

INVESTMENT PROSPECTS IN BANGLADESH LEATHER SECTOR

Third Edition



Leather Goods And Footwear Manufacturers
& Exporters Association of Bangladesh



Investment Outlook

Bangladesh is attracting increasing interest from international investors as an emerging preferred low-cost manufacturing hub in Asia with a steadily growing economy, abundant, easy to train and affordable young labour force, preferential market access and strategic geo-economic location. Bangladesh offers exciting investment opportunities under its liberalized Industrial Policy and export-oriented private sector-led growth philosophy. Around 100 new economic zones (SEZ) are being offered to invest and setup factories. The international investment ratings highlight the growing attractiveness of Bangladesh as an investment destination for leather and footwear sector. Goldman Sachs listed Bangladesh as one of the "Next 11" countries that have the potential to grow by 700% over the next decade.

- **JETRO's preferred investment destination 2015:** Japanese firms operating in China rate Bangladesh THE SECOND BEST investment destination, where around 72% firms want to expand operations in Bangladesh.
- **Standard & Poor's and Moody's sovereign credit ratings:** Bangladesh received its credit ratings (BB- and Ba3) in 2010 (reconfirmed in April 2011). Moody's rating puts Bangladesh at par with Vietnam.
- **JP Morgan's Frontier Five:** Bangladesh has been listed in 2007, similar to Vietnam as one of the five countries that have impressive economic and investment potential.



Why Bangladesh?

- Bangladesh offers a perfect sourcing diversification opportunity for manufacturing mostly over dependent on China.
- A young, industrious, affordable workforce growing by roughly 2 million annually.
- Proven volume and quality export capability demonstrated by Bangladesh's position as the world's 2nd largest producer of apparels after China.
- Preferential market access to EU, Canada, Australia and Japan.
- Investment friendly regulation: Bangladesh offers some of the world's most competitive fiscal and non-fiscal investment incentives and the most liberal FDI regime in South Asia, allowing 100% foreign equity with unrestricted exit policy, easy remittance of royalty, and repatriation of profits and incomes.
- Growing middle class purchasing power: with improving education, health and human development indicators, Bangladesh's own market of 160 million people is becoming lucrative to business and foreign investors.
- Bangladesh is one of the top 10 remittance earning countries in the world, with flow backs of more than USD 15 billion per year from Bangladeshis working abroad.

WHY INVEST IN LEATHER FOOTWEAR AND LEATHER GOODS SECTOR?

- Bangladesh has a large domestic raw material base and strongly moved towards environmentally sustainable production of processed rawhide and leather products.
- Availability of a young, skilled and semi-skilled labour force and qualified leather technologists.
- International brands like ABC Mart, Adidas, Aldo, Esprit, Hugo Boss, H&M, Kate Spade, K-Mart, Michael Kors, Marks & Spencer, Nike, Steve Madden, Sears, Timber Land, etc. are sourcing leather goods and footwear from Bangladesh.
- Can utilize tariff-free access to the European Union (through EU's Generalized System of Preferences, GSP), Canada, Australia and Japan. Bangladesh also enjoys DFQF in major Asian market such as China, Turkey, and in some Latin American Countries.
- Emerging as a sourcing hub for leather goods and footwear.
- Giant leather export countries such as China, are shifting their production units in Bangladesh due to increasing production cost.
- Almost 90% value addition is possible.
- Government is establishing a state-of-the-art DESIGN & TECHNOLOGY CENTER.
- Bangladesh leather sector aspires to be the next apparel (RMG) industry for Bangladesh, which is the world's second largest apparel producer.

Bangladesh Leather Industry

OVERVIEW

Bangladesh leather industry is well established and ranked second in terms of export earnings. Because of its high value addition, huge growth and employment opportunities, leather sector has already been declared a top priority sector. Recent innovation has widened the scope to produce footwear in combination with leather and other locally sourced natural fibers, like jute.

Bangladesh accounts for 3% share in the global leather and products market. Almost 60% of its annual output is being exported. The export of leather and leather products increased manifold over the past decades. The compound annual export earnings crossed billion dollar mark in the year of 2013-2014.

