on or before the "tax day," i.e., by the 15th day of the seventh month following the end of the income year, or by 15 September following the end of the income year where the 15th day of the seventh month falls before 15 September. Advance tax must be paid quarterly, and any remaining tax due must be paid before the income tax return is filed.

ACCOUNTING STANDARDS

In Bangladesh, the Institute of Chartered Accountants has adopted Accounting Standards that are primarily based on Bangladesh Financial Reporting Standards (“BFRS”). These standards serve as the foundation for ensuring consistency, accuracy and transparency in financial reporting practices across various entities.

As per regulatory requirements, all public and private limited companies are obligated to file their financial statements annually. Adhering to these accounting principles and submitting comprehensive financial statements is crucial for promoting accountability, facilitating informed decision-making and fostering investor confidence.

By aligning with these established standards, companies can demonstrate their commitment to sound financial management and regulatory compliance, thereby contributing to the overall credibility and stability of the business environment in Bangladesh.



EMPLOYMENT AND LABOR LAWS



According to the 2006 Labor Act of Bangladesh, all employees are allowed to work for 8 hours in a single day. Workers in Bangladesh are allowed to complete up to 48 hours of work in a single week.

Overtime

In Bangladesh, there are certain rules regarding overtime. For instance, workers are allowed to complete up to 10 hours a day and up to 60 hours a week in overtime. When it comes to those working the night shift, every worker should be given a 24 hour break between each shift.

Wages

According to Bangladesh's Employee Rights and Labor Law, each worker's wage must be paid by the end of the seventh day after the final day on which payment is due. The same rules apply for those employees whose employment has been ended by the employer because of various reasons, such as retirement, removal, dismissal or retrenchment. It should be noted that a wage may mean a salary, bonus or remuneration for overtime or any other remuneration that is payable during the course of employment.

Employee Safety

Just like with any other country, one of the basic rights of any employee is workplace safety. For obvious reasons, keeping employees in a hazardous working environment will not only result in tragedy or loss of life of the employee but can also stifle the overall productivity of employees. To curb that, the Bangladesh government has made it mandatory for every employer to provide a safe and healthy work environment for their employees.

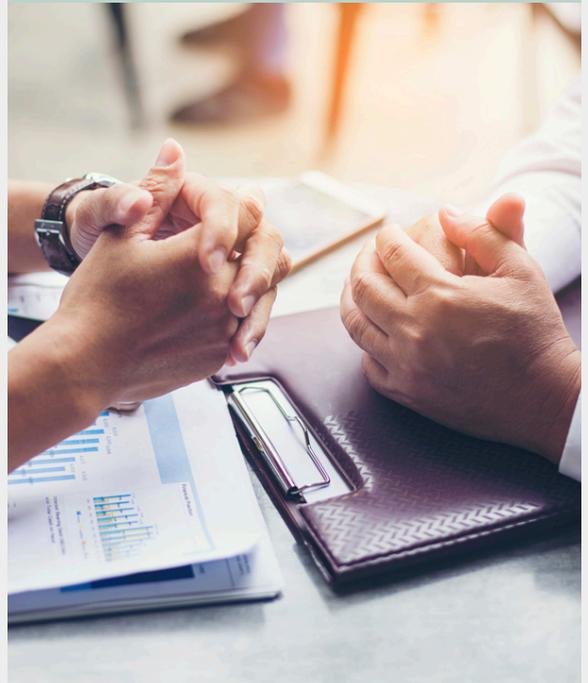
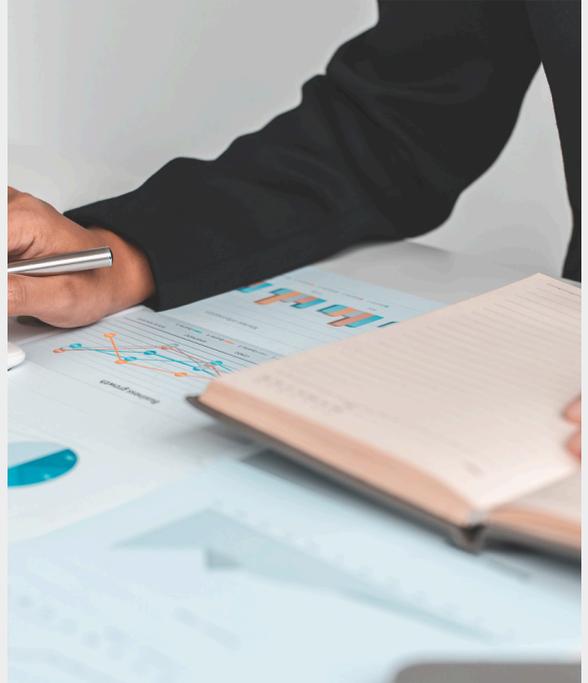


EMPLOYMENT POLICIES

Bangladesh has emerged as a favored destination for new business owners, entrepreneurs and large corporations seeking manufacturing opportunities abroad, largely due to its sizable and youthful population. With a significant proportion of the population below 30 years old, Bangladesh presents an appealing environment for business ventures.

Complying with the regulations set by federal labor laws is imperative for all employers setting up businesses in Bangladesh, focusing on aspects such as working hours, employment conditions, salaries, leave entitlements and health policies, among others. A thorough understanding of the diverse rules and regulations governing employee rights in Bangladesh is crucial for prospective employers looking to recruit a workforce in the country. The employment laws in Bangladesh are governed by the 2006 Labor Act and the 2015 Labor Rules, which apply universally to employees and laborers engaged in commercial or industrial enterprises.

In Bangladesh, a "Worker" denotes an employee or apprentice directly employed by an establishment or industry to fulfill specific tasks, regardless of their qualification, technical expertise, or clerical role. Therefore, understanding these fundamental legalities surrounding labor rights and obligations is crucial to promote a harmonious and legally compliant work environment for employers and employees alike in Bangladesh.



HOW WE CAN HELP?

- Our team of professionals conducts comprehensive market research to help businesses understand their target audience, industry trends, and potential competitors.
- Our experts help set clear objectives, outline actionable steps, and identify opportunities for growth and expansion.
- Our team conducts risk assessments to identify potential threats and vulnerabilities within a business. They can then recommend risk mitigation strategies to safeguard against adverse events.
- Our team offers advice on the optimal legal form for an enterprise, such as a corporation, partnership, limited liability company ("LLC") or sole proprietorship. Our team describes the legal and tax implications of each option and assists in picking the best option based on objectives and circumstances.
- Our team investigates and identifies any licenses, permissions or registrations required for the client's specific area or industry. The business assists with the application process and ensures that the organization complies with all legal criteria.



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