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Bangladesh Systematic Country Diagnostic 2021 Update

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WORLD BANK GROUP

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Abbreviations

BBIN	Bangladesh Bhutan, India, and Nepal	LDC	least-developed country
BDP	Bangladesh Delta Plan	LMIC	lower middle-income country
BSEC	Bangladesh Security and Exchange Commission	MSMEs	micro, small, and medium-sized enterprises
CO ₂	carbon dioxide	MtCO ₂ e	metric tons of carbon dioxide equivalent
COP26	26th Conference of Parties	NGOs	nongovernmental organizations
COVID-19	coronavirus disease 2019	NPLs	nonperforming loans
EBA	Enabling the Business of Agriculture	NPR	nominal protection rate
eGP	electronic government procurement	PEFA	Public Expenditure and Financial Accountability Assessment
FAT	Firm-level Adoption of Technology	PFM	public financial management
FDI	foreign direct investment	PIM	public investment management
FERA	Foreign Exchange Regulation Act	PM _{2.5}	particles 2.5 microns or less in diameter
FY	fiscal year	PPPs	public-private partnerships
GBV	gender-based violence	RISE	Resilience-Inclusivity-Sustainability-Efficiency
GDP	gross domestic product	RMG	readymade garment
GoB	Government of Bangladesh	SCD	Systematic Country Diagnostic
G2B	government-to-business	SOEs	state-owned enterprises
G2P	government-to-person	STEM	science, technology, engineering, and mathematics
GVCs	global value chains	T&D	transmission and distribution
HIES	Household Income and Expenditure Survey	UN	United Nations
ICT	information and communications technology	UMIC	upper middle-income country
IFRS	International Financial Reporting Standards	VAT	value-added tax
IORA	Indian Ocean Rim Association	WASH	water, sanitation, and hygiene
IT	information technology	WSS	water supply and sanitation

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Executive Summary

This World Bank Group Systematic Country Diagnostic (SCD) 2021 Update presents a diagnostic of Bangladesh's growth and poverty reduction since the previous diagnostic in 2015. It identifies emerging opportunities and challenges for the next decade as the country recovers from the COVID-19 pandemic, graduates from least-developed-country (LDC) status, and aspires to become an upper middle-income country (UMIC) by 2031.

From being one of the poorest countries in the world, affected by frequent natural disasters and famines, Bangladesh rose to become a lower middle-income country in FY2016. Bangladesh has shown an impressive record of steady economic growth, poverty reduction, and improved human development. The rapid growth of readymade garment (RMG) exports, which expanded jobs and labor income, together with overseas remittances, contributed to substantial improvements in food security and living conditions for the Bangladeshi people.

During the past 10 years, until the onset of the COVID-19 pandemic in 2020, Bangladesh continued a positive trend of steady economic growth and poverty reduction. Between 2010 and 2019, the economy grew, on average, 6.9 percent per year in real terms. The national upper poverty rate declined from 31.5 percent in 2010 to 24.5 percent in 2016. This process was accompanied by rapid structural transformation and urbanization.

While Bangladesh's main trends have remained positive over the past decade, new developments in the country's growth and poverty reduction path have emerged. The pace of poverty reduction declined as job creation slowed; spatial disparities expanded, with the pace of poverty reduction varying across the country; the COVID-19 crisis reversed the trends of both growth and progress in development outcomes; and the country's economic and climate vulnerabilities increased.

Looking ahead, Bangladesh has many opportunities to accelerate growth as it aspires to become an upper middle-income (UMIC) country. Reaching the per capita income required to upgrade to UMIC status in 10 years will require efforts to scale up investment, strengthen human capital, and boost productivity. Bangladesh is expected to graduate from LDC status in 2026. With the forthcoming LDC graduation, the country will need a new level of structural transformation to boost export-led growth and job creation. Bangladesh urgently needs to act on its jobs agenda by capturing job-creating opportunities. The rapid advancement of digital technology and the deepening of global value chains provide new opportunities for Bangladesh. There are also untapped gains from regional integration, particularly among Bangladesh, Bhutan, India, and Nepal. A faster growth path should include addressing climate vulnerabilities and environmental sustainability.

This SCD Update identifies four frontier challenges that, if tackled properly, can enable the country to accelerate its transition to a UMIC level of development.

- ***First, Bangladesh's narrow-based private sector is not competitive to drive growth and job creation.*** Only a few large firms, including conglomerates, drive formal sector markets. Such firms remain mostly inward looking and benefit from rents from protected domestic markets and RMG exports under special incentive programs, and from being supported by close links with the banking sector. Technology adoption among Bangladeshi firms is slow, flows of foreign direct investment remain low, and Bangladesh has the lowest new business density among its peers. Lack of a broad-based private sector is also constraining export diversification with RMG products occupying 85 percent of the country's export basket. Crop diversification in agriculture has been limited, hindering agricultural productivity growth.

- ***Second, the pattern of spatial transformation is inefficient, unsustainable, and less inclusive.*** The current urbanization process is creating significant negative externalities from environmental degradation and congestion, such as decreased productivity and inclusivity, and has resulted in a rising number of urban poor. Increasing urban environmental degradation exacerbates the poor quality of life and health conditions in urban areas. The recent increase in spatial welfare disparities across the country, such as access to quality education, health, and other basic services, highlights the country's challenges in managing the country's overall spatial transformation. For example, limited internal connectivity continues to constrain spatially equitable growth, as does limited land space, which is a major physical constraint for growth. Further, the weak capacity of local governments makes it more difficult to achieve efficient, inclusive, and sustainable spatial transformation.
- ***Third, climate and environmental vulnerabilities pose serious risks to sustainable growth and poverty reduction.*** Bangladesh is one of the world's most vulnerable countries to climate risks. Adapting to climate change remains a serious challenge to the country's development, especially in terms of managing its delta environment, which makes it particularly vulnerable to sea-level rise. Climate change poses a serious threat to the country's agricultural productivity growth. In addition, the rising level of carbon emissions in the country heightens the need to establish a clear roadmap of decarbonization to reduce the carbon footprint of important sectors, including agriculture, energy, and industry. The country's performance in terms of environmental sustainability is also mixed. The degradation of natural resources is particularly concerning with regard to freshwater scarcity and pollution, forest loss, and air pollution. Environmental degradation disproportionately affects the poor and threatens human capital formation and retention, with longer-term consequences for the country's development.
- ***Fourth, cutting across the above three challenges are weak institutions and markets.*** There are significant gaps Bangladesh needs to overcome in terms of the overall quality of institutions, including capacity, regulatory quality, and availability of formal institutions to create markets and make them contestable. Institutions and markets are weak in terms of capacity and contestability. Key areas for institutional capacity enhancement in the public sector include public service modernization, public financial management, public procurement, statistics, and citizen engagement. In addition, the current regulatory environment is not conducive to developing broad-based private sector growth. The country's poor performance in terms of business environment can be partly explained by many outdated laws governing economic issues such as foreign exchange, land, and company formation. Regulatory rules often overlap or contradict one another, and administrative processes are opaque and poorly enforced. Such business environment challenges are underscored by the weakness of institutions available to support market-based development.

This SCD Update identifies eight priorities to tackle these four frontier challenges and support the country's transition to UMIC status. Four priorities are foundational, as they provide an essential basis to propel the country's transformation toward UMIC status. Another four priorities are enabling priorities to shift gears for accelerated transformation.

Foundational priorities: The essential basis to propel the transformation

- ***Inclusive and resilient human capital development.*** The country needs to strengthen its human capital to achieve more resilient and inclusive development while laying the foundation for productivity growth. Closing access gaps should be accompanied by improved equity and quality of

service delivery in health and education. A lifecycle approach to human capital development is necessary, starting from the early years and addressing health and nutrition, and considering the demographic changes going forward. Women's participation in the labor force and their productivity will be key. This requires tackling persistent challenges such as child marriage and childcare options. The recent pandemic has also heightened the need to strengthen education, health, and social protection systems to be prepared for, and more responsive to, shocks.

- ***Productive and sustainable management of natural capital.*** Strengthening policy and investment coordination for better management of resources, both physically and financially, is a top priority in building climate resilience and protecting environmental resources and natural capital. Supporting the role of the private sector is important in addressing climate resilience and green growth. It is also central to promote greener practices, such as climate-smart agriculture; sustainable manufacturing, including fostering a circular economy; and a gradual shift to a more sustainable energy mix with renewable and less carbon-intensive energy sources. With limited land availability, strengthening land management is key for achieving more climate-resilient, greener, and diversified growth.
- ***Effective and efficient public institutions.*** Stronger coordination and institutional capacity in the public sector are important to ensure sustainable and inclusive development. The country's public financial management, including public investment management and public procurement, needs to be strengthened to support the government's investment plans and to better address climate resilience and green growth. The country's legal framework also needs to be modernized for the government to provide better services catering to businesses and citizens. Furthermore, the efficiency and accountability of government services and business processes should be improved to provide a more predictable regulatory environment and delivery of quality services. Citizen engagement plays an important role in this respect.
- ***Macroeconomic and financial sector stability.*** Bangladesh's past favorable macroeconomic conditions cannot be taken for granted in the future, given substantial uncertainties in the global economic outlook and the rising risks from financial sector vulnerabilities and emerging risks to fiscal sustainability. The COVID-19 shock has deepened long-standing banking-sector vulnerabilities, underscored by inadequate banking-sector governance. The low level of domestic revenues, contingent liabilities from state-owned enterprises, and increasing domestic borrowing, including through National Savings Certificates, pose growing risks to fiscal and debt sustainability. Those risks to macroeconomic and financial sector stability need to be properly managed and contained via appropriate policy reforms.

Enabling priorities: Shifting gears for accelerated transformation

- ***Competitive and diversified markets.*** Removing policy biases against diversification and broadening the private sector base are urgent priorities. The current economic policy environment creates significant barriers for the private sector, particularly for micro, small, and medium-sized enterprises (MSMEs); foreign investors; and any investors working outside of well-established sectors and firms. There is an eminent need to foster competition, rationalize the current tariff structure, and remove other regulatory distortions that disincentivize development of broad-based private sector and export diversification. Targeted policies to raise the productivity of the agriculture sector and crop diversification are also essential for the sector to become a new anchor of value chain development and job creation.

- **Skills development and technology adoption.** As the country continues to transform and grow, investing in high-quality technical and managerial skills and more inclusive access to skills will be important to complement the adoption of digital technology. Strengthening the nexus between skills and technology will be a cornerstone of the next level of structural transformation. Bangladesh can benefit substantially from harnessing disruptive technology to transform traditional business models and expand access to essential services. A more enabling legal and regulatory framework needs to be developed to promote technology adoption by businesses and households. More inclusive and equitable access to digital infrastructure, especially for women and the poor, is vital in enabling digital technologies to spur productivity growth and job creation.
- **Closing infrastructure gaps.** While the country has made good progress on infrastructure development, Bangladesh's participation in the global marketplace is hindered by poor transport infrastructure and logistics. More equitable access to and overall efficiency of infrastructure are important, and massive investments are needed in urban climate-resilient infrastructure to address severe congestion in Dhaka, develop secondary cities, and connect rural areas. A more assertive expansion and optimal use of digital infrastructure are needed to meet the demands of the modern economy and close the current digital divide. Moreover, while acute energy deficits have been addressed, Bangladesh needs to recalibrate its energy mix toward a cheaper and low-carbon power supply by focusing on clean energy imports, including regional hydropower import opportunities, and phasing out emergency plants. Governance challenges significantly impact infrastructure sector performance and must also be addressed to advance the infrastructure agenda.
- **Private sector financing for development.** As the country aspires to UMIC status, private sector financing, from both domestic and foreign sources, will play a critical role in financing development needs. The government's ambitious targets under the 8th Five Year Plan entail additional financing that cannot be sourced from public resources alone. Efficiently channeling savings to productive investments will involve major restructuring and deepening of the financial system, including increasing banking sector efficiency and development of long-term capital markets. The country also needs to proactively source resources externally, including through international capital markets, by promoting local currency financing and easing external borrowing constraints, and attracting foreign direct investment. The institutional framework and implementation capacity for public-private partnerships also need to be strengthened. Furthermore, unlocking private sector financing for green investments and climate risk financing will become increasingly important, while expanding access to finance in underserved segments, such as women and MSMEs, remains relevant for job creation and diversification.
- **Finally, evidence-based decisions will also require closing important data and knowledge gaps.** The SCD Update identifies knowledge gaps in land management, climate change, green growth, urban welfare dynamics and inequality, and technology and innovation. The analysis also highlights areas where data have been lacking and finds that there is insufficient data to track outcomes on quality education (Sustainable Development Goal 4) and cleanliness of water and sanitation (Sustainable Development Goal 6); firm-level and labor market data are insufficient and outdated; and while an enormous amount of data are available on various fronts, more spatially and group-disaggregated information must be collected consistently across surveys to better inform policies.

I. Introduction

- 1. This World Bank Group Systematic Country Diagnostic (SCD) 2021 Update presents a diagnostic of Bangladesh's growth and poverty reduction since the previous diagnostic in 2015.** As a data-driven diagnostic, the SCD Update synthesizes findings from a range of existing empirical studies, complemented by original data analyses and cross-country benchmarking.¹ Building on such analyses, it identifies priorities in addressing key challenges and in moving toward the country's development goals. The SCD Update is a strategic assessment, rather than an extensive summary of the evidence, so further resources are referenced throughout the document.
- 2. The 2015 SCD recognized Bangladesh's strong development progress and identified remaining structural and development challenges.** It identified the following eight priority areas: (i) energy, (ii) inland connectivity and logistics, (iii) regional and global integration, (iv) urbanization, (v) improved delta management, (vi) maintaining sound macroeconomic management, (vii) consolidating and deepening its exemplary achievements in human development, and (viii) further expanding a supportive environment for increased private investment.
- 3. Since the 2015 SCD assessment, and until the COVID-19 pandemic hit in 2020, the overall positive trends of economic growth and poverty reduction continued.** The positive trends were supported by a sustained labor shift from agriculture to industry and services. Yet, some vulnerabilities and structural weaknesses identified in the 2015 SCD became more apparent; that is, the manufacturing sector became less effective in generating jobs, while female labor force participation declined in urban areas; and there was uneven progress in poverty reduction across the country.
- 4. The COVID-19 pandemic hit the economy hard and reversed gains in human capital.** The pandemic generated major disruptions in economic activity and increased poverty in FY2020. While the economy showed some signs of recovery in FY2021, the recovery has been slow, complicated by repeated waves of infections due to new variants and low vaccination rates. The pandemic has also impacted the country's progress on female employment and human capital development, with substantial direct and indirect health effects and significant learning losses due to school closures since March 2020.
- 5. As Bangladesh gradually recovers from the pandemic, it will also enter a new phase of development, with graduation from least-developed country (LDC) status in 2026.** In March 2020, the Government of Bangladesh (GoB) adopted its long-term Perspective Plan 2021–2041, which sets the targets to reach UMIC and high-income country status by 2031 and 2041, respectively. In parallel, global megatrends such as rapid advancement of digital technology and global value chains, along with increasing climate change risks, are likely to affect the country's development path.
- 6. For Bangladesh to accelerate economic recovery from the pandemic, the private sector needs to become more competitive, driving growth and job creation.** Private-sector-driven growth requires domestic markets to be more open and competitive, supported by a sound financial sector able to intermediate resources for investment. Strong institutions also need to be in place to provide policies that can fashion the investment climate and bring more contestability into the system.

¹ This SCD Update adopts a set of comparators comprising Cambodia, India, and Vietnam as structural peers, and China, Indonesia, and Thailand as aspirational peers, as well as regional and income-group averages for South Asia, lower middle-income countries, and upper middle-income countries.

7. **This SCD Update is structured as follows.** The next chapter (chapter II) presents the main trends of growth and poverty reduction in the past decade with a particular focus on changes since the previous SCD in 2015. The chapter will also discuss future context and opportunities in the next 10 years. Chapter III discusses major challenges the country needs to address to eradicate poverty and promote shared prosperity and to achieve its goal of becoming an upper middle-income country. Chapter IV presents a set of priorities to address the challenges, including specific policy recommendations. This SCD Update concludes with a highlight of knowledge and data gaps which need to be filled.