The composition of leather and leather goods from Bangladesh underwent a structural change. Whereas in 2008, 62% of all export earnings from the sector came from finished leather, by FY'2017-18, this proportion came down to 16.86% and Bangladesh is rapidly moving towards production of diversified finished products.

The growth of the footwear industry has increased from 36.64% of total sectorial export earnings in FY'2007-08 to 60.90% in FY'2017-18. Keeping pace with the global trends, Bangladesh is now moving into sportswear, footwear made of other fiber mix (e.g. Jute).

Because of sustained growth performance and its increasing competitiveness in producing quality products a number of big foreign companies like TBS Group of Vietnam and Farida Group of India have shown interest in establishing footwear units in Bangladesh.

A SNAPSHOT OF BANGLADESH LEATHER INDUSTRY

- Tanning & Finishing
- Footwear & Footwear Components
- Leather Accessories
- Leather Goods (bags, wallets, belts, accessories, etc.)

STRATEGIC LOCATION OF BANGLADESH

Bangladesh is located at a strategic position which has border between India and Myanmar and can easily be connected to China that gives Dhaka strategic edge to access EU as well as ASEAN market.

Bangladesh Leather Sector: Some Pointers

- Bangladesh has a long established tanning industry which produces around 1.13 % of the world's leather from a local supply of raw materials.
- The leather sector includes 200 tanneries, 3,500 MSMEs footwear making units and 90 large firms.
- Bangladesh meets the demand for about 10% of the world's total leather market.
- The sector generates direct and indirect employment for about 850,000 people, 60% of the workforce are women in the leather products industries.
- Strong environmental regulations within the country. Bold industry initiatives in order to improve consumer safety and compliance standards.
- Media, civil society and regulators are vigilant to ensure occupational safety and work environment.
- Promising Foreign Direct Investment and quick technology adoption
- Enormous potential for future growth (domestic as well as export).
- Aims to reach USD 5 billion annual export by next 5 years.

ESTIMATED LIVESTOCK POPULATION

ITEM	CAPACITY
Livestock Population Bovine	25.52 million heads
Livestock Population Ovine	29.47 million heads

Source: Bangladesh Livestock Research Institute, up to February 2018

ESTIMATED ANNUAL PRODUCTION OF RAW MATERIALS

(Values in million square feet)

PRODUCTION	YEAR		
	2013	2014	2015
Bovine hides and skins	107.7	100.11	109.9
Goat Skin and Kids	106.6	107.2	114.2

Source: World statistical compendium for raw hides and skins, leather and leather footwear 1999-2015, FAO

ESTIMATED ANNUAL PRODUCTION OF FINISHED PRODUCTS

ITEM	AMOUNT	YEAR
Leather Footwear	364.5 million pairs	2013
Leather Belt	1.7 billion units	2013
Leather Bag	80.22 million pieces	2012
Small Leather Goods	3.1 billion pieces	2013

Source: Baseline Study Report on Leather Goods and Footwear Industries in Bangladesh 2015

ESTIMATED EXPORT OF LFMEAB MEMBERS

ITEM	EXPORT VOLUME
Leather Footwear	12.55 million pairs
Espadrilles	6.10 million pairs
Leather goods	3.73 million pieces

Source: KRC, LFMEAB (Based on FY'2017-18 data)



Strengths of Bangladesh Leather Sector

- Bangladesh annually produces 300 million sqft of quality bovine, ovine and caprine leathers. It has international reputation for high quality of fine grain, uniform fiber structure, and natural texture, which mostly comes from domestic farming.
- Goatskins are of globally recognized exceptional quality (special quality of cow calf/goat).
- 33.26% Average annual average export growth rate of leather goods and footwear over the last 4 years.
- Abundant labor force and competitive labor cost.
- Tariff and quota free access to the European Union (GSP), Canada, Australia and Japan.
- Shipment facilities-both by frequently available air and large seaport.
- Preferred sourcing hub for renowned International brands.

