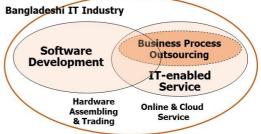# Information Technology Industry

Outline and Potential of Bangladeshi IT Industry

IT industry in Bangladesh is well represented by software development and IT-enabled service (ITES) including business process outsourcing (BPO) service, and these services are recognized as one of promising export-potential industries in Bangladesh, supported by the availability of cost-competitive, English-proficient and young workforce as well as increasingly reliable communication and power infrastructure.

The industry generated an estimated annual revenue of USD 1.0 billion in 2017, forecasted to grow to USD 4.7 billion by 2025 (Everest Group 2017). Export earnings also increase steadily to reach USD 200 million in FY2016-17 (BASIS). Industry's revenue is generated largely by software development and ITES. ITES including BPO contributes to more than half of the overall revenue (BASIS).

Over 1,500 IT firms are thriving in Bangladesh, and can be categorized into three groups largely, those specialized into customized software and application development (55%) and ITES/ BPO (17%), and those having multi-functions (34%), according to ICT Industry White Paper 2017. Over 400 IT firms currently export to over 60 countries, with USA and UK being the major destinations.

Export potentials will be further tapped by the increasing global spending on IT, that is projected to grow at a rate of 8% for enterprise software and 5% for ITES between 2018 and 2020 (Gartner Inc., USA). An US based consultancy reported in 2017 that Bangladesh would secure 21st place in Global Service Location Index, implying a readiness to further attract global contracts of software development and BPO, and foreign investments for offshore development and captive BPO center.
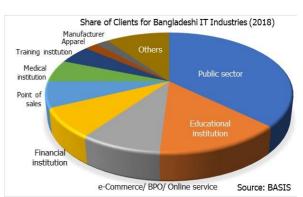

Global Services Location Index 2018 (Asia Pacific)

Source: A.T. Kearney

ITES stands for outsourcing of any business processes involving internet and information technologies, and covers the following areas usually; back-office and front-office business processes, e-commerce and marketing, supply-chain management, and graphic design including image processing, web design and content management.

Position of Bangladeshi IT Industry

Majority of current clients for Bangladeshi IT firms are public sector, followed by local education and financial institutions. Contracts from overseas clients remain smaller compared to local ones. Bangladeshi IT firms are able to cover a range of software development services with the following major lines of service domain (from the catalogue book of BASIS):
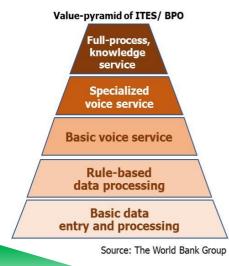

Share of Clients for Bangladeshi IT Industries (2018)
Source: BASIS

- Software for accounting, financial, personnel, payroll, customer relation, sales (POS), transaction, inventory management
- Application system for banking, tele-communication, media industries, education and medical institutions
- Integrated business application inc. enterprise resource planning
- Mobile application
- Solution system for e-commerce, e-governance, e-learning

Bangladeshi firms currently concentrate in semi-skilled segments

Value-pyramid of ITES/ BPO
Source: The World Bank Group

ITES/ BPO can be broadly classified according to the level of skills required to perform. Most of Bangladeshi ITES providers operate in semi-skilled segments from basic data entry and processing to rule-based data processing, leveraging its cost-competitiveness of workforce. Accordingly, bulk of ITES/ BPO industry's revenues and export earnings are generated from basic and rule-based data processing. In recent year, however, Bangladesh has begun exporting basic voice services.

In Bangladesh, outsourcing of 1) basic data processing, involving uncomplicated data enrollment into database, data conversion, image processing and graphic/ web design, 2) rule-based data processing with decision-making support according to the rule and guidelines such as accounting, invoicing and similar back-office processes, and 3) call center business, have been popular and flourishing.

Promising Points of Bangladeshi IT Industry

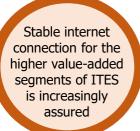### Abundance of young and trainable workforce

Software development and ITES are regarded as labor-intensive segment of industry and would benefit from the better-educated and IT-literate younger workforce. Bangladesh, where about half of the population is below 25 years old, is bestowed in this regard, since a number of talented but competitive youth constantly join the workforce.

According to an estimate by the Everest Group, graduates of approximately 16,000 with IT-related and 126,000 with business-related degrees enter labor market during 2016-17.

Lower cost of operation

Bangladesh is one of the lowest-cost locations for IT service operation among the peer countries. A research of the Everest Group shows that total operating costs (including salary and benefit for workers) in Dhaka is 16-20% less expensive than Bangalore and 30% so than Cebu. The difference primarily attributes to the lower cost of compensation and living. This would be further lower if located in regions, i.e. other than Dhaka.