II. Bangladesh's Development Path: From the Past to the Next Decade

II-1. Growth and poverty reduction trends

8. **Bangladesh's strong performance in economic growth and poverty reduction over recent decades transformed the country from one of the poorest in the world to a lower middle-income country (LMIC) in FY2016.** Situated in a low-lying river delta, Bangladesh is prone to floods and other natural disasters, which, because of the country's high population density, have often led to devastating human tragedies, such as the 1974 famine. In 1975, Bangladesh had the world's seventh-lowest gross domestic product (GDP) per capita in real terms (in constant 2010 U.S. dollars). Since then, the economy has recorded relatively stable growth, posting positive real growth every year since 1976. Per capita GDP has quadrupled, and the poverty rate has dropped to one-third of 1991 levels.²

9. **The country has addressed the root causes of poverty by investing in human capital and building resilience against natural disasters.** Nongovernmental organizations (NGOs) in Bangladesh joined the government in promoting social services to communities, resulting in remarkable progress in human development indicators. For example, the mortality rate of children under five dropped from 121 per 1,000 live births to 40 between 1992 and 2019. This reduction in child mortality, coupled with the success of family planning programs, resulted in a reduction in the total fertility rate from 6.3 in 1975 to 2.3 in 2019.³ With active community participation, the government devised effective strategies to mitigate damage from natural disasters, including early warning and response systems and countless multipurpose cyclone shelters. This helped to significantly reduce the number of casualties from major cyclones.⁴ Bangladesh is also widely known for its successful microcredit programs, led by NGOs.

10. **Growth in labor-intensive manufacturing exports and international remittances, coupled with overall macroeconomic stability, paved the way for a successful economic transformation and job creation.** A rapid expansion of export-oriented, labor-intensive readymade garment industries—from a nominal US\$1,231 million in exports in 1992 to US\$34,133 million in 2019—boosted job creation. Between 2003 and 2016, the economy generated more than 1.15 million net jobs per year, on average. The strong job creation was accompanied by a continuous labor shift from agriculture to industry and services and from rural to urban areas. Female employment, which rose 4.4 percent annually, increased at a faster pace than male employment. This brought millions of women into the labor force and increased their economic empowerment. Fast growth in jobs, together with remittances from migrants, provided the basis for household consumption to drive growth during recent decades.

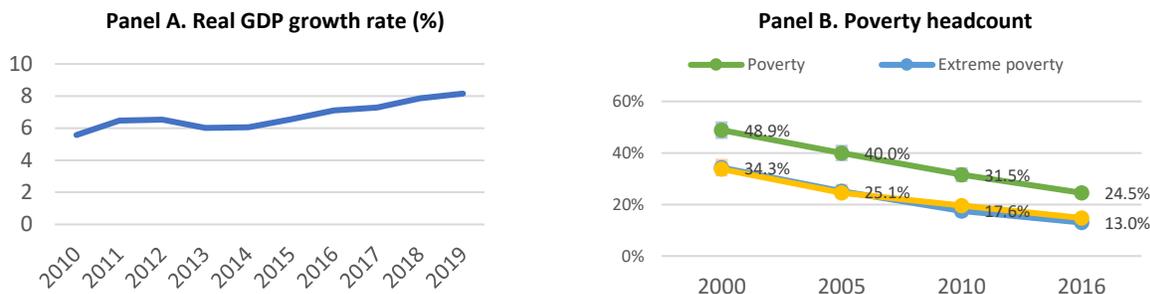
² The poverty rate, based on the US\$1.90 international poverty line, was 43 percent in 1991 and 14 percent in 2016.

³ The total fertility rate is the average number of children to which a woman of reproductive age (15 to 49) gives birth.

⁴ Cyclone Bhola in November 1970 caused 300,000 casualties, the April 1991 cyclone caused 138,882 casualties, and Cyclone Sidr in November 2007 caused 3,363 casualties.

11. Positive trends in economic growth and poverty reduction continued, until the COVID-19 shock hit the country in 2020. Between 2010 and 2019, average real GDP growth was 6.9 percent per year (figure II.1, panel A), and poverty continued to fall (figure II.1, panel B). According to the 2016 Household Income and Expenditure Survey (HIES), about 24.5 percent of Bangladeshis were poor, and 13 percent were extremely poor.⁵ This shows a continuation of the progress recorded in the preceding decade, when Bangladesh reduced its poverty rate from 49 percent in 2000 to 31.5 percent in 2010.

Figure II. 1. Trends in GDP growth and poverty rates

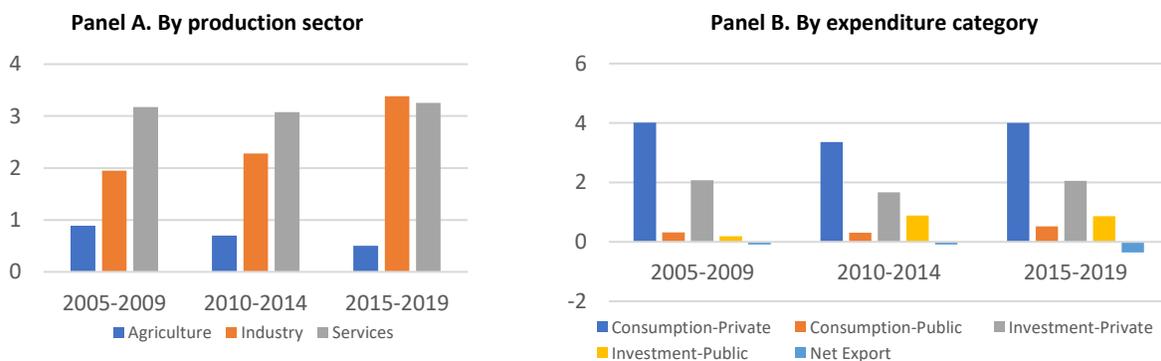


Source: World Development Indicators.
Note: 2005/06 base year

Source: Staff calculations using HIES 2000, 2005, 2010, and 2016 and World Development Indicators.
Note: The international poverty line has a value of US\$1.90 purchasing power parity.

12. Economic growth was increasingly driven by industry, while the contribution of agriculture declined. Between 2015 and 2019, nearly half of GDP growth came from growth in industry (figure II.2, panel A). In contrast, agriculture’s contribution to growth has been small and declining over time. On the demand side, growth was mostly driven by private consumption, supported by rising labor and remittance income. Combined public and private investment gained in importance over the years (figure II.2., panel B) and contributed to growth as much as in Vietnam, and more than in most other comparator countries.

Figure II. 2. Contribution to GDP growth



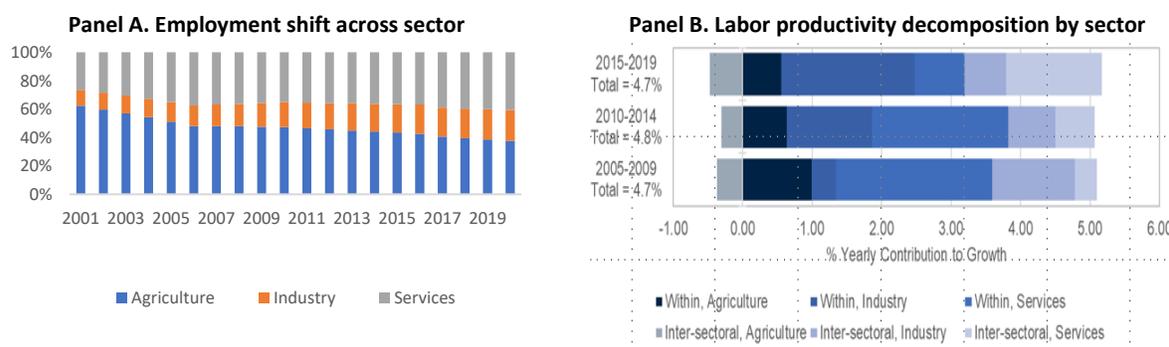
Sources: World Bank staff estimates based on the GoB national accounts data.

13. The increasing contribution of industry to growth was driven not only by the continued labor shift, but also by labor productivity growth within sectors. Between 2010 and 2020, the share of employment in agriculture declined by 9 percentage points, while the shares of employment in industry and services increased by 4 and 6 percentage points respectively (figure II.3, panel A). Labor productivity grew both

⁵ Using the Bangladesh Bureau of Statistics official upper and lower poverty lines, respectively. The latest official poverty numbers come from the 2016 HIES. The 2015 SCD relied on information from the 2010 HIES.

from reallocation of labor across sectors and from productivity gains within sectors (figure II.3, panel B). Within-sector productivity gains in industry increased, while those in agriculture and services shrank.

Figure II. 3. Employment and labor productivity decomposition by sector



Source: World Development Indicators.

Source: Country Economic Memorandum Country Scan based on Labor Force Survey data.

14. As before, stable macroeconomic conditions underpinned the positive trends in growth and poverty reduction, at least until the pandemic hit. The monetary and fiscal policy frameworks adequately supported internal and external balances. Inflation remained in the single digits over the past eight years. Readymade garment exports and remittance flows helped the economy narrow its external deficit, and international reserves remained adequate. The structural fiscal deficit, resulting from low revenue generation, remained modest, keeping the debt level contained.

15. Human development outcomes continued to improve over the past decade. Fertility rates decreased further, almost reaching replacement levels, triggering a fall in household size and the number of dependents per household. The fertility declines in Bangladesh were accompanied by a rise in life expectancy and substantial reductions in infant and child mortality. In addition, child stunting rates fell from 45 percent in 2000 to 31 percent in 2018 (table II.1). Bangladesh also made significant investments in social protection programs—reaching 3 out of 10 households—which contributed to reducing poverty, boosting the use of education and health services, and protecting households during shocks.

16. Progress on school enrollment and achievement continued. Between 2000 and 2016, the net primary enrollment rate increased from 72 to 93 percent, the fastest growth in the South Asia region. The secondary net enrollment rate increased from 50 to 72 percent. The expansion in tertiary access has been even more noteworthy—from less than 1 percent to 16 percent between 2000 and 2016. The improvements in schooling were broad-based and reduced inequalities between gender and socioeconomic groups. Notably, the expected years of schooling increased, and the gap in years of schooling between the richest and poorest children halved.⁶

17. The fast reduction in fertility and improvements in education continued to be important contributors to household consumption growth and poverty reduction. From 2010 to 2016, demographic changes and the accumulation of education and assets were sizable enough to explain about half of all consumption growth over this period.⁷

⁶ Dev Batta et al. 2019.

⁷ Hill and Genoni 2019.

Table II. 1. Key demographic, education, and health indicators of Bangladesh

	2012–13	2018–19	
Average household size	4.6	4.3	
% of households with tube well water	90.6	85.3	
% of households with piped water	7	11.6	
% of households with electricity	61.5	89.5	
	2010	2016	2018
Literacy (among adults older than age 15)	58.7	65.7	74.7
Secondary school enrollment rate (% gross)	73.9	80.4	80.7
Fertility rate, total (births per woman)	2.3	2.1+	2
Life expectancy at birth, female (years)	71.5	74.6+	74.3
Life expectancy at birth, male (years)	69	71.2+	70.6
Life expectancy at birth, total (years)	70.2	72.8+	72.3
Mortality rate, infant (per 1,000 live births)	38.9	26.9+	25.6
Prevalence of stunting, height for age (of children under 5)	41.4*	36.1**	30.8
Prevalence of underweight, weight for age (% of children under 5)	36.8*	32.6**	21.9
Prevalence of undernourishment (% of population)	16.9	15.2	13

Source: World Development Indicators.

Note: *2011; **2014; +2017.

II-2. New developments in growth and poverty

18. Despite these positive trends, recent headwinds are challenging the equity and sustainability of the country's growth and poverty reduction path. In the past 10 years the pace of poverty reduction slowed despite continued rapid economic growth, spatial disparities within the country increased, the COVID-19 pandemic posed substantial challenges to continued progress in poverty reduction, and the economy became more vulnerable to exogenous shocks. Each of these factors is discussed in detail below.

The pace of poverty reduction slowed

19. During the past 10 years, the pace of poverty reduction has slowed, and so has the pace of job creation. While the country continued to enjoy a high rate of GDP growth, the rate of poverty reduction was lower, as reflected in a decline in growth-poverty elasticity (figure II.4, panel A).⁸ Average consumption growth was slower and less equal than before (figure II.4, panel B). Thus, the country did not fare well on measures of equality and shared prosperity, compared to the 2015 SCD assessment.⁹ The slower progress of poverty reduction and shared prosperity is related to the fact that the pace of job creation has slowed markedly since 2010. Annual employment growth in the working-age population fell by one-third between 2003-10 and 2010-16—from 3.1 percent to 1.8 percent).¹⁰ All broad sectors of the economy experienced declining job growth, most notably agriculture. Sector growth in agriculture stagnated and agricultural employment contracted by close to 2 percent between 2010 and 2016.¹¹ This has significantly affected poverty in the country, particularly in rural areas and among women. About 46 percent of rural households in the poorest quintile derive labor income exclusively from agriculture, and

⁸ In general, the elasticity of poverty reduction to growth per capita is higher at lower levels of poverty. This is partly for arithmetic reasons. In order to take this into account, the semi-elasticity can also be considered, which is the percentage point reduction in poverty for each percent of GDP growth per capita. This has fallen even more substantially, from 0.35 during 2005–10 to 0.23 during 2010–16 (at the national poverty line) (Hill and Genoni 2019).

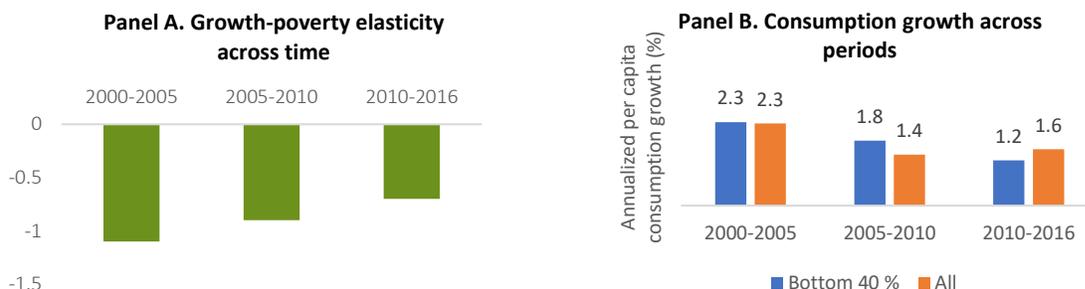
⁹ Between 2010 and 2016, the HEIS data from BBS show that the national Gini coefficient increased by 1 percentage point and the Theil index by 2 percentage points (Hill and Genoni 2019) while the Palma ratio increased from 2.6 to 2.9.

¹⁰ Farole and Cho 2017.

¹¹ Farole and Cho 2017.

about 8 in 10 households in rural areas derive some income from this sector.¹² Overall, agriculture supports 54 percent of rural employment and 43 percent of national employment.¹³ In addition, women’s share in agricultural employment grew from 34 percent in 2006 to 44 percent in 2016.

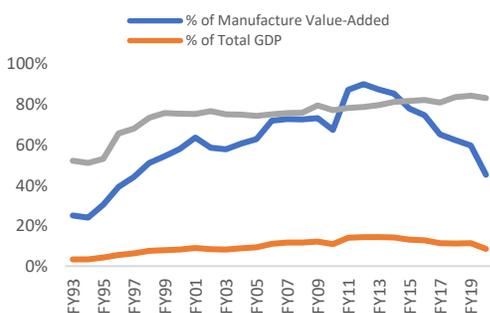
Figure II. 4. Decline in the pace of poverty reduction and shared prosperity



Source: Hill and Genoni 2019.

20. Data prior to the pandemic show that the relative size of the readymade garments (RMG) sector—the main engine of wage job creation in the past—has decreased. The relative size of labor-intensive RMG has declined in manufacturing production despite its dominance in exports (figures II.5 and II.6). Manufacturing, although it has become more productive, did not create enough jobs, as employment growth in the RMG and textiles sectors decreased from 11 percent per year during 2003-10 to just 1.5 percent during 2010- 2016 (figure II.7, panel A). While job growth in non-RMG manufacturing subsectors has been significant in recent years, those subsectors are more domestically oriented (for example, construction materials and food products).