Emerging Strengths of The Industry

- A sustainable 205 industrial units Tannery Estate has been developed with CETP & STP.
- Increasing production of eco-friendly leather.
- Design development initiatives by institutions.
- Continuous modernization and technology upgrades in production process.
- Increased linkage industries – packing, lasts, adhesives, outsoles etc.
- Constant human resource development program to enhance productivity.
- Promoting EZ and SEZ to attract and facilitate foreign investment.
- Increasing use of quality components.
- Quality and Compliance test from internationally accredited institutes.
- Nearly 10 million urban populations have annual incomes well in excess of \$10,000 offering a sizable market for a wide range of goods and services.

Government Support Policies

- Government has identified leather as a top priority sector for export to exploit country's full potentials in this sector.
- Duty free import of all type of raw materials and machineries.
- Support in the form of cash incentives, bonded warehousing along with other policy supports.
- 90% loans against letters of credit and funds for export promotion.
- Export credit guarantee scheme.
- Export Development Fund (EDF).
- Green Transformation Fund (GTF).
- Domestic market sales of up to 20% is allowed to export oriented business located outside of EZ.

BANGLADESH'S EXPORT OF LEATHER AND LEATHER PRODUCTS

(Values in Million US\$)

Category	2014-2015	2015-16	2016-2017	2017-18
Leather	397.54	277.9	232.61	183.1
Leather products	249.16	388.22	464.43	336.81
Footwear	673.27	714.01	777.84	809.69
Total (leather & products)	1319.97	1380.13	1474.88	1329.6
Growth	5.16%	10.92%	5.45%	-10.53%

Source: Export Promotion Bureau

MAJOR IMPORTING COUNTRIES OF BANGLADESHI LEATHER AND LEATHER PRODUCTS & FOOTWEAR

The European Union (EU) is the biggest destination for footwear exports accounting approximately 55.4% share followed by Japan with 30%.

(Value in million US\$)

Country	2015-2016	2016-2017	2017-2018
Germany	127.52	143.47	109.96
China	230.38	240.62	76.56
Japan	141.42	115.89	129.25
U.S.A	122.77	148.69	157.38
Spain	77.93	85.90	104.21
Italy	70.94	65.53	56.98
France	38.13	43.63	42.79
UK	25.65	25.63	31.64
UAE	117.01	91.11	12.09

Source: Export Promotion Bureau

BANGLADESH IMPORT OF BOVINE & OVINE LEATHER

Category	Quantity in 2015
Imports of light leather from bovine animals	83 million square feet
Imports of light leather from sheep and goats	1.4 million square feet
Total	84.4 million Square feet

Source: World Statistical Compendium for raw hides and skins, leather and leather footwear 1993-2012, FAO.



Bangladesh: Open And Attractive Investment Destination

Bangladesh is set to establish itself as the next rising star in South Asia for foreign investment. It is a cost competitive investment destination in several respects. Firstly, it offers a young, industrious workforce with competitive wages in the region. Secondly, industrial estates, offices and housing for foreigners in the country are cheaper than other South and South East Asian countries. Thirdly, Bangladesh enjoys tariff-free access to the European Union (through EU's Generalized System of Preferences, GSP), Canada, Australia and Japan. Fourthly, it has strong competitiveness that can be illustrated as follows:

- Bangladesh offers some of the world's most competitive fiscal and non-fiscal investment incentives.
- Bangladesh offers the most liberal FDI regime in South Asia, allowing 100% foreign equity with unrestricted exit policy, easy remittance of royalty, and repatriation of profits and incomes.
- Bangladesh offers export-oriented industrial enclaves, Export Processing Zones (EZ) with 10 years tax holiday and a host of benefits for the foreign investors.