Stable internet connection for the higher value-added segments of ITES is increasingly assured
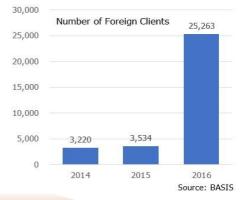
Development of infrastructure

Infrastructures, power and tele-communication necessary for growing Bangladeshi IT industry, have been largely improved in recent years, so that uninterrupted internet connection with low latency and high bandwidth is increasingly assured to compete in the global market, particularly for the higher value-added segments of ITES/ BPO service.

Increase of foreign clients

Software development and ITES/ BPO firms in Bangladesh have experienced a rapid increase of foreign clients since 2016, reaching to more than 25,000 clients. This incremental trend of contract with foreign parties would be a foundation of the subsequent foreign investment for offshore development and captive BPO center.

Number of Foreign Clients

2014	2015	2016
3,220	3,534	25,263

Source: BASIS

Investment Opportunity

Bangladeshi IT industry (software development, and ITES including BPO), being held with the high growth potential both in export and domestic market, is a promising destination of investment. This is evidenced by:

- Growing market and recent multinationals' investments for offshore development hub
- Cost-competitiveness of talented young workforce
- Government's strong commitment for the sector promotion

Offshore Development Hub and Captive BPO Centers: Bangladesh is another attractive place for the multinationals and foreign industries for the establishment of their offshore development hub (for software and application) and captive BPO centers (including call centers). Such investments are expected to provide not only significant opportunities for employment creation, but also critical spillovers to local IT service providers (business linkage through local subcontract), as experienced by the Philippines and India.

Experiences from ITES/ BPO value-chain development in the Philippines and India suggest that local service providers could gain deeper knowledge of higher-skilled segments of ITES/ BPO such as basic and specialized voice services through working closely with multinationals' captive BPO centers. Thus, local providers could move up the ladder of value-pyramid of ITES/ BPO business.

Samsung inaugurated its **R&D hub** in 2011 for mobile app development, verification and testing. BASIS also reported that other IT multinationals were exploring the similar possibility, and that at least 30 foreign companies established joint ventures in Dhaka to provide offshore development service in recent years (BASIS, Annual Report 2017).

> ITES/ BPO sector needs multinational's captive BPO center to move up its value-pyramid

IT Training, Vocational School Business: Opportunities for Bangladeshi youth to acquire advanced and basic IT skills can be extended through private investments to vocational and training institutions specialized in IT engineering, and business management and graphic design. Such investments are deemed valuable, since there could be many potential students interested in working for IT business, and computer engineers intending to equip more advanced skills.

Standards Accreditation Business: Smaller BPO firms do not have international certifications for IT-related standards (on software development process, internal control over contracted service, information security management). This is because the certification is costly, as local auditors are not readily available for most standards certification.

"Digital Bangladesh" and ICT Policy

Bangladeshi government has endorsed development of IT sector with the strong impetus through "Digital Bangladesh" movement and ICT Policy. "Digital Bangladesh", being an integral part of the government's Vision 2021, envisions nation-wide IT usage for economic and social development purposes.

The government also formulated ICT Policy 2009 and periodically revised to 2018, which sets the latest policy framework to realize Digital Bangladesh agenda. ICT Policy addresses all the necessary measures for the development of IT business, investment, export, productivity, skills, infrastructure, legal framework, and for improving access to finance by IT industries. In 2011, the Ministry of Information and Communication Technology, currently known as ICT Division, was established to spearhead ICT policy implementation.

Regulations related to IT Industry

There is a law concerning ICT, called as ICT Act 2013 (amended from 2006 Act). In addition, a number of Statutory Regulatory Orders (SRO) concerning IT industry have been issued from time to time. These can be accessible through the website of the Bangladesh Association of Software and Information Service (BASIS).

Sector-specific Investment Incentive and Restriction

Incentive:	Seven-year full Corporate Income Tax (CIT) exemption until 2024 Access to Equity Entrepreneurship Fund (managed by the Bangladesh Bank) to support equity provision Access to 10% cash incentive (since July 2017) (only for exporters) Other generally applicable regime are as specified in the last page.
Restriction:	No specific restriction exist upon the entry of foreign investors.

Industry Association and Supporting Institution

Association of Software and Information Service (BASIS)	A trade body for software and ITES/ BPO business, engaged in market development, capacity building for skill training and resource sharing, and membership services, policy advocacy.
BASIS Institute of Technology and Management (BITM)	Inaugurated by BASIS in July 2012 to provide a range of training and learning opportunities (both long- and short-term) to university graduates, existing IT workers, etc.
Association of Call Center & Outsourcing (BACCO)	A trade body for BPO and call center industries, engaged in advocacy for industry growth and job creation.