Figure II. 5. RMG exports



Sources: GoB; World Bank Macroeconomics, Trade and Investment Bangladesh database.

Figure II. 6. RMG production



Sources: GoB; World Bank Macroeconomics, Trade and Investment Bangladesh database.

21. With slower job creation, youth unemployment rates spiked, and female labor force participation declined in urban areas. While unemployment rates for older workers remained stable, youth unemployment has risen since 2010. Youths thus may be disproportionately affected by the pressures associated with the recent slowdown in job creation (figure II.7, panel B).¹⁴ Around 30 percent of the working-age population aged 15–29 are not in education, employment, or training, and 87 percent of

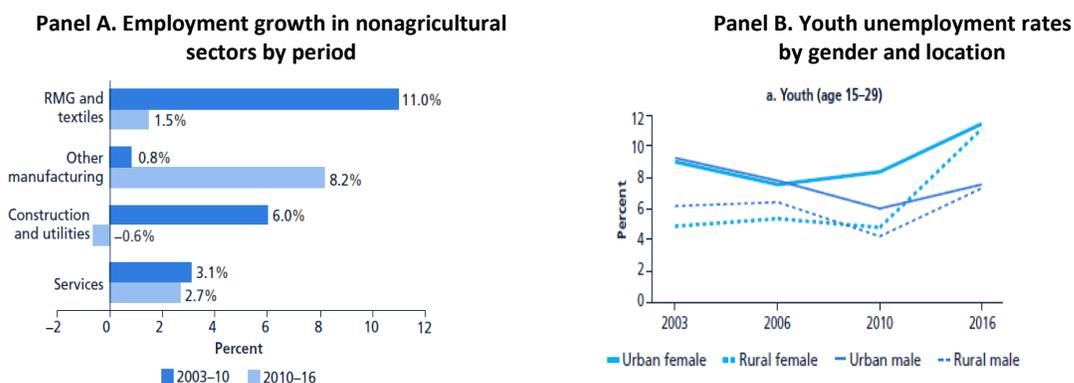
¹² Genoni et al. 2021.

¹³ Genoni et al. 2021.

¹⁴ Farole and Cho 2017.

those affected are female.¹⁵ The slowdown in job creation in the RMG and textiles sector is also likely responsible for the falling female labor force participation rate in urban areas. Between 2010 and 2016, urban female labor force participation declined by about 4 percentage points.

Figure II. 7. Key labor market trends

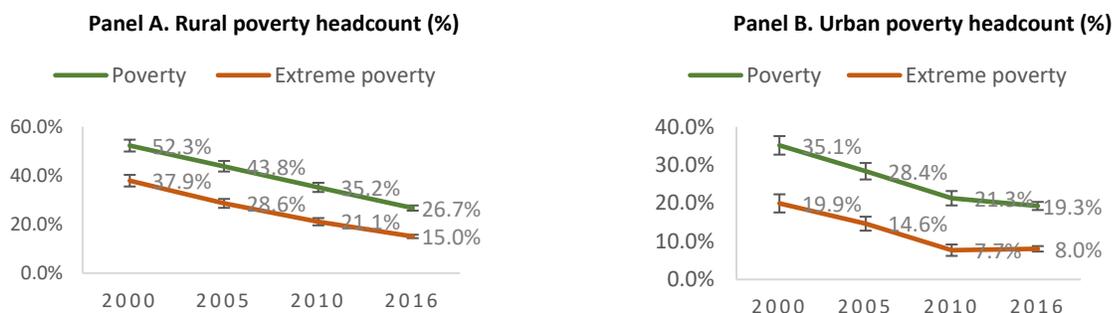


Sources: Farole and Cho (2017) using LFS 2003, 2010, and 2016.
 Note: Youth is defined here as individuals aged 15 to 29.

Spatial disparities increased

22. **Since the 2015 SCD, poverty in Bangladesh has been increasingly urbanizing.** Extreme poverty in urban Bangladesh was stable between 2010 and 2016 (figure II.8). Before the pandemic, the lack of job creation in manufacturing was accompanied by reduced productivity among the self-employed in urban services. Job creation in the services sector continued to be concentrated in low-productivity activities, and limited consumption growth among urban households mainly engaged in service self-employment activities was a key factor behind the slow progress in urban poverty reduction.

Figure II. 8. Urban and rural poverty reduction



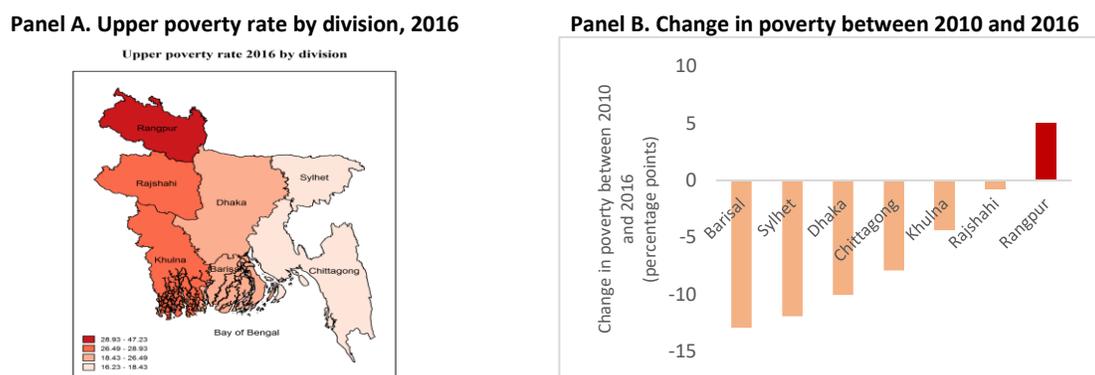
Source: Hill and Genoni 2019.

23. **Moreover, recent trends show widening regional disparities in monetary poverty, with slow progress in the Western regions.** Since 2010, poverty has risen in the Rangpur division and has stagnated in Rajshahi and Khulna in the West. East and Central Bangladesh have fared much better, with poverty falling moderately in Chittagong and declining rapidly in Barisal, Dhaka, and Sylhet (figure II.9). The faster poverty reduction in the Eastern regions widened the welfare gap between Eastern and Western

¹⁵ Labor Force Survey 2016-17. <http://data.bbs.gov.bd/index.php/catalog/200>

Bangladesh, which had narrowed between 2005 and 2010.¹⁶ The reemerging divergence between the East and West has mainly occurred in rural instead of urban areas. Migration is also largely concentrated around the Dhaka-Chittagong centers, and this geographic pattern of migration constrains its potential to reduce spatial disparities. Dhaka alone absorbs 60 percent of all recent migrants in Bangladesh and has the largest share of all types of migrant flows.¹⁷

Figure II. 9. Progress in poverty reduction was slower in Western divisions



Source: Hill and Genoni 2019.

24. The divergence between the Eastern and Western divisions has been partly driven by slower progress in fertility reduction and education attainment in the rural West. From 2010 to 2016, changes in household demographics, gains in education, and asset holdings contributed to about 50 percent of consumption growth. The amount of consumption growth explained by these gains was similar across rural and urban areas, indicating that these factors did not explain the differences in the evolution of poverty between urban and rural areas. However, within rural areas, the gains were not uniform; the rural West recorded slower progress on education and demographic change, contributing to the re-emergent East-West divide.¹⁸

25. Another reason for the divergence in welfare between East and West was the slower contribution of agriculture to poverty reduction. With a larger share of households engaged in agriculture in the Western regions, slower growth in agriculture contributed to the slower consumption growth in those areas. Structural transformation also seems to have been faster in the East than in the West; the proportion of households reporting agriculture as their primary form of employment fell by 22 percent in the East compared to 12 percent in the West. Thus, although some of the divergence in poverty reduction between East and West since 2010 can be explained by less favorable changes in educational attainment and demographics, differences in sectors of work also seem to have played a significant role.¹⁹

26. The district of Cox's Bazar, a district on the southeast coast of Bangladesh, faced an unprecedented challenge, driven by a sudden increase in population density due to the 2017 influx of displaced Rohingya people (Forcibly Displaced Myanmar Nationals). In a few months following August 2017, more than 725,000 people crossed into Bangladesh from Myanmar, joining around 300,000 people displaced from Myanmar in previous years. The influx more than doubled the population living in the Cox's Bazar upazilas (sub-district) of Teknaf and Ukhia, which already had higher poverty rates than the rest of the

¹⁶ Jolliffe et al. 2013.

¹⁷ Farole and Cho 2017; Genoni et al. 2021.

¹⁸ Hill and Endara 2019.

¹⁹ Hill and Genoni 2019; Genoni et al. 2021.

district before the influx. Highly localized within these two upazilas, the influx of displaced Rohingya population (*Forcibly Displaced Myanmar Nationals*) and the significant increase in aid resources have brought major changes to the district. In addition, the sudden increase in population density has stretched service delivery in the local sectors and administration, and placed unprecedented pressures on the area's natural resources, in a context of high vulnerability to natural calamities like cyclones and floods.²⁰

The COVID-19 crisis reversed the trends of growth and poverty reduction as well as progress in development outcomes

27. The COVID-19 shock decelerated growth in FY2020. During the initial phases of the COVID-19 pandemic, RMG exports collapsed virtually overnight, threatening millions of jobs. Exports fell by 16.8 percent in FY2020 due to supply-chain disruptions and depressed external demand for readymade garments. The real GDP growth rate dropped to 3.5 percent in FY2020. The Government of Bangladesh responded expeditiously by introducing the first set of COVID-19 stimulus programs (US\$11.6 billion announced during FY2020; 3.6 percent of FY2020 GDP), easing monetary policy, and introducing refinancing options. Together with additional programs announced later, the total size of the stimulus programs amounts to US\$15.9 billion as of October 2021. Despite the deceleration of growth, remittance flows rose in FY2020; thus, the balance of payments remained in surplus. The economy bounced back in terms of employment and output in the first half of FY2021, as lockdown restrictions were gradually lifted. The recent surges in COVID-19 infections since March 2021 have subsequently tapered off as the officially recorded number of new cases and deaths continued to decline in September and October 2021. The pace of vaccination picked up in September 2021 with the arrival of new consignments. More than 17 million people has been fully vaccinated as of October 2021.

28. The pandemic also impacted progress in poverty reduction and food security. Poverty increased from 11.9 percent in FY2019 to an estimated 12.9 in FY2020, using the international poverty rate (\$1.9 in 2011 PPP) (figure II.10, panel A). Estimations based on microsimulations indicate that income losses related to COVID-19 pushed a large share of the population into poverty in FY2020 (figure II.10, panel A). Compared to a non-COVID scenario for FY2020, the upper poverty rate was estimated to be 5 percentage points higher (about 8 million additional poor) (figure II.10, panel B). Poverty was estimated to have increased in rural and urban areas. The early impacts of the pandemic may have moved poverty back to the levels observed in 2010, reversing a decade of progress.²¹ Nationwide results from a World Bank phone survey show high levels of self-reported food insecurity, with 53 percent of respondents worried about running out of food, 41 percent reducing consumption of preferred foods, and 32 percent running out of food or money in the seven days preceding the interview. Analysis for poor areas in Dhaka and Chittagong reveals that adults who stopped working due to COVID-19 were 11 percent more likely to report food insecurity.²² However, compared to industry and services, agriculture was less affected by the pandemic shock. Continued agricultural production, coupled with the government's swift food support responses, helped the country avoid serious food shortages during the pandemic.

29. The COVID-19 pandemic further exacerbated challenges in the labor market. At the beginning of the pandemic, RMG production declined sharply, resulting in widespread income and employment losses. Evidence from the World Bank's nationwide phone survey documents widespread job losses and reduced earnings in the initial months following the outbreak. Bangladesh was among the worst-affected countries in the South Asia region, with 56 percent of those who worked during 2020 reporting a deterioration in

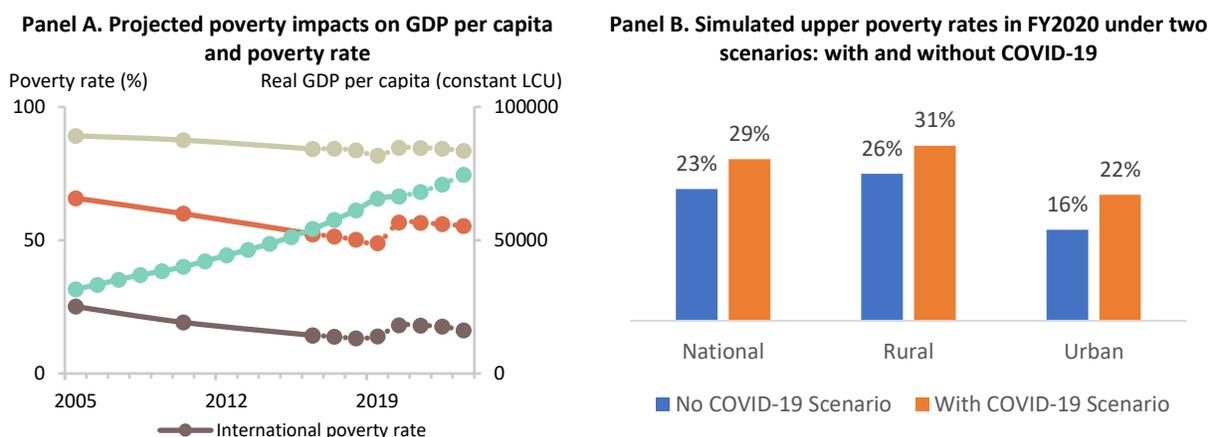
²⁰ World Bank 2021a.

²¹ Genoni et al. 2021.

²² World Bank 2021b.

their labor market situation, mainly due to earning or wage losses. Almost one in five economically active individuals experienced either a job loss or a prolonged absence from work for an average absence of three months. Both wage and self-employed workers reported reduced incomes and earnings.²³ Subsequently, however, labor market conditions showed signs of recovery as the economy bounced back.

Figure II. 10. Income growth and poverty projections after COVID-19



Source: World Bank Macro Poverty Outlook (October 2021).
<https://www.worldbank.org/en/publication/macro-poverty-outlook>

Source: World Bank staff estimates based on microsimulations.

30. Women and youth have been disproportionately affected by the shock, likely exacerbating pre-COVID-19 trends of declining female labor force participation and increasing youth unemployment. Women have been hard hit in the labor market, reflecting their higher propensity to engage in sectors that are severely impacted (that is, RMG and informal services), and their family responsibilities. In addition, the COVID-19 pandemic has pushed many youths, especially those working in the informal sector, into the not in education, employment, or training category.²⁴ The challenges for youth and women in participating in the labor market, highlighted by the pandemic, will impact the contribution of Bangladesh's demographic dividend to growth and poverty reduction going forward.

31. Reduced household income from pandemic-related unemployment, income losses, and increased stress levels have contributed to an increase in gender-based violence (GBV).²⁵ Despite limited data, GBV was known to be prevalent throughout Bangladesh before the pandemic. For example, a 2015 survey by the Bangladesh Bureau of Statistics and the United Nations Population Fund (UNFPA) found that the prevalence of lifetime physical violence among surveyed women and girls was almost 10 percentage points higher in rural areas than urban areas,²⁶ and women aged 20 to 24 experienced the highest rates of sexual violation by non-partners.²⁷ GBV prevalence is believed to be significantly higher than any data suggest, since cases of violence frequently go unreported to the police or media. Women and children in developing countries are at a higher risk of GBV during crises, including natural disasters. The overlapping crises of the Amphan Cyclone and the COVID-19 pandemic in the spring of 2020 led to an uptick in trafficking of young girls along the Bangladesh-India border, with poor and vulnerable families lured with

²³ Findings for Bangladesh from the South Asia region COVID-19 monitoring phone survey administered between August and November 2020 by the World Bank.

²⁴ World Bank 2021b.

²⁵ World Bank 2021c.