Investment Policy of Bangladesh Government Investment Guarantee

- The Foreign Private Investment (Promotion and Protection Act 1980) and bilateral investment treaties ensure the protection of investment from expropriation in Bangladesh.
- OPIC's (Overseas Investment Corporation, USA) insurance and finance programmes are functional.
- Security and safeguards available under Multilateral Investment Guarantee Agency (MIGA) of which Bangladesh is a member.
- Arbitration facility of the International Center for the Settlement of Investment Dispute (ICSID) is available.
- The equity brought in is allowed to be repatriated from the country with the dividend earned.



The First Point of Contact

Bangladesh Investment Development Authority (BIDA)

The first point of contact in Bangladesh for a foreign investor is usually the Bangladesh Investment Development Authority (BIDA), which provides information on the investment opportunities in Bangladesh and the incentive packages on offer. Other services are:

- Assistance can be obtained in completing application forms and referring investors to the relevant departments within the BIDA.
- If the investor is to locate in an export processing zone then BIDA will introduce the company to the Bangladesh Export Processing Zones Authority, who will facilitate the early start up processes.
- Information is provided on the types of companies that can be formed, the general costs of doing business in Bangladesh, how to obtain the necessary work permits for staff, remitting funds to Bangladesh, and so on.

Registration with BIDA can be managed electronically through the BIDA Online Registration process (<http://bida.gov.bd>.)



A FOREIGN COMPANY PLANNING TO SET UP BUSINESS OPERATIONS IN BANGLADESH HAS THE FOLLOWING OPTIONS:

AS AN INCORPORATED ENTITY

Business in Bangladesh can be carried out by a company formed and incorporated locally or by a company incorporated abroad but registered in Bangladesh. Companies may be private or public limited companies or unlimited companies. In establishing a site of business of a foreign company, the company has to be registered with the Joint Stock Companies and Firms (RJSC&F) as the place of business. Incorporation options to a foreign investor include

- 100% foreign-owned company in Bangladesh
- Joint Venture: Establishing the Company's Place of Business in Bangladesh

AS AN UNINCORPORATED ENTITY

- Branch office
- Liaison/Representative office
- Project office



Company Formation Procedure

To register a company with the Registrar of Joint Stock Companies and Firms (RJSCF), promoter has to undertake activities in following steps:

- Step 1: Selection of the Company Name;
- Step 2: Memorandum of Association (MOA);
- Step 3: Articles of Association (AOA);
- Step 4: Registration Application, Prescribed Application Form for registration has to be filled in, signed and submitted to the Registrar of the Joint Stock Companies and Firms

OPENING BRANCH/ LIAISON OFFICE

To open or extend a branch/liaison representative office of a foreign company, the company has to apply to the BIDA. Prescribed application form has to be collected from BIDA Office or downloaded from BIDA website www.bida.gov.bd. In addition, the investor has to submit:

- The board resolution for opening such office in Bangladesh
- Certified copy of Memorandum and Articles of Association and Certificate of Incorporation
- Particulars of Board of Directors
- Audit report
- All the documents must be attested by Bangladesh Embassy/High Commission/Consulate Office in the investor's country of origin





SETTING UP JOINT VENTURE

Any individual entrepreneur either local or foreign can set up an industry with Public Sector Corporation. Such a joint venture is required to be registered with the BIDA if the private sectors contribution is more than 50% of the project cost and in such case it is treated as private sector project. For any public sector that makes a contribution of their own fund, require approval of the concerned ministry. If the contribution of the corporation is 50% or above, it is treated as a public sector project. The public sector project is processed by the concerned Ministry for approval of the Planning Commission.

OBTAINING INDUSTRIAL PLOT

Entrepreneurs requiring industrial plot for setting up industry in any industrial areas/estates apart from SEZ and BSCIC, may apply to BIDA.

SEZ/EZ: SPECIAL ECONOMIC ZONES

Economic Zones (EZs) are export oriented and industrial enclaves which provide the infrastructures, facilities, administrative and support services for a wide variety of enterprises. Bangladesh's highly successful EZs in Dhaka and Chittagong are now complemented by 100 new SEZ developments and other valuable real estate developments around the country. Korean investors have developed a private EZ in Chittagong. Investments that are 100% foreign-owned, joint ventures and 100% Bangladeshi-owned companies are all permitted to operate and enjoy equal treatment in the EZs.