Hi-tech Parks

Bangladesh Hi-tech Park Authority (BHTPA) was established in 2010 to establish and operate high-tech parks across the country, and accommodate both local

and foreign IT firms to these parks for promoting IT-hubs. BHTPA has the plan to establish 28 high-tech parks in total and has already established the following parks.

Kaliakoir Hi-tech Park, Gazipur

- Also known as Bangabandhu Hi-tech City with total land area of 355 acres, located at Kaliakoir Upazila in Gazipur District (25 km from Shajalal International Airport km and 40 km north from Dhaka City)
- Equipped with factory building, admin./ service building, Data Centre
- Developed as a world class high-tech industry zone to accommodate foreign investors

Janata Tower Software Park, Dhaka

- Twelve-storied multi-tenant building with total space of 72,000 sft., located at Karwan Bazar, Dhaka (25 km from Shajalal International Airport)
- Equipped with fully backed-up power supply, high-speed fiber optic internet connection
- Attached with training and conference facilities, 24 hours management service

Sheikh Hasina Software Park, Jessore

- Fifteen-storied multi-tenant building with total space of 232,000 sft., located at Sador Upazila in Jessore District (8 km from Jessore Airport)
- Equipped with dormitory for workers

Source: Brief on Hi-tech Parks, Bangladesh Hi-tech Park Authority (as of March 2019).

Investment Incentive available at Hi-tech Parks

- Ten-years Corporate Income Tax (CIT) exemption (for IT/ ITES firms)
- Import duty exemption on capital equipment (2% of on ICT-related hardware), construction materials
- Tax exemption on dividend, share transfer, royalty, technical assistance fees
- Three-years Personal Income Tax exemption for expatriates
- VAT exemption on local bills during production
- Stamp duty exemption on mortgage deed registration
- Access to bonded warehousing facility

* The above may be subject to revision upon annually enacted Finance Act and individual regulations.

Bangladesh Investment Development Authority
"BIDA is Your Gateway to Investment in Bangladesh"

BIDA

BIDA undertakes the functions of investment promotion and facilitation, and policy advocacy in accordance to the Industry Policy and provides inquiry/ consultation/ licensing facilitation services to the investors outside the jurisdiction of other investment authorities (BEZA, BEPZA, High-tech Park Authority). Those investors registering with BIDA for their investment projects are able to benefit from the following key incentives and privileges:

Category	Notes
Tax holiday	- Phased Corporate Income Tax (CIT) exemption for 26 designated sectors/ products (effective since July 2019), depending on location of factories - Phased CIT exemption for private IPPs (which construct powerhouse after June 2016) and full CIT/ capital gain tax exemption for PPP projects - Full CIT exemption for ICT/ software industry
Tax rebate	Applicable for manufacturing industries of which factories i) are located, ii) move, iii) have already operated, outside Dhaka City
Import duty exemption	- On capital machinery/ spares - VAT exemption for imported capital machinery/ spares
Other tax exemption	- On interest payable on foreign loans - On royalty/ technical license fees obtained from foreign company/ expert - On personal income tax for foreign technician - One capital gain from the transfer of shares of listed public companies
Non-tax incentives	- Accelerated depreciation for newly established industries in lieu of tax holiday on their factory, machinery and plant

* The above may be subject to revision upon annually enacted Finance Act and individual regulations. Export-oriented industries regardless of their locations can benefit from additional privileges and facilities.

Bangladesh Economic Zones Authority
"BEZA is a smart way for business in Bangladesh"

BANGLADESH ECONOMIC ZONES AUTHORITY

BEZA develops and manages economic zones in view of generating more spillover effects of investment for industrialization of Bangladesh. Currently a number of economic zones are being developed throughout nation to cater for investment needs of both foreign and local investors, utilizing a variety of development schemes including BEZA's own initiative, private initiative, public-private-partnership and bilateral agreement with foreign government. The investors tenanted in economic zones are able to benefit from the following key incentives and privileges:

Fiscal incentive	- Phased Corporate Income Tax (CIT) exemption for 10 years - VAT exemption for imported machinery/ construction material, and utility expense - Duty exemption for imported vehicle - Duty exemption for import/ export of goods/ materials with bonded warehouse facility - Personal Income Tax exemption for expatriate salary - Tax exemption for dividend/ royalty and technical license fees, etc. - Exemption of local government tax/ land development tax - Exemption from registration fee on land transfer/ loan document, stamp duty on loan document/ lease of land and space
Non-fiscal incentive	A variety of privileges and facilities are available. (see the website of BEZA: http://www.beza.gov.bd/)

* The above may be subject to revision upon annually enacted Finance Act and individual regulations.