²⁶ Physical violence was found to be experienced by 51.8 percent of rural women compared to 42.2 percent of rural women.

²⁷ Bangladesh Bureau of Statistics 2016.

promises of marriage and jobs when dealing with school closures and job losses.²⁸ The salinity and dirty water resulting from various climate crises often require women to travel long distances to collect drinking water, making them vulnerable to GBV.

32. The COVID-19 crisis is also expected to have significant long-term negative impacts on human capital and income. Because schools were closed for 18 months—a year and a half—among the longest closures in the world—it is expected that Bangladeshi students have experienced substantial learning losses due to the pandemic, which could result in a significant reduction in annual income once students enter the labor market.²⁹ The crisis has also disrupted routine health service delivery and reduced health-seeking levels due to lockdowns and fear of infection. The total number of births and actively managed child deliveries fell sharply and has not recovered to pre-COVID-19 rates. A large share of households cut food consumption as a way of coping with shocks, which suggests potential negative impacts on food security. Depletion of own savings and assets can also compromise households' future earning potential, particularly in a protracted period of decreased income and work. The insufficient coverage and inadequacy of social protection are expected to exacerbate these impacts, as income shocks tend to be largely managed with households' own resources.

Bangladesh's economic and climate vulnerabilities increased

33. The pandemic deepened existing vulnerabilities in the economy, including those in the financial sector. The COVID-19 crisis increased the risk exposure of better-managed private banks, whereas expanding regulatory forbearance, a large increase in subsidized lending, a policy of interest rate caps, and increased government borrowing through high-yielding National Savings Certificates exacerbated governance shortfalls in the financial sector. This may, in turn, contribute to lower profitability, weaker asset quality, and a continued slowdown of credit growth to the private sector. The nonperforming loan (NPL) ratio has remained elevated, with an observed deterioration in provisioning levels. Under national standards, NPLs reached 8.9 percent of loans in September 2020. This figure is likely to be double because the country's definition of default (180 days) deviates from the internationally accepted definition of default (90 days past due payment). NPLs are not evenly distributed, and state-owned banks account for almost half of the total. Generous write-off and rescheduling policies have not resolved the underlying credit weaknesses, while recoveries are constrained by lengthy legal processes.

34. Banking sector vulnerability was already heightened prior to the pandemic, posing a major hurdle to private sector development and a risk to macroeconomic stability. Specific vulnerabilities include high levels of NPLs, low capital buffers (especially in state-owned banks), and low profitability due to weak corporate governance in the banking sector. Prudential regulatory requirements and enforcement have been weak, relative to international standards, resulting in delayed recognition of NPLs and allowing banks to prematurely release loan loss provisions and capital. High NPLs, particularly in state-owned banks, also create sizable contingent liabilities for an already constrained government's fiscal space.

35. Weaknesses in domestic resource mobilization and undiversified exports are also growing sources of economic vulnerabilities to external shocks. At around 10 percent of GDP, Bangladesh's tax-to-GDP ratio remains among the lowest in the world. While the country's low debt vulnerability risks (for both external and public debt) allow the country good access to external financing, a low level of domestic revenue does not permit Bangladesh to create a sufficient fiscal buffer during crises, while raising the debt service-to-revenue ratio. With 85 percent of Bangladesh's exports coming from readymade garments, the

²⁸ Sen 2020.

²⁹ Based on a scenario of a 12-month school closure, a simulation analysis by Rahman and Sharma (2021) reveals that the future annual income of the average Bangladeshi student could be 6.8 percent lower once he or she enters the labor market.

country's undiversified export structure is another source of vulnerability to trade-related external shocks, as clearly shown at the onset of the COVID-19 pandemic.

36. Bangladesh is one of the world's most vulnerable countries to climate change. This is due to its geographic location on the Bay of Bengal; its flat, low-lying, delta-exposed topography; its high population density and poverty rates; and its dependence on agriculture. The Global Climate Risk Index ranked Bangladesh as the world's seventh most-affected country during 2000–19.³⁰ The estimated average annual losses due to disaster are around 1 to 2 percent of GDP.³¹ By mid-century, climate change is likely to cost Bangladesh a further 2 percent of GDP, on top of its baseline losses to climate hazards, a figure which could rise to 9 percent of GDP by the end of the century, if mitigation action is not increased.³² As sea level rises, considerable portions of Bangladesh's current landmass could be permanently underwater. Recent studies estimate that, by 2050, Bangladesh could have 13.3 million internal climate migrants.³³

37. Risks to environmental sustainability are high, as growth has been accompanied by rising carbon emissions and environmental degradation. The country's carbon dioxide (CO₂) emissions grew 80 percent, from 116 million metric tons in 1990 to 211 million metric tons in 2017. While the 211 million metric tons of CO₂ emitted in 2017³⁴ contributed to 0.36 percent of global emissions, total greenhouse gas emissions are predicted to increase by 46 percent in 2030 under a business-as-usual scenario.³⁵ In the 2020 Environmental Performance Indicator Report, Bangladesh ranked 162nd of 180 countries overall, 173rd in pollution emissions, 166th for air quality, and 129th for performance in water and sanitation. Additional rural-urban migration would have significant consequences for air and water pollution and unsustainable consumption of natural resources, while putting additional pressure on urban labor markets and quality of living.

II-3. Looking ahead: Bangladesh's opportunities in the next 10 years

38. Despite the sharp decline of GDP growth, Bangladesh maintained overall macroeconomic stability during the crisis and is gradually recovering from the shock. Bangladesh is the only country in South Asia that managed to post a positive growth rate as the pandemic hit the world in 2020. Its favorable macroeconomic conditions prior to the pandemic, including low debt vulnerability risks and stable balance of payments, helped the country avoid a sharper economic downturn. Although gradual, the economy has been steadily recovering from the shock during FY2021 and FY2022. Real revenue collection is estimated to have increased in FY2021 with the recovery in trade and domestic economic activities.

39. As it recovers from the pandemic shock, Bangladesh has an opportunity to build back better with higher levels of investment and faster productivity growth to accelerate transition from LMIC to UMIC status. The underlying macroeconomic framework of the government's 8th Five Year Plan does, in fact, anticipate faster growth in national savings and investment than in consumption. Simulations based on the World Bank Long-Term Growth Model indicate that significantly higher productivity growth, human capital accumulation, and investments for the next 10 years could help the country meet the growth targets under the Perspective Plan and the 8th Five Year Plan (table II.2).

³⁰ Germanwatch 2021.

³¹ UNISDR 2014.

³² Ahmed and Suphachalasai 2014.

³³ Rigaud et al. 2018.

³⁴ World Resources Institute 2020.

³⁵ Ministry of Foreign Affairs of the Netherlands 2018.

Table II. 2. Level of growth drivers in the next 10 years (2021–31 average)

	Trend	Changes required to meet GoB growth targets			
		Scenarios for change in 1 indicator only from the trend level			A scenario of combined changes in 3 indicators from the trend levels
		[1]	[2]	[3]	[4]
Total Factor Productivity (annual growth)	0.9%	2.3%	0.9%	0.9%	1.4%
Human Capital Accumulation (annual growth)	1.3%	1.3%	4.1%	1.3%	2.2%
Investment (ratio to GDP)	35%	35%	35%	52%	40%

Sources: World Bank staff estimates based on the World Bank Long-Term Growth Model, as part of background work for the forthcoming Country Economic Memorandum.

40. Bangladesh urgently needs to create more jobs more quickly. Accelerating job creation remains essential for linking economic growth with poverty reduction, but as the country moves up to a UMIC level of development, it must create higher-level and more productive jobs, supported by stronger human capital. According to the 2020 Human Capital Index, under current education and health conditions, a child born in Bangladesh today will be about half as productive as she could have been if she had a complete education and full health. Bangladesh’s Human Capital Index score (0.46) is higher than the average for South Asia (0.40), but far below the levels observed in Vietnam (0.73) and Malaysia (0.63), which highlights the importance of renewed efforts to invest in human capital development for increased future productivity. There is also a sense of urgency as, according to United Nations projections, the current period of demographic dividend will be closing around 2033.³⁶

41. With the forthcoming graduation from least-developed country (LDC) status in 2026, Bangladesh will also need a new level of structural transformation to boost export-led growth and job creation. LDC graduation is a global recognition of Bangladesh’s strong development achievements since its independence. At the same time, it brings changes in benefits the country has been enjoying as an LDC, in terms of market access to advanced economies and external aid. In the past, changes in external market conditions, coupled with the country’s low labor cost did, from time to time, help boost export growth in readymade garments. However, the efficacy of the model will not likely be compatible with the new conditions for accessing external markets without LDC status. With graduation, Bangladesh will lose its current preferential market access and differential treatment benefits. While three-year transition arrangements with the European Union and the United Kingdom have already been agreed to, Bangladesh will ultimately lose preferential access to these markets; thus, a clear strategy is needed to sustain and increase export competitiveness in the post-graduation environment.

42. The rapid advance of digital technology and the deepening of global value chains (GVCs) provide new opportunities for Bangladesh. In 2016, the global digital economy was equivalent to 15.5 percent of global GDP. This figure is expected to reach 25 percent in less than a decade. The COVID-19 pandemic and its related restrictions on mobility and social interactions underscore how digital technologies can support learning, trade, and work, while supporting the continuity of business and government operations and permitting the delivery of many services. With its concentrated and unsophisticated exports, Bangladesh has been much less integrated into GVCs relative to its comparators. There is significant scope for the country to leverage GVCs. The pandemic generated substantial disruptions in GVCs, and how these will ultimately be reshaped post-pandemic is unknown. A recent study by the World Trade Organization finds that, while the pandemic could contribute to a diversification of sources of supply, the extent will vary by sector, depending on the costs of value-chain reorganization. The pandemic per se is unlikely to contribute

³⁶ United Nations 2019.

much to reshoring—that is, the return of manufacturing activities to industrialized countries—which, driven by other factors, started even before the pandemic.³⁷

43. There are also untapped gains from regional integration, particularly among Bangladesh, Bhutan, India, and Nepal (BBIN). With intraregional trade at only one-third of its potential, South Asia is one of the least economically integrated regions in the world. However, recently, there has been renewed momentum toward regional cooperation. This is evidenced by the BBIN Motor Vehicles Agreement, and by progress among BBIN plus Sri Lanka on energy cooperation, looking toward potential development of a regional energy market leveraging hydropower generation in India, Bhutan, and Nepal. The decision by the Government of Bangladesh, announced in June 2021, to sign a power purchase agreement for 500 megawatts from Nepal is a positive step forward. In December 2020, Bangladesh and Bhutan signed a bilateral trade agreement with provisions for free trade in certain goods. Stronger regional cooperation can also be sought on pandemic preparedness by setting up a regional health and disease surveillance network and on coordinated marine resource management.

44. Addressing climate change and environmental sustainability is not only about managing risks, but also creating opportunities to strengthen the country's development path as laid out by the government's climate-related initiatives. The Government of Bangladesh (GoB) is currently preparing a new Mujib Climate Prosperity Plan. It aims to enable Bangladesh to build a stronger future by charting a decade of robust socioeconomic development that fully integrates climate resilience and leverages opportunities within low-carbon economic growth. The Plan seeks to shift Bangladesh's trajectory from one of vulnerability to one of resilience and prosperity. The GoB also launched the Bangladesh Delta Plan (BDP) 2100 in 2018 to build climate resilience into the country's development plans. The BDP 2100 is a comprehensive, long-term, GoB-led development plan, which focuses on economic growth, environmental conservation, and enhanced climate resilience, and lays out holistic and cross-sectoral actions needed to improve the productivity of relevant sectors, while fostering climate adaptation and minimizing disaster risks.³⁸ The GoB has also submitted a new nationally determined contribution for the 26th Conference of Parties (COP26) of the United Nations Framework Convention on Climate Change.

45. Building back better, with stronger economic resilience, is central as Bangladesh recovers from the COVID-19 pandemic. In doing so, long-standing structural weaknesses need to be addressed. For example, Bangladesh's limited export diversification has made the economy highly vulnerable to shocks. The pandemic also deepened the vulnerabilities in the financial sector. A recent simulation analysis conducted by the World Bank indicates that recovery from the pandemic would be delayed most substantially if a financial sector crisis occurs, given the preexisting financial sector vulnerabilities (figure II.11).³⁹ The same simulation points to a faster recovery with fiscal stimulus. However, the government has been facing challenges in raising domestic revenue due to low levels of tax revenue (figure II.12). The crisis also exposed the consequences of limited technology adoption and innovation among Bangladeshi firms, constraining the capacity to respond to the pandemic. Finally, the COVID-19 crisis has highlighted that many of Bangladesh's gains in poverty reduction and human development remain fragile, given that a large percentage of families are close to the poverty line and remain exposed to recurrent shocks. These fragilities emphasize the importance of reducing vulnerability and building resilience to the various risks

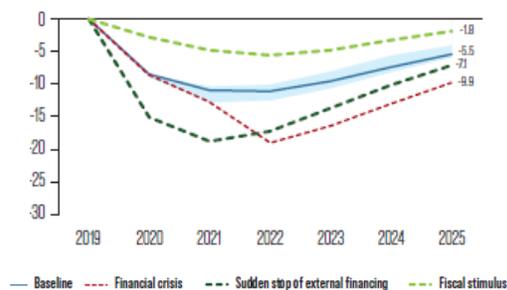
³⁷ Bacchetta et al. 2021.

³⁸ World Bank Group 2021b. The first phase of BDP's investment plan (up to 2030) comprises 80 projects, including both physical projects and institutional and knowledge-development projects, with total capital investment costs of 2,978 billion Bangladeshi taka (US\$37 billion).

³⁹ World Bank 2020g.

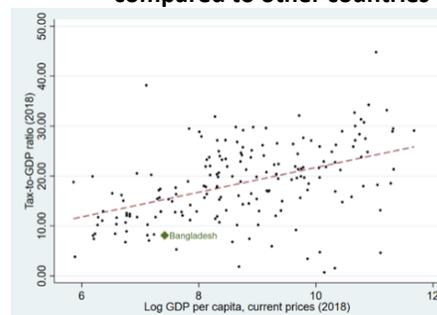
to which Bangladeshis are subject. The crisis has further underscored the lack of significant investment in children’s early years, critical to stopping the transmission of poverty and increasing productivity.

Figure II. 11. Simulating potential deviations from non-COVID GDP growth for Bangladesh



Source: World Bank South Asia Economic Focus (October 2020).

Figure II. 12. Bangladesh’s tax-to-GDP ratio, compared to other countries



Source: International Monetary Fund Revenue Longitudinal Data and Economic Outlook Data.

III. Four Frontier Challenges for the Next Level of Development

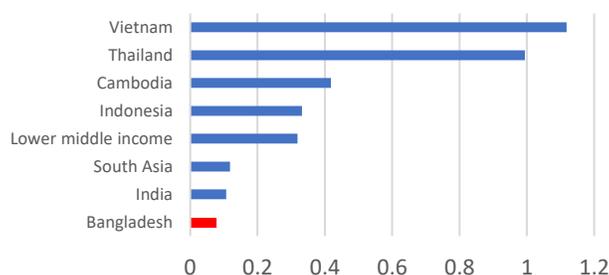
46. This Systematic Country Diagnostic (SCD) Update identifies four frontier challenges that, if tackled properly, could allow the country to accelerate its transition to an upper middle-income (UMIC) level of development. The challenges concern (i) a narrow-based, uncompetitive private sector, which cannot drive growth and job creation; (ii) an inefficient, unsustainable, and less inclusive pattern of spatial transformation; (iii) climate and environmental vulnerabilities that pose risks to sustainable growth and poverty reduction; and (iv) weak institutions and markets, which has a cross-cutting effect on the first three challenges. The country’s economic transformation so far has resulted in substantial progress in growth and poverty reduction. However, the factors that drove past change face diminishing returns in enabling future growth and poverty reduction in an inclusive and sustainable manner. Thus, the four challenges represent key structural imbalances for Bangladesh, hindering growth and poverty reduction. At the same time, addressing these challenges offers levers for a new level of transformation that would prepare the country to reach UMIC status. A central aspect highlighted through the challenges is human capital as a key investment to be protected and enhanced to enable change.