INCENTIVES OFFERED TO THE EZ

- Ten year corporate income tax holiday and a 25% tax rate for a further 10 years thereafter.
- 10 years withholding tax holiday on dividends and other remittances to non-resident parties.
- Perpetual exemption from VAT and customs import duty on inputs.
- Perpetual exemption from payment of stamp duty on legal instruments.
- 100% investment deduction on new investment in EZ buildings and machinery, applicable over 20 years.
- Operation under essentially one license issued by SEZ.
- Rapid Project approval and licensing within 30 days (with exception of projects requiring environmental license from National Environmental Management Agency).
- No Exchange Controls –liberalized foreign exchange regime and easy repatriation of capital and profits, access to foreign currency accounts, domestic and offshore borrowing.
- At Special Economic Zone Investor Support Division assists new companies and provide help and advice in the areas of staff recruitment, labour regulations, work permits, import-export logistics, application for utility connections, and registration with tax authorities etc.
- All zones are built to exacting international standards and provide facilities suited to export production.
- Serviced land and ready factory buildings are available for sale or lease to licensed EZ companies. Water, sewerage, electricity, all weather roads and an illuminated perimeter fence or wall are standard requirement for zones.
- Relief from double taxation.
- Relocation of foreign industries allowed.
- Non-resident foreign currency deposit (NFCD) account permitted.

For more information, please visit Bangladesh Economic Zones Authority (BEZA)
Website: www.beza.gov.bd





About LFMEAB

The Leathersgoods And Footwear Manufacturers & Exporters Association of Bangladesh (LFMEAB) presently consisting of export-oriented factories, is the recognized trade body that represents most of the major export oriented manufacturers and exporters of leather goods and footwear in Bangladesh. It was set up in 2003 with a vision to promote and protect the interests of the industry & its members, encourage cooperation and safeguard the interests of industry both locally and globally.





LFMEAB IS WORKING TO

Encourage co-operation amongst the members and provides them a platform to have local and international exposure.

- Promote investments and strategic alliances.
- Disseminate market information, trends and policy implications.
- Facilitate participation in specialized trade fairs and buyer-seller meets in Bangladesh and abroad.
- Serve as a bridge between the government and the industry members, while focusing on the overall health and growth of the Bangladesh Leather Industry.

Bangladesh Leather Industry Vision- 2021

Keeping in view the stellar performance, global market trends, industry's inherent strength to seize the opportunity and the projected growth prospects, Bangladesh leather industry aims to augment the production and accelerate export growth to USD 5 billion within 5 years.



FOR FURTHER INQUIRIES

Leathergoods And Footwear
Manufacturers & Exporters
Association of Bangladesh
(LFMEAB)
<http://www.lfmeab.org>

Centre of Excellence
for Leather Skill
Bangladesh Limited
(COEL)
<http://www.coelbd.com>

Leather Bangladesh
<http://www.leatherbangladesh.org>

Ministry of Commerce,
Bangladesh
<http://www.mincom.gov.bd/>

Bangladesh Investment
Development Authority
(BIDA), Bangladesh
<http://bida.gov.bd>

Bangladesh Economic Zones
Authority (BEZA)
<http://www.beza.gov.bd/>

Bangladesh Export
Processing Zone Authority (EPZ)
www.bepza.gov.bd

Leather Sector Business Promotion
Council (LSBPC)
http://bpc.org.bd/lspbpc_home.php

Ministry of Industries,
Bangladesh
<http://www.moind.gov.bd/>

Business Initiative Leading
Development (BUILD),
Bangladesh
<http://www.buildbd.org/>

Ministry of Labour and Employment,
Bangladesh
<http://www.mole.gov.bd/>

Export Promotion Bureau,
Bangladesh
<http://www.epb.gov.bd>

LEATHERGOODS AND FOOTWEAR MANUFACTURERS & EXPORTERS ASSOCIATION OF BANGLADESH (LFMEAB)

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