III-1. A narrow-based private sector is not competitive to drive growth and job creation

47. The private sector in Bangladesh is narrowly based and segmented with too few firms driving markets in the formal sector. Bangladesh has a large, entrepreneurial private sector, but it remains highly segmented and concentrated between microenterprises and very large enterprises. Microenterprises account for 98 percent of nonagricultural firms and around 65 percent of nonagricultural jobs, while large firms (over 500 workers) account for 0.04 percent of enterprises and 15 percent of jobs. These statistics point to a “missing middle,” which is a symptom of a growth problem, particularly for young firms. Compared with other countries, Bangladesh stands out for its low new-business density (figure III.1). Key constraints facing the private sector—notably, a lack of access to finance and land, plus excessive regulation—hit small and medium-sized enterprise considerably harder than microenterprises, which operate “below the radar,” and large firms, which have capital and relationships that enable them to find workarounds. Women-led micro and small enterprises also have unique constraints, as standard solutions to constraints may not apply for them. For example, a collateral registry, which is a record of legal claims

to personal property used as collateral for a loan, would not help women, who often do not own collateral because of inheritance laws and have little access to middle-sized loans.

Figure III. 1. New business density in Bangladesh and comparator countries



Source: World Development Indicators.
 Note: New business density is new registrations per 1,000 working-age people.

48. The landscape of large firms is dominated by conglomerates, which are well diversified and have the scale to be competitive, but remain mostly inward-looking, benefiting from rents from protected domestic markets and “enclave” readymade garment (RMG) exports. Most large conglomerates remain family-run businesses. Although the persistence of family-owned conglomerates is a common feature throughout the region, Bangladeshi conglomerates are much less likely to be publicly listed (less than 10 percent), which may constrain growth prospects and contribute to shortcomings in corporate governance.⁴⁰ The strong position of conglomerates in the domestic market is supported by high import tariffs and the influence of these firms on economic policymaking. Many conglomerates have a presence in the RMG sector and benefit from incentive schemes, such as the bonded warehouse program, which are unevenly applied across sectors. Domestic market protection disincentivizes efforts to improve competitiveness or increase export. The dominant position of conglomerates has also kept domestic markets relatively concentrated and closed to foreign competition and investment. Empirical evidence suggests that lack of competitive market environment is a key impediment to innovation, productivity growth, and expansion of exports.⁴¹

49. While the banking sector has played an important role in financing the country’s growth, its lending patterns have also supported the concentrated structure of a private sector that is based on RMG and protected domestic industries. The RMG sector, as well as certain big industries (mainly the import-substituting industries such as cement, steel, and textiles), constitute a significant proportion of loans being disbursed. With the RMG sector being one of the crucial growth drivers of the economy, weaknesses in the banking sector have not been reflected strongly in growth numbers. It is primarily other export-oriented non-RMG sectors, such as leather, agro-processing, information and communications technology (ICT), and others, that are being affected by elite capture of loans.⁴² The governance of the banking sector itself has been an issue, with a lack of both market and supervisory discipline, as well as the presence of regulatory capture, not only by the state-owned banks, but also by domestic private banks. Bank licenses seem to be granted to politically connected entrepreneurs.⁴³

50. Slow technology adoption by Bangladeshi firms limits productivity growth, undermines the sophistication of products and production processes, and ultimately constrains exports. The technology

⁴⁰ World Bank Group 2021a.

⁴¹ For example, Cirera and Maloney 2017.

⁴² Raihan and Bourguignon 2020.

⁴³ Raihan and Bourguignon 2020.

challenge for Bangladesh's manufacturing sector is not that advanced technologies have not arrived in the country, but rather that even incrementally better technologies need to be diffused much more widely. The World Bank's Bangladesh Firm-level Adoption of Technology (FAT) Survey reveals that, while several advanced technologies are already in use among select firms, most firms still use basic or near-basic technologies.⁴⁴ In addition, the June 2020 World Bank Group's COVID-19 Business Pulse Survey revealed the limited level of technology adoption and innovation among Bangladesh firms in response to the pandemic.⁴⁵ Disruptive technology can play an important role beyond manufacturing productivity by, for example, advancing access to services and enabling access to markets for small firms and individuals (for example, e-commerce, business service outsourcing). This needs to be accompanied by a higher-skilled and productive labor force.

51. Foreign direct investment (FDI) is a powerful instrument to support technology transfer, integration into global production networks, and export growth, but the current level of FDI in Bangladesh remains low. Net FDI inflow to Bangladesh was only 0.6 percent of GDP in 2020, below the South Asia and lower middle-income country (LMIC) averages of 1.6 percent and 2.0 percent, respectively, and far below the levels of Vietnam (6.2 percent) and Cambodia (13.5 percent). Considering Bangladesh's large domestic market, robust economic growth, and low labor costs, the limited volume of FDI points to the presence of entry barriers to FDI, which include outdated legislation and weak capacity to attract foreign investors. Lack of a level playing field between domestic firms with existing local networks and foreign firms also plays a role. Promoting more FDI is important not only as a source of financing investments but also to bring multiple other benefits, such as productivity gains from technologies transferred through FDI and better integration in global value chains through foreign investors' international networks.

52. Bangladesh's successful economic transformation was based on concentration and specialization in garment production, but the RMG success has not been replicated in other sectors. Bangladesh was a good example of successful export-led growth, specializing in labor-intensive manufacturing (that is, RMG) by leveraging its comparative advantage (low labor costs) and preferential access to external markets as a least-developed country (LDC). However, the return from such specialization in terms of job creation is diminishing. A more diversified economic structure has become imperative for Bangladesh to meet its job creation and economic transformation agenda in the face of new challenges. Despite the government's strong focus on diversification and the existence of incentives to promote emerging sectors, established sectors (notably RMG) receive far greater incentives and policy support than emerging ones.

53. The recent dynamics in the RMG sector and the LDC graduation in 2026 point to growing risks from overdependence on RMG. Bangladesh's export structure is highly concentrated. In FY2020, RMG exports comprised 83 percent of Bangladesh's total merchandise exports (figure III.2, panel A), making exports about five times more concentrated than in China, Thailand, and Vietnam.⁴⁶ Moreover, Bangladesh's exports are not only disproportionately concentrated in the RMG sector, but are also unbalanced within that sector. Currently, a small set of exporters produces a narrow range of low-value products going to a few main markets.⁴⁷ This is reflected in the low economic complexity level of Bangladesh's exports (figure III.2, panel B). The upcoming LDC graduation, with the consequent loss of preferential access to the markets of major advanced economies, will undermine the competitiveness of products that compete at

⁴⁴ Gu, Nayyar, and Sharma 2021.

⁴⁵ Kader and Pattanayak 2021.

⁴⁶ World Bank Group 2021a.

⁴⁷ World Bank Group 2020.

processes. Difficulty in access to finance is the largest self-reported constraint to technology upgrading among Bangladeshi firms, particularly for micro, small, and medium-sized enterprises.

57. In addition to regulatory and policy barriers, Bangladesh continues to face gaps in the adequacy and efficiency of its infrastructure and industrial land. Poor transport infrastructure and logistics hinder Bangladesh's participation in the global marketplace. Depending on the sector, logistics costs add between 5 and 48 percent to production costs. The logistics system is characterized by congestion (roads and ports), lack of reliability (ports), limited sophistication (weak intermodal connectivity, limited use of information and communication technology, inadequately qualified personnel), and informality across logistics service providers. Connecting to rapidly expanding electricity generation remains problematic. Affordability and speed of the internet remain inadequate, constraining adoption of productivity-enhancing technology solutions and limiting access to the digital marketplace. Land scarcity and costly development, amplified by a weak land administration system, severely restrict greenfield investment and domestic expansion, although development of economic zones holds promise to ease the land issues.

III-2. The pattern of spatial transformation is inefficient, unsustainable, and less inclusive

58. Limited land space relative to the size of its population is a major physical constraint for the country's growth, and its sustainable growth hinges critically on the productive use of space. Bangladesh has the world's highest population density among countries other than city-states. Urbanization has been driven largely by the growth of manufacturing sector jobs in the Dhaka metro region, which underpinned rapid migration into the capital region, and in fact, Greater Dhaka generates one-fifth of the country's GDP. As a result of urbanization, around 38 percent of Bangladeshis already reside in urban areas, and the share of the urban population is steadily rising. This urbanization has created a "double dividend" through a shift of labor out of agriculture and agglomeration economies, which in turn has led to increased productivity of non-farm activities.

59. Given its low-lying location and limited infrastructure, however, the cost of developing land is among the highest in the world. Competing pressures from agriculture, urbanization, and industrial development, along with increased flooding due to climate change, are putting further pressures on land availability and rapidly driving up land prices. Land access is among the constraints most cited by both domestic and foreign investors, pointing to limited land as one of the most severe constraints on Bangladesh' growth. One reason Bangladesh's special economic zones attract foreign investors is the scarcity of industrial land, which investors otherwise cannot obtain. Limited land availability also constrains both inclusion and the sustainability of growth, given the distributional implications of access to land and the intensity of use due to physical limitations. In addition to land's physical availability, weaknesses in governance of land management also contribute to inefficiency in land resources in the country.

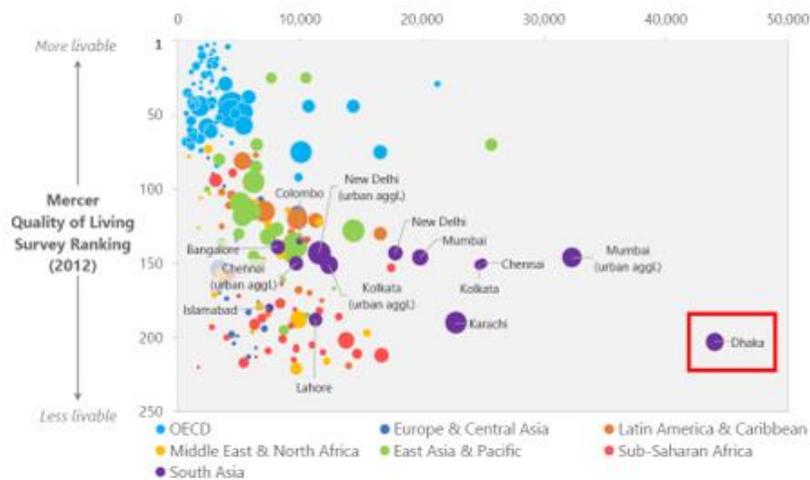
60. While Bangladesh's urbanization has driven the country's economic growth, the expansion of negative externalities from urbanization is increasingly limiting productivity gains from agglomeration and threatening sustainability. The concentration of economic activities in megacities, especially in Dhaka—and the current pace of urbanization is projected to continue—has been accompanied by congestion, pollution, poor water and sanitation, and housing shortages. Dhaka is extremely dense and one of the least livable cities globally on many dimensions,⁵² and severely lags all major cities in its peer countries (figure III.3). These factors are increasingly limiting the benefits of agglomeration economies, impeding both job creation and productivity growth, hindering human capital, and threatening

⁵² According to the Economist Intelligence Unit Global Livability Index.

sustainability. The severe lack of infrastructure and services in other growing urban areas could be tackled with more efficient investment, as public investments to tackle urban issues in Dhaka appear to have grown increasingly more expensive and less productive.

61. Growth of more diverse and productive industries and services is needed to make urbanization more productive. Economic integration between rural and urban areas needs to be strengthened to facilitate the generation of quality jobs both in cities and rural areas. United Nations projections suggest that Bangladesh’s urban population share will surpass that of its rural population in 2037. As urbanization continues, a natural next step would be the relocation of economic activity, particularly manufacturing, to peri-urban areas of large cities, secondary cities, and adjacent rural areas. Despite the urbanization of poverty, rural areas will continue to host a large share of the poor.

Figure III. 3. Urbanization density (persons/square kilometer)



Sources: Mercer Quality of Living Survey 2012; United Nations Statistics Division 2014.

62. Bangladesh’s urbanization has been accompanied by rising equity concerns within urban areas, which highlights the challenges in managing overall spatial transformation. Many poor households are living in slums and many non-poor households are at risk of falling back into poverty. Based on the current pace of urban population growth and poverty reduction in urban areas, more than half of Bangladesh’s poor households are projected to live in urban areas within a decade.⁵³ Those who live in slums trade their poor housing conditions, insecurity, and overcrowding for affordability and proximity to their work. Within Dhaka, slum areas show poverty rates close to the national average. Slums also have more children out of school, lower levels of access to water and sanitation services, and higher dependency ratios (table III.1), which limit human capital accumulation and can have longer-term implications for welfare and productivity. Vulnerability to poverty, defined as the population that lives between the national upper poverty line and twice the national upper poverty line, is high in urban Bangladesh. Even before the pandemic, half of households were vulnerable to falling into poverty, even though they were not poor.⁵⁴ Such high levels of vulnerability can lead households to engage in suboptimal coping strategies, such as reducing food consumption or investments in children’s education and health.

⁵³ Hill and Genoni 2019.

⁵⁴ Hill and Rahman 2019.

Table III. 1. Poverty, education, and WASH in slums and non-slums, Dhaka

	Dhaka CC	Slums
Poverty rate	9.0	23.3
Has no schooling	24	42
School attendance: overall (6–18 years)	77	57
Percentage of male adults who are earners (18 plus)	86	93
Percentage of female adults who are earners (18 plus)	28	49
Dependency ratio	0.51	0.62
Water is piped into dwelling (% of households)	96	76
Share a toilet (% of households)	62	91

Sources: Hill and Rahman 2019. Calculations use HIES 2016 and BUISBS 2016.

Note: Dhaka CC = Dhaka City Corporation; WASH = water, sanitation, and hygiene.

63. Increasing urban environmental degradation exacerbates the poor quality of living and health conditions in urban areas. Unplanned urban growth has led to air and water pollution and challenges in waste management. Pollution impacts in Bangladesh’s urban areas are estimated to cost about 3.4 percent of the country’s 2015 GDP. In Dhaka alone, the cost is 0.7 percent of GDP. An updated estimate (outdoor only) suggests that the situation has worsened—the estimated cost of health effects associated only with ambient PM2.5 was equivalent to 3.7 percent of the country’s GDP in 2019. The World Bank’s preliminary estimates show that outdoor and indoor air pollution (morbidity and mortality) and lead exposure (IQ loss in children and deaths in adults) together pose health risks that accounted for 22 percent (187,236) of all deaths in Bangladesh and cost between 10.1 and 13.2 percent of the country’s GDP in 2019. In addition, Bangladesh produces around 0.8 million tons of plastic waste annually, only 10 percent of which is disposed of properly, with a municipal waste collection rate of about 35 percent nationally. In Dhaka, recurrent flooding and waterlogging are also a growing source of risk as the city expands into low-elevation areas.⁵⁵ High levels of environmental pollution, inadequate water and sanitation, high population density, fear of eviction, and poor housing quality adversely affect the health of slum residents.

64. Access to quality education, health, and other basic services still faces spatial disparities. Human development opportunities and outcomes still vary across areas. As mentioned in the previous section, there are significant differences in access to services and human development outcomes within cities (for example, slums compared to non-slum areas in Dhaka) and across regions. Part of the divergence in welfare between Western and Eastern divisions is linked to slower gains in education and fertility in the rural Western areas of the country. Educational and health outcomes still vary largely across districts (figure III.4, panels A and B). Hard-to-reach areas, climate-change-vulnerable regions, urban slums, and the bottom 40 percent consistently fare worse in access to water, sanitation, and hygiene (WASH) services.⁵⁶

65. Limited internal connectivity continues to constrain spatially equitable growth. While the government has taken a number of initiatives to promote equitable spatial development in the country, economic integration between Bangladesh’s periphery and its dominant economic centers in Dhaka and Chittagong remains limited (figure III.5, panel A). Limited connectivity reduces market accessibility in periphery areas, constraining their income growth and poverty reduction. For example, it constrains the development of high-value agriculture and agro-processing, which can help the country develop other

⁵⁵ The expansion of the city, taking place outside the Madhupur Tract, is on low-elevation floodplains. Currently, 40 percent of this land that lies outside the Madhupur Tract faces a higher flooding risk. The eastern part of the city also remains particularly vulnerable to rising water levels in the surrounding rivers due to limited infrastructure compared to the western part of the city.

⁵⁶ World Bank 2019b.

urban areas and the rural non-farm economy. It also slows adoption of modern technology in agriculture and a dynamic nonagricultural sector.

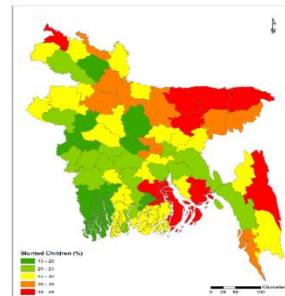
Figure III. 4. District variation in secondary education enrollment and child nutrition

Panel A. Net attendance rates in secondary and tertiary education across districts, 2016



Sources: World Bank staff calculations using HIES 2016.

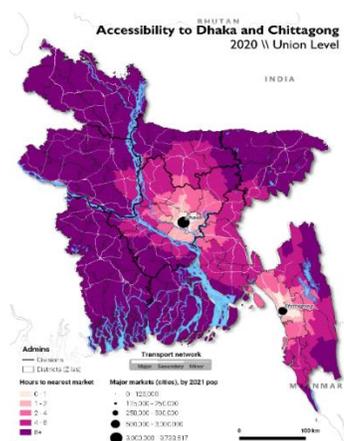
Panel B. Stunting rates (children under 5)



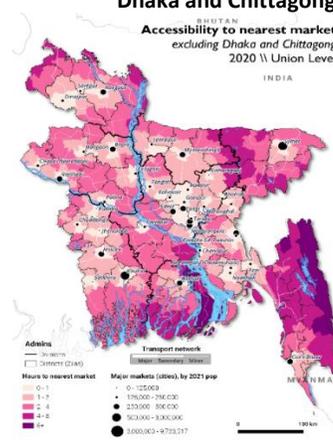
Sources: World Bank staff calculations using MICS 2018.

Figure III. 5. Market accessibility

Panel A. Accessibility to Dhaka and Chittagong



Panel B. Accessibility to nearest market, excluding Dhaka and Chittagong



Source: Staff calculations using the Bangladesh shape file from the Bangladesh Bureau of Statistics, transport data from Open Street Map (www.openstreetmap.org). More details on the methodology can be found in Annex 2, World Bank 2021a.

66. Weak capacity of local governments also hinders spatial transformation from being more efficient, inclusive, and sustainable. Basic infrastructure and social services, including health, education, social protection, labor services, and child and elderly care in urban areas are still inefficient and not well targeted. Improvements in efficiency and targeting for such infrastructure and services have been constrained by the weak capacity of local government institutions, particularly in terms of their financial resources and public financial management. Private-sector participation and citizen engagement in relation to service delivery at the local level are still limited.⁵⁷

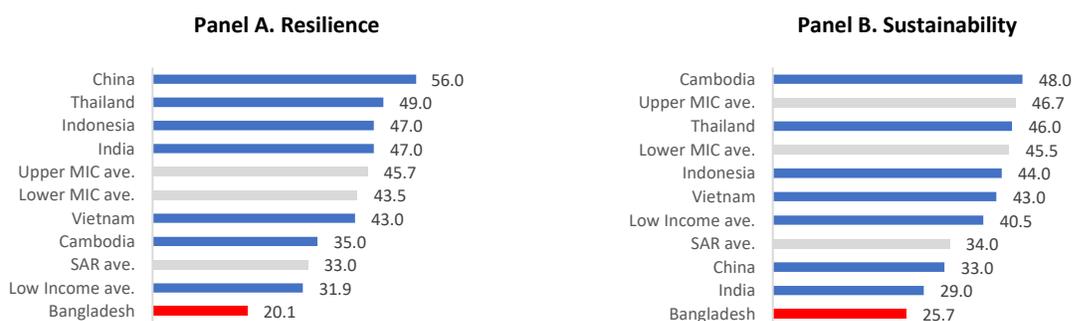
⁵⁷ A World Bank (2019c) study on local government public financial management (PFM) identified several areas of improvement of the PFM system by local government institutions to gain better efficiency in delivering services to citizens.

III-3. Climate and environmental vulnerabilities pose risks to sustainable growth and poverty reduction

67. Bangladesh’s sustainable growth and poverty reduction also hinge critically on addressing the current vulnerabilities in terms of climate change and environmental sustainability. The 8th Five Year Plan mentions integration of economic progress, environment, climate change, and disaster risk management into planning and budgeting for the country’s sustainable development. The World Bank’s Resilience-Inclusivity-Sustainability-Efficiency (RISE) indexes show that Bangladesh scores more poorly on resilience and sustainability than its comparators (figure III.6).⁵⁸

68. The country faces high risks from natural disasters for its productive assets, human capital, and overall well-being. Climate risks are aggravated by high social vulnerability, with more than half of the urban population living in slums being more vulnerable to crime, disease, and natural disasters, due to a lack of basic facilities and low-quality infrastructure. The coverage of social assistance programs remains incomplete, with only three in 10 households covered and programs’ ability to respond to shocks limited. Moreover, Bangladesh has long been associated with a high risk of food shortages from floods, contributing to a high prevalence of stunting among children under five and significant losses in livelihoods for the poorest and most vulnerable. These risks not only undermine short-term welfare, but also bring longer-term consequences for the well-being of future generations by impacting human capital accumulation in the critical early years.

Figure III. 6. Average percentile rank on resilience and environmental sustainability from the RISE indexes



Sources: World Bank Sustainable Development Practice Group, based on Resilience-Inclusivity-Sustainability-Efficiency (RISE) benchmarking.

69. Adaptation to climate change remains a serious challenge to the country’s development. Bangladesh’s geographic characteristics as a low-lying delta country, dominated by a river system, and its substantial exposure to climate risks, make it imperative for the economy to adapt to climate change. While the country has strengthened its disaster-coping mechanisms compared to previous periods, risks from climatic shocks remain significant. Weather events continue to pose a risk to key infrastructure and increase construction costs. In particular, the overall quality of the road network remains poor, with recurrent floods complicating maintenance of a good-quality network. Several economic sectors, most notably agriculture, are especially susceptible to climate change, and climate adaptation in those sectors is important for sustaining jobs and livelihoods in the country, particularly in rural areas. Social services for human development—education, health, and social protection—should also adapt to climate change by providing more shock-responsive programs.

⁵⁸ The RISE indexes benchmark individual countries’ performance against the world or against selected peers in the areas of resilience, inclusion, sustainability, and efficiency, based on a set of specific indicators for each area.

70. Managing the delta environment continues to be a top challenge for the country in adapting to climate change and building resilience. The coastal zone along the Bay of Bengal is highly vulnerable to climate-related hazards such as cyclones, storm surge, coastal erosion, and sea-level rise. Eight million people are currently susceptible to inundation depths greater than 3 meters due to cyclonic storm surges, and this number is estimated to increase to 13.5 million people by 2050. The centrality of strengthening adaptive delta management practices is clearly shown in the government’s Bangladesh Delta Plan (BDP) 2100.

71. Climate change poses a serious threat to Bangladesh’s growth in agricultural productivity, with negative implications for poverty reduction. Agricultural production in the country has already been adversely affected by climate change, including temperature increase, sea-level rise, saltwater intrusion, rainfall variability, and increased extreme weather events. These impacts are particularly marked in coastal areas and arid and semi-arid areas.⁵⁹ Climate change will further exacerbate the vulnerability and risks facing agriculture. Increased soil and water salinity due to sea-level rise is projected to result in a 15.6 percent yield reduction in high-yielding rice varieties by 2050.⁶⁰ Climate change is also adversely affecting the fisheries and livestock sectors. Given the centrality of agriculture for the incomes of the poor, addressing the impacts of climate change in agriculture is important for supporting poverty reduction and reducing spatial disparities. Moreover, with the feminization of Bangladesh’s agriculture sector, women are increasingly dependent on the environment and natural resources for their livelihoods.

72. While adaptation is key, the rising level of carbon emissions in the country heightens the need to establish a clear roadmap of decarbonization to reduce the carbon footprint of important sectors. Currently, agriculture is Bangladesh’s leading contributor to carbon emissions, followed by the energy sector, respectively producing 40 percent and 37 percent of total emissions. Regarding industrial emissions, brick kiln, chemical fertilizers, and cement are three main industries whose carbon footprints need to be reduced. The recent growth in construction activities driven by rapid urbanization and the Government of Bangladesh’s investments in infrastructure have generated high demand for construction materials, including bricks and cement, which use carbon-intensive production technologies. Carbon emissions from agriculture and related industries are also expected to rise significantly, up to 86.87 metric tons of carbon dioxide equivalent (MtCO₂e) by 2030 and 100 MtCO₂e by 2050, from 77 MtCO₂e in 2014–15.⁶¹ Reducing carbon footprints from agricultural inputs such as chemical fertilizers would help cut the overall footprint in the country. Whereas economy-wide carbon emissions increased by 218 percent between 1990 and 2019, the energy and waste sectors showed much higher growth rates of carbon emissions. Emissions in these sectors rose by 587 percent and 778 percent, respectively, during the period.⁶² Oil- and gas-fired plants account for 99 percent of total energy generation in Bangladesh, of which one-third comes from rental plants that use expensive and highly polluting heavy fuel oil and are well overdue for phasing out.

73. Bangladesh’s performance in terms of sustainability is mixed. This reflects how the country’s robust economic growth over the past two decades may have come at the cost of premature mortality, elevated morbidity, and declining environmental services. Unplanned growth and urbanization have led to air and water pollution and challenges with waste management. Large amounts of waste are dumped into the environment directly, clogging urban drains, shrinking wetland areas, polluting rivers, and increasing flood and health risks. There is also a need to help the poorest diversify their productive activities away from

⁵⁹ Alam, de Heer, and Choudhury 2018.

⁶⁰ World Bank 2019a.

⁶¹ Sapkota et al. 2021.

⁶² Gütschow et al. 2019.

practices that harm the environment, and to boost the role of local development programs in building community assets that prevent degradation.

74. The degradation of natural resources is particularly concerning with regard to freshwater scarcity and pollution, forest loss, and air pollution. In these areas, Bangladesh's RISE indicators are poor when benchmarked against the world. The Environmental Performance Index likewise shows notable deterioration over the past 10 years in fine particle (PM2.5) air pollution, ecosystem services, and fisheries resources.⁶³ Forests disappeared at an alarming rate between 1900 and 2010, increasing risks of heavy flooding and rapid siltation. About 65 percent of Bangladesh's land became degraded between 2000 and 2015. Consequently, deterioration of habitats and loss of biodiversity will remain a challenge going forward. Air pollution continues to be a problem, with death rates attributable to household and ambient air pollution above LMIC average levels. On the positive side, Bangladesh has healthy coastal waters and a relatively low mortality rate from unsafe sanitation.

75. Bangladesh's groundwater tables are shrinking. The shift from agriculture to industrial and service sectors has intensified urban water demand. Overall, although irrigation makes up a large share (80 percent) of total water demand, industrial demand is expected to see the highest growth. As of 2019, industry demand for water accounted for an estimated 2 percent of freshwater withdrawal, but it is expected to increase by 440 percent by 2050. Household water demand, responsible for about 10 percent of freshwater withdrawal, is also expected to increase 200 percent by 2050.⁶⁴ Most of Bangladesh's fast-growing water demand is fed by its rapidly dwindling groundwater tables. Groundwater levels are declining fast in the Northwest because of irrigation, and in major cities such as Dhaka because of domestic and industrial growth. The salinity intrusion triggered by climate change also poses threats to groundwater resources in coastal regions.

76. The poor are often disproportionately affected by climate impacts and environmental degradation, both in rural and urban areas. According to 2016 Household Income and Expenditure Survey (HIES) data, about 17 percent of rural households reported a negative event or income shock in the year preceding the interview, 81 percent of which were related to weather events (such as floods, droughts, or landslides). The main coping strategies reported were reducing food consumption (58 percent), using own savings or selling assets (66 percent), and getting help from friends (53 percent). Due to lack of options, the poor rely more on reducing food consumption when coping with a shock, which creates risks for food insecurity and malnutrition. In urban areas, as mentioned, poor households are more likely to live in areas vulnerable to flooding and to face poor environmental conditions. Largely informal settings also have a direct role in those problems.

77. Climate change and environmental degradation also threaten human capital formation and retention, with longer-term consequences for the country's development. Rising temperatures and precipitation increase vector-borne diseases, heat-related deaths, and the incidence of food- and waterborne diseases. This increases risks of childhood malnutrition, stunting, and mortality. In addition, Bangladesh's groundwater suffers from high levels of arsenic. About a quarter of structurally improved drinking water sources, primarily shallow tube wells, contain arsenic levels that exceed World Health Organization safe water guidelines. Drinking arsenic-contaminated water causes health issues including cancers, cardiovascular disease, metabolic disorders, skin lesions, and cognitive damage. Moreover, irrigation with arsenic-rich groundwater passes arsenic through the food chain, further threatening

⁶³ Fine particulate matter is defined as particles that are 2.5 microns or less in diameter (PM2.5).

⁶⁴ CSIRO et al. 2014.

human health. Other anthropogenic sources of groundwater pollution include poor fecal sludge management, agricultural runoff, and industrial pollution.⁶⁵

III-4. Weak institutions and markets

78. Across the three above-mentioned frontier challenges, weakness of institutions and lack of contestability in markets are major cross-cutting issues. To become an upper middle-income country (UMIC), Bangladesh needs to strengthen economic diversification and broaden the private sector, which requires not only infrastructure but also the right policies and strong institutions in both the private and public sectors. Governance over infrastructure and environmental resources, the capacity of local governments, capacity for public investment management, intersectoral policy, and investment coordination are important for efficient, inclusive, and sustainable spatial development, and for addressing climate and environmental vulnerabilities.

79. Bangladesh needs to improve the overall quality of institutions, including their capacity, regulatory quality, and availability of formal institutions to create markets and make them contestable. Bangladesh performs poorly on international indicators of governance. For example, on the Worldwide Governance Indicators (figure III.7, panel A), Bangladesh lags not only UMIC averages, but also the averages for lower middle-income countries (LMICs) and for South Asia, across all categories. Bangladesh scores relatively well on economic management and policies for social inclusion and equity under the World Bank's Country Policy Institutional Assessment, but significantly lower than South Asia, LMIC, and UMIC averages on structural policies and public sector management and institutions (figure III.7, panel B). Complementing those international indicators with a series of case studies, a recent institutional diagnostic identifies the supremacy of "deals" over formal industrial (or development) policymaking, weak state capacity, and ineffective regulation as three institutional weaknesses in Bangladesh.⁶⁶

80. Key areas for institutional capacity enhancement in the public sector include public service modernization, public financial management (PFM), public procurement, statistics, and citizen engagement. Digital technology provides a renewed opportunity to modernize the public sector by strengthening overall government coordination and integration for digital change, including strengthening the civil registry systems and e-service delivery. Despite considerable progress in recent years, Bangladesh still scores low in the Public Expenditure and Financial Accountability Assessment (PEFA).⁶⁷ Challenges remain, for example, in expenditure composition outturn, subnational operations, performance management, public access to information, fiscal risk reporting, expenditure arrears, annual financial reports, and both internal and external auditing. Bangladesh has made notable progress over the last decade in strengthening its public procurement system, including bringing the entire procurement process online through the electronic government procurement (e-GP) portal. However, there is still scope to improve overall efficiency in the public procurement system. Statistical capacity is an important aspect of institutional strength in terms of informing policymaking and investment decisions, as well as improving transparency and accountability. Based on the World Bank Statistical Capacity Indicator, Bangladesh's capacity is weaker than that of countries such as Vietnam and has become weaker over the last five years due to reduced timeliness and frequency of data publication. Bangladesh has been

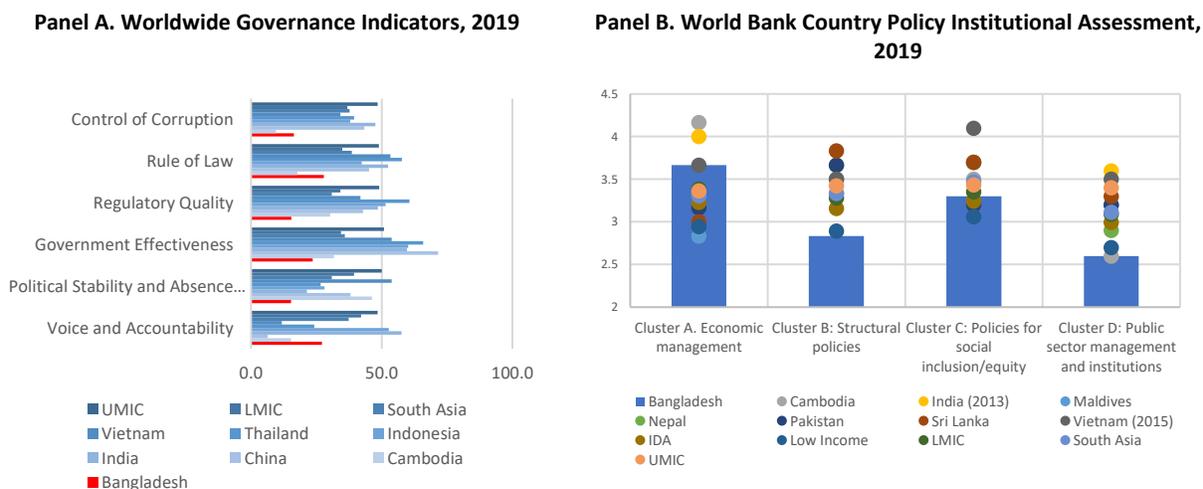
⁶⁵ World Bank 2020e.

⁶⁶ Raihan and Bourguignon 2020.

⁶⁷ Bangladesh's overall PFM performance is below average for six out of seven pillars in the latest 2016 Public Expenditure and Financial Accountability Assessment (PEFA). Except for the pillar of policy-based budgeting, Bangladesh PEFA scores are below average for all other pillars (that is, credibility of budget, comprehensiveness and transparency, predictability and control in budget execution, accounting, recording and reporting, and external scrutiny and audit).

operating a centralized grievance readiness system, which provides mechanisms for citizen engagement on service delivery. However, while uptake of the system has been growing in recent years, women and marginalized groups often encounter challenges in accessing the mechanisms and face barriers to engagement with the state.

Figure III. 7. Indicators of the strength of institutions



Source: Worldwide Governance Indicators.

Source: World Bank Country Policy Institutional Assessment.

Note: Only International Development Association (IDA) countries are included. For India and Vietnam, the data for their last IDA year were used.

81. The current regulatory environment is not strong enough to foster broad-based private sector growth. The government has recently introduced a number of reforms to streamline regulatory processes for businesses, including the introduction of one-stop service portal by the Bangladesh Investment Development Authority. Despite such progress, the business regulatory system still comprises policies, laws, regulations, institutions, and procedures that constrain business entry, operations, growth, and exit. Compared to its peers, Bangladesh continues to face inefficiency in customs, cumbersome registration of property, weak contract enforcement mechanisms, and constrained access to credit.⁶⁸ The country's poor performance can be partly explained by the many outdated laws governing economic issues like foreign exchange, land, and company formation—laws that predate independence. In addition, regulatory rules often overlap or contradict one another, whereas administrative processes are opaque and poorly enforced, resulting in a high degree of discretion in the regulatory process. Also, Bangladesh performs poorly on contract enforcement. It takes an average of four years to seize collateral from distressed debtors, with a recovery rate of just 20 cents on the dollar. Similarly, resolving a contract dispute through the courts takes almost four years, on average, with costs reaching up to two-thirds of the value of the claim.

82. Business environment challenges are underscored by the weakness of institutions available to support market-based development. Although Bangladesh's economy is market-based, and its growth is driven by the private sector, relationship-based approaches ingrained in economic governance are a drag

⁶⁸ World Bank Group 2021a.

on competitiveness.⁶⁹ A competitive market environment is key for boosting productivity, the ultimate driver of long-term economic growth. According to an assessment by the Economist Intelligence Unit, the risks to competition from vested interests and unfair competitive practices are higher in Bangladesh than in any of its peers. The outdated legal framework governing private sector operations magnifies these risks by creating space for discretion in the regulatory processes. Government regulatory agencies often lack independence, as in the case of Bangladesh Bank. Moving away from a relationship-based approach—which reinforces the current undiversified structure of the Bangladeshi economy—and modernizing the regulatory environment for businesses will be critical to transitioning to the next stage of development.

IV. Priorities

83. This Systematic Country Diagnostic (SCD) Update identifies eight priorities—four foundational priorities to propel the country’s transformation and four enabling priorities to shift gears for accelerated transformation—which are key to tackling the four frontier challenges and to supporting the country’s transition to upper middle-income country (UMIC) status. Figure IV.1 illustrates how the priorities are derived from the four frontier challenges and facilitate the country achieving its overarching objectives. The following four priorities are foundational, as they are the basis on which to propel the country’s transformation toward UMIC status: (a) inclusive and resilient human capital, (b) productive and sustainable management of natural capital, (c) effective and efficient public institutions, and (d) macroeconomic and financial sector stability. In addition, the SCD Update identifies four enabling priorities, which are levers to accelerate the transformation: (e) competitive and diversified markets, (f) skills and technology adoption, (g) closure of infrastructure gaps, and (h) private sector finance.

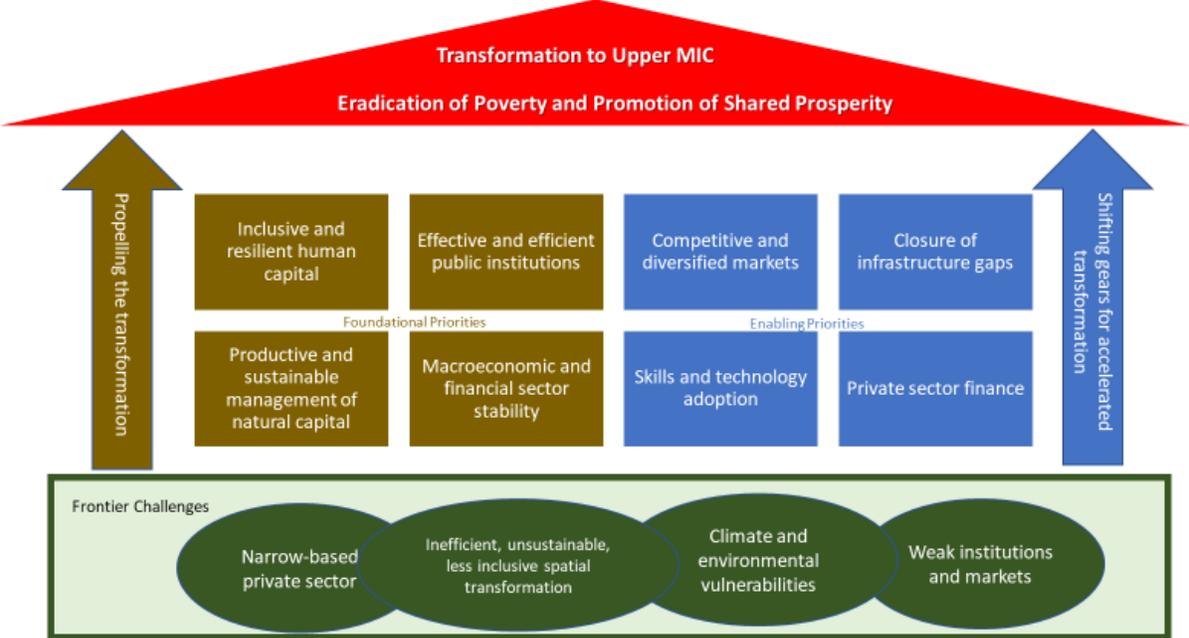
84. While the priorities identified by the 2015 SCD remain broadly valid today, there have been some shifts in focus within each of the 2015 SCD priorities, with greater need to address sustainability, resilience, inclusivity, and markets and institutions. Among the 2015 SCD priorities (see para 2), good progress has been achieved in energy, as generation capacity has quadrupled over the past decade. Good progress has also been achieved in human development. However, in both these areas new priority issues have emerged, such as, in the case of energy, tackling persistent gaps in transmission to channel generated power, and, in the case of human development, investing in the early years of children to enhance the human capital of future generations. Addressing sustainability and building resilience against shocks have become new areas of focus in energy and human development in terms of energy transition and shock-responsive human development programs. Inclusiveness, reducing gender gaps in economic opportunities, and efforts to tackle spatial inequalities have likewise become important under the connectivity and urbanization agenda. Across the five transformative priorities of the 2015 SCD (that is, energy, inland connectivity and logistics, regional and global integration, urbanization, and improved delta management), strengthening public institutions such as public investment management and fostering the role of the private sector through mechanisms including public-private partnerships have clearly become common agendas.

85. The new set of priorities in this SCD Update reflects a greater emphasis on strengthening institutions and creating markets than the 2015 SCD priorities. These are the two areas in which the country has made little progress since the 2015 SCD and continues to lag its peers. Fostering a contestable market environment and transforming public institutions to support this environment are critical levers for

⁶⁹ World Bank Group 2021a.

accelerating movement toward UMIC status. As countries move into middle- and upper-income stages, the role of the government, even in a developmental state, tends to shift from actively leading to becoming an effective regulator and facilitator of the private sector. Similarly, the way government interacts with the private sector changes, from one based on relationships to one based on systems supported by transparent, modern institutions. In Bangladesh, however, the SCD Update indicates that the government needs to set up modern institutions to take on this new role. To move to the next stage of development, Bangladesh needs a stronger institutional context for successful policy reforms. As seen in East Asia, modernizing institutions for the next development stage requires improving the capacity and efficiency of the bureaucracy, but also, and most importantly, addressing transparency and predictability. This includes ensuring a level playing field on which the private sector, including individual firms and industry associations, engages with government in a coordinated and systematic way to shape policy.

Figure IV. 1. Eight priorities to address the frontier challenges and achieve the country’s goals



86. **The process of identifying the eight priorities for this SCD Update was based on ranking the development constraints analyzed in the diagnostic.** First, a “long list” of constraints was developed from the constraints included in the 2015 SCD priorities and new constraints that have emerged since 2015 as relevant for the four frontier challenges described in section III. Based on the evidence, the long list of constraints was prioritized, taking into account the following criteria: (i) whether the country was underperforming in a particular area compared to South Asia and lower middle-income countries (LMICs); (ii) whether there is evidence that the constraint needs to be tackled first to facilitate the removal of additional constraints; (iii) whether the constraint is expected to become more binding in the future; and (iv) the expected impact of the constraint’s removal on improving competitiveness and private sector development, increasing inclusion, enhancing resilience, and strengthening institutions through technology and innovation. Annex 1 provides more detail on how the analysis was conducted.

IV-1. Four foundational priorities: The essential basis to propel the transformation

87. Human capital, natural capital, the macroeconomic and financial sector, and public institutions will be the key foundations of Bangladesh’s development and for the country to propel its UMIC transformation process, while greater focus will be needed on sustainability, resilience, inclusivity, and institution building and market creation. Human capital is the basis for the productivity of the future labor force; it is key to driving growth and job creation. Increased attention will also need to be paid to inclusivity, particularly in terms of gender and targeting poor and vulnerable people, and to resilience against future shocks. Diverse natural resources in Bangladesh constitute critical capital for the country’s growth and resilience. The sustainable and productive management of these natural resources will have significant impacts on the country’s resilient and inclusive growth. Experience in countries around the world indicates that strong public institutions are a necessary if not sufficient condition for countries to achieve sustained transformation. To support private sector growth and market creation with contestability and to provide adequate service delivery for citizens and businesses with accountability, the effectiveness and efficiency of public institutions need to be strengthened. Macroeconomic stability will continue to be essential in underpinning the country’s growth and poverty reduction, while addressing financial sector vulnerabilities will be essential to maintain macroeconomic stability and create the basis for private sector growth and effective financial intermediation. The strength of public institutions is critical to support the country’s transition.

A: Inclusive and resilient human capital development

Box IV. 1. Priority policy measures for inclusive and resilient human capital development

Immediate actions:

- Strengthen policies and institutions for licensing and regulating childcare services and incentives to promote the establishment and use of these services, including proper implementation of the 2021 Child Daycare Act
- Improve the healthcare regulatory framework, including regulatory capacity and oversight, for enhanced private sector participation.

Medium-term actions:

- Expand the national child benefit program and coverage of the core social protection program
- Address harmful social norms such as child marriage, constraints on access to reproductive health options, and restrictions on women’s and girls’ mobility outside the home
- Develop an efficient financing strategy for human capital development in responding to shocks and more flexible and scalable social protection programs to lower the cost of response while improving speed and impact
- Strengthen the health system to prevent or detect disease outbreaks, and establish a rapid response system to deal with outbreaks
- Address the adequacy of public spending on health and education and realign spending with policy priorities and with the need to close coverage gaps.

88. To support its transformation, Bangladesh needs human capital development that is more inclusive and resilient. As shown in section III, human development outcomes still vary substantially across population groups and areas, partly driving disparities in welfare across areas and within cities. Particular attention to building the human capital of women and vulnerable groups can contribute to current and future poverty reduction by breaking the intergenerational transmission of poverty, reducing vulnerability to poverty, and strengthening resilience against shocks. Key aspects for such human capital development in Bangladesh include addressing development in the early years, strengthening female labor force participation, and making human capital development programs more responsive to economic shocks.

Addressing the quality of service delivery and the adequacy and efficiency of public expenditure on human development, while fostering private sector participation, is important to strengthen human capital development in the country.

89. Bangladesh needs to take a lifecycle approach to strengthen its human capital development, starting from the early years. The productivity and resilience of the population and of future workers depend on investments in early childhood. Evidence indicates that to strengthen early-years development, Bangladesh needs to (i) develop dietary improvements and food-based strategies that ensure children are well nourished by increasing the adequacy of infant feeding, reducing micronutrient deficiencies, addressing the high prevalence of undernutrition, and promoting good hygiene practices; (ii) improve access to quality drinking water by expanding water, sanitation, and hygiene facilities; (iii) develop a network of childcare centers and early childhood development centers and services, so as to promote early stimulation and learning opportunities, encourage good parenting practices, and provide quality childcare and pre-primary education services; and (iv) expand the national child benefit program and the coverage of Bangladesh's core social protection program, in order to nurture and protect children by addressing key stressors such as poverty, violence, and shocks.

90. With women's participation in the labor force and their productivity remaining limited, existing challenges such as social norms, child marriage, gaps in access to productive assets, and childcare options need to be addressed. Despite Bangladesh's progress in female labor force participation and its relatively high ranking among South Asian countries, women's employment in Bangladesh remains very low by international standards.⁷⁰ Not only do fewer women participate in the labor force, but working women experience more economic vulnerability, with larger shares of women than men unemployed and in informal or unpaid employment. Childcare responsibilities and norms around women's mobility make women more likely to work at home, particularly in rural areas. There is a massive gender gap in home-based work, with 62 percent of women working from home compared to a mere 6 percent of men. Although married women are in Bangladesh's labor force at much greater rates than they were a decade ago, the persistence of child marriage continues to be a significant barrier. Despite improvements, Bangladesh has the highest national prevalence of child marriage in South Asia, and the second highest in the world. A major constraint to female labor supply among mothers with young children is lack of systematic provision of public or private daycare services.⁷¹ Strong policies and institutions are needed for licensing and regulating childcare and for incentives to promote the establishment and use of childcare facilities.⁷² In this context, the adoption of the Child Daycare Act in June 2021 is a major step forward, and its implementation is crucial.

91. Stronger efforts are needed to address gender-based violence (GBV). GBV has an effect on women's income-earning potential and decision making, and ultimately deprives women of the basic rights which all human beings have. Women affected by GBV are likely to have higher levels of absenteeism at work, resulting in loss of pay.⁷³ Reduced income due to GBV may, in turn, further exacerbate a woman's risk of violence in the home, as her agency and household incomes decline, increasing financial stress. COVID-19 introduced new challenges for women across the country, many of which have contributed to increasing GBV. Policy attention is also needed to enhance legislation on equal pay and promotion at work, along with criminal or civil remedies for sexual harassment in public spaces. Policy efforts are likewise needed to remove legal and institutional restrictions on female labor force participation and address harmful

⁷⁰ World Bank 2021c.

⁷¹ Kotikula, Hill, and Raza 2019; Solotaroff et al. 2019.

⁷² Christie 2018.

⁷³ <https://www.giz.de/en/downloads/giz2014-0251en-violence-women-financial-consequences-peru.pdf>.

social norms, such as child marriage, GBV, constraints on access to reproductive health options, and restrictions on mobility outside the home.

92. The COVID-19 pandemic has heightened the need to promote human development programs that are more responsive to income and expenditure shocks, including effective social protection systems that can boost households' resilience. As discussed earlier, social protection is a key sector in addressing the impacts of disasters, representing 39 percent of allocations in the 2020 Bangladesh Climate Change Strategy and Action Plan. Actual expenditure on such programs has increased but still represents only 3 to 5 percent of total expenditure. Furthermore, Bangladesh has the second-highest share of out-of-pocket health expenditures in the world, highlighting the weaknesses in health financing. The health system has also demonstrated its weaknesses in managing outbreaks during the ongoing COVID-19 crisis. Finally, the limited skills and productive assets of many Bangladeshis put them at high risk in times of shocks, highlighting the gap in programs to advance the economic inclusion and productivity of the poor and vulnerable. Important policy focuses include developing a more efficient financing strategy for response to shocks, together with more flexible and scalable social protection programs to lower the cost of such response while improving speed and impact (for example, developing mechanisms for the quick identification of beneficiaries for shock-response programs, using the National Household Database, among others).⁷⁴ It is also important that the health system be strengthened to prevent or detect and respond swiftly to disease outbreaks (for example, by developing a more precise system to risk-stratify geographic settings susceptible to disease outbreaks, along with systems of earlier response to localized epidemics before they reach generalized epidemic proportions). Social service providers should become more resilient to shocks through climate-proof health and education facilities.

93. Improve service delivery quality and increase public spending on human capital development to address limited coverage of key groups and services, and significant inefficiencies. Bangladesh's public spending on education and health as a share of GDP is the lowest among countries in the region and among aspirational peers. Water, sanitation, and hygiene budget allocations are also limited and have declined in the past decade. Social protection spending is relatively high, though its efficiency and ability to reach the poor and vulnerable need to be improved. In the current system, weak support for economic inclusion programs for the working-age population and youth could limit Bangladesh's ability to reap the country's demographic dividend. In addition, the social protection system remains focused on rural areas, and the relatively small benefits limit the impact of many programs. While the level of spending remains a key bottleneck, there are also efficiency issues in the delivery of benefits and services to beneficiaries. Improving the quality-of-service delivery in education and health also requires better-targeted education spending. Currently, education spending per student for primary and secondary levels varies significantly across Bangladesh and is not correlated with attendance rates and internal efficiency indicators.⁷⁵ It is important that the adequacy of public spending for health and education be addressed to reduce out-of-pocket expenditures while realigning spending with policy priorities and closure of coverage gaps. This also requires ensuring more efficient planning, budget execution, and reporting processes, as well as effective monitoring of public spending outcomes, strengthening institutional capacity at the local level, and enhancing citizen participation and accountability.

94. The private sector could play an expanded role in human capital development in Bangladesh, including in healthcare services. Experience during the ongoing COVID-19 pandemic suggests that there will be an increased future need for private sector investment, particularly in diagnostic clinics, testing,

⁷⁴ World Bank 2020b.

⁷⁵ Dev Bhatta et al. 2019.

and hospitals. Given the growing size of the healthcare market and the development of hospital groups, private investors can support the expansion of scalable, integrated healthcare providers that deliver services in a more cost-effective way. The public-private partnership (PPP) model could also play a prominent role in this sector, particularly in diagnostics, specialized treatment, and medical waste. To advance private participation in the sector, the regulatory framework, including regulatory capacity and oversight to ensure quality control mechanisms, needs to be improved. Other necessary policy measures include development of a national health insurance scheme, which would support patients' ability to afford private healthcare; stronger PPP implementation capacity at the Ministry of Health and Family Welfare, along with the development of precise guidelines for healthcare PPPs; and facilitation of foreign participation in the sector, which could introduce tested operational models and more advanced treatment options in the domestic market.

B. Productive and sustainable management of natural capital

Box IV. 2. Priority policy measures for productive and sustainable management of natural capital

Immediate actions:

- Strengthen the government's public investment management system and interministerial coordination in designing and implementing projects such as the Bangladesh Delta Plan (BDP) 2100, ensure integrated land and water management, and build environmental and social risk assessment and management into project development and implementation
- Strengthen implementation of BDP 2100 by operationalizing the Delta Governance Council and by strengthening the domestic governance structure for engaging international transaction advisors in implementing investment projects
- Amend the Environmental Conservation Act and Environmental Conservation Rules as described below.

Medium-term actions:

- Adopt fiscal and sector policies to enhance market-based green growth, including fiscal incentives for green investment, payment for ecosystem services, taxes on polluting activities, charges for waste management and water use, and phase-out of environmentally harmful subsidies⁷⁶
- Establish more efficient pricing for waste and water, and create a proper water supply and sanitation regulator
- Develop information systems for enhanced collection, processing, analysis, and concurrent dissemination of key data on air, water, soil, and other natural resources
- Strengthen the quality of the land administration system, including addressing currently overburdened courts, making the register of land titles and interest fully digitized and publicly searchable, and finalizing the national settlement policy.

95. Addressing the frontier challenges require natural capital in the country to be managed productively and sustainably through stronger policies and institutions that also support market creation. Among the keys to improving Bangladesh's management of natural capital for sustainable and inclusive growth, evidence highlights strengthening institutions to improve policies and investments through better coordination within government and fostering the role of the private sector. The government's BDP 2100 should be a showcase of how the country can develop strong institutions and foster private sector participation in managing natural capital and building climate resilience. Climate-

⁷⁶ Green growth can be defined as a growth pattern that is efficient in its use of natural resources, clean in that it minimizes pollution and environmental impacts, and resilient in that it accounts for natural hazards and the role of environmental management and natural capital in preventing disasters.

smart policies and investments and measures to promote green growth should be integrated in key economic sectors such as agriculture, manufacturing, and energy.

96. Strengthening policy and investment coordination for better management of resources is a top priority in building climate resilience and strengthening sustainable and productive management of Bangladesh's natural capital. Institutional capacity needs to be developed to manage natural resources such as water, rivers, and land, while preserving biodiversity and ecosystems. A priority policy in this regard is to strengthen the government's public investment management system and interministerial coordination in designing and implementing projects such as the BDP 2100, while ensuring integration of environmental and social risk assessment and management in project development and implementation. The implementation of the BDP 2100 is hindered by weak institutional capacity, unclear roles, and limited coordination. Addressing institutional constraints is one of the highest priorities for successful implementation of BDP projects across all subsectors.⁷⁷ In the context of BDP 2100 implementation, operationalizing the Delta Governance Council is likewise important. Another priority is to strengthen environmental policy and its implementation broadly to (i) integrate principles of green growth and a circular economy; (ii) enhance collection, analysis, and dissemination of monitoring data for environmental, land, and water quality; (iii) set clear requirements for environmental clearance and public consultations; (iv) strengthen oversight and enforcement to deter pollution; and (v) address financing mechanisms for ecological management. Such objectives can be advanced by, for example, amending the Environmental Conservation Act and Environmental Conservation Rules.

97. Enforcement of environmental regulations needs to be improved and monitoring of the use of natural resources strengthened. Although the Department of Environment is mandated with enforcing environmental regulations, its monitoring and investigative functions need to be strengthened, more autonomous, and decentralized. Moreover, there are few environmental courts and no provision for appeal to higher courts. Monetary penalties are low enough to encourage polluters to bear the penalties of pollution rather than comply with quality standards.⁷⁸ It is important that the country develop information systems for enhanced collection, processing, analysis, and concurrent dissemination of key data on air, water, soil, and other natural resources, especially from monitoring and oversight activities.

98. Fostering the role of the private sector is essential for addressing climate resilience and green growth. It is important to nurture partnerships between the public and the private sectors in designing and implementing programs for adaptive delta management. This will involve strengthening the domestic governance structure for engaging international transaction advisors in implementing investment projects under the BDP. Furthermore, to maintain its leadership position and continue supporting the domestic economy, Bangladesh's RMG sector needs to pay greater attention to environmental standards. While there has been significant progress in improving labor conditions and greater uptake of energy and water efficiency solutions in Bangladesh RMG, further alignment with international standards is critical for the longer-term competitiveness of this sector.

99. The country also needs greater efficiency in sector regulations that affect natural resources, including the pricing of resources such as water and of waste management, as well as fiscal measures. This is an integral part of building institutions for managing natural capital while fostering the participation of the private sector. Independent and fair price regulation and enforcement capacity are

⁷⁷ Shamsul 2004.

⁷⁸ Without reforms to this key institutional process, the state will not be able to adequately penalize noncompliance, and local public representatives will be unable to resolve water quality issues (Arifuzzaman et al. 2019).

critical institutional elements that need early attention in a plan to attract private sector participation.⁷⁹ For example, in the water supply and sanitation (WSS) sector, no formal regulator is in place to approve WSS tariffs—which are low and vary across consumer groups—and to monitor the performance of utilities.⁸⁰ Setting up a WSS regulator is an urgent need. It is also important that fiscal and regulatory measures be adopted to enhance market-based green growth, including fiscal incentives for green investments, payment for ecosystem services, taxes on polluting activities, charges for waste management and water use, and phase-out of environmentally harmful subsidies.

100. It is also pivotal to promote greener practices, such as climate-smart agricultural development and sustainable manufacturing, including fostering a circular economy while shifting to a more sustainable energy mix, with renewable and less carbon-intensive energy sources. Scaling up climate-smart agricultural strategies and investments will deliver a triple win of higher agricultural productivity, increased resilience to climate change, and lower greenhouse gas emissions. Due to the substantial need for water in agriculture and the overall agricultural dependence of the country, the water-agriculture nexus, including reforming water tariffs and development of water user associations, is a critical area of policy focus.⁸¹ Inland aquaculture also has significant potential and can provide a lower carbon footprint than other animal proteins. Despite its potential, the shrimp export industry has suffered from periodic bans in importing countries due to low compliance with international food standards and traceability requirements.⁸² Promoting an integrated solid waste management and circular economy, including for plastic and hazardous waste, can also create a diversification opportunity for Bangladesh.⁸³ This will require an update of the solid waste management legal framework, including the introduction of plastic-waste management regulations, for recycling and collection practices. The potential for increased renewable energy generation and improved energy efficiency is significant.⁸⁴ Opportunities for energy efficiency gains remain largely untapped in industry, appliances, and buildings.⁸⁵

101. Promoting green growth is not only about establishing a more sustainable development path, but also increases the country's competitiveness by fostering greener investment and industrialization. This is particularly relevant as the country graduates from LDC status and needs to align its domestic standards with international ones. Financial flow trends are increasingly based on environmental, social, and governance standards; the demand for a modest climate and environmental footprint in the supply chain; and potential carbon border adjustment mechanisms, such as carbon taxes applied to imported goods. These growing public pressures and policy shifts could be expected to be imposed by several of Bangladesh's trading partners, which will make it difficult for the export-oriented Bangladeshi economy to maintain its growth without improving environmental conditions. Addressing urgent environmental issues in Bangladesh will create opportunities to increase economic gains while strengthening and diversifying the export sector for long-term economic sustainability.

102. Regional cooperation is effective in promoting productive and sustainable management of natural capital, including the blue economy. The Bay of Bengal is home to over 30 per cent of the world's

⁷⁹ World Bank 2020f.

⁸⁰ World Bank 2020f.

⁸¹ World Bank 2019a.

⁸² UNCTAD 2017.

⁸³ World Bank Group 2020.

⁸⁴ Clean energy currently represents a small share of Bangladesh's power generating capacity. Hydro and solar power together represent only about 1.3 percent of the country's installed capacity (Government of Bangladesh 2020).

⁸⁵ Hossain, Sarkar, and Pargal (2017) analyzed the energy efficiency and conservation potential of 16 energy efficiency end-use technologies and subsectors for both primary energy (oil, gas, and coal) and electricity in Bangladesh compared to the "business-as-usual" scenario.

fishers. The Indian Ocean Rim Association (IORA) 2017 Summit stressed upon the need for “promoting the blue economy as a key source of inclusive economic growth, job creation and education” based on sustainable management of marine resources. A World Bank report calculated the ocean economy’s contribution to Bangladesh as US\$6.2 billion in gross value added in 2015.⁸⁶ Further, as many as 30 million people depend upon the country’s ocean economy. Future growth in the blue economy will be driven by offshore oil and gas, shipbuilding, coastal and maritime tourism, mariculture, and coastal and offshore wind generation. Regional cooperation among IORA and Bay of Bengal economies will be critical to sustaining the blue economy benefits through coordinated and joint marine resources management, foreign direct investment and knowledge exchange in emerging technologies and industries, and enhanced maritime connectivity.

103. **With limited land availability, strengthening land management can support a more climate-resilient, greener, diversified, and inclusive growth.** Bangladesh ranks 135th among 141 countries on the Global Competitiveness Index indicator for the quality of land administration. Strengthening the quality of the land administration system—including addressing currently overburdened courts, making the register of land titles and interest fully digitized and publicly searchable, and finalizing the national settlement policy—is a policy priority, which will then provide the basis for developing land rental markets. In turn, improving land rental markets is key to address the current issue of land fragmentation and spur agricultural productivity. Many farmers rely on land rental agreements, but land rental markets are subject to limited rental tenures and do not seem to be working efficiently. Farmers in the inland fishery subsector are facing similar challenges. Better land rental markets are also important in enhancing access to land and income opportunities for poorer landless households. Reducing gender gaps in ownership and rights over land is also important for improving income opportunities for women. Among rural women, 13 percent solely or jointly own agricultural land, and 7 percent own nonagricultural land, compared to 70 percent and 86 percent of rural men, respectively.⁸⁷ The gender gap in landownership is primarily attributable to male-biased practices in inheritance, the main channel through which land is acquired. Women inheriting land face obstacles in registering and legally owning their inheritance.⁸⁸ In terms of improving investors’ access to industrial land, special economic zone development has been effective in Bangladesh. These gains can be extended by further strengthening relevant institutions, including through adoption of a national master plan for economic zones, to ensure environmentally sustainable and climate-resilient development and management of special economic zones.

C. Effective and efficient public institutions

Box IV. 3. Priority policy measures for effective and efficient public institutions

Immediate actions:

- Strengthen the public investment management process, particularly on fiscal aspects, by ensuring affordability and fiscal management in project appraisals and integrating investment decisions with the budget process
- Modernize the regulatory apparatus governing business operations (for example, Companies Act, Foreign Exchange Regulation Act, Foreign Private Investment Promotion and Protection Act, Bank Company Act)
- Scale-up the digital government procurement platform (eGP) and introduce similar digitally enabled processes within the government, government-to-business (G2B), and government-to-person (G2P) services
- Improve availability and accessibility of official statistics, with higher frequency and quality
- Strengthen implementation of the Right to Information Act 2009.

⁸⁶ Patil et al. 2018.

⁸⁷ Genoni et al. 2021.

⁸⁸ Solotaroff et al. 2019.

Medium-term actions:

- Address overlapping mandates across multiple agencies in key development areas (e.g., urban, transport, water, and social protection)
- Ensure independence of regulatory agencies
- Strengthen local government institutional capacity to address the urbanization agenda and social services
- Strengthen governance and financial management of state-owned enterprises (SOEs), including those in infrastructure and the financial sector; review the role of SOEs for market competitiveness in infrastructure services, industry, and financial services
- Promote citizen engagement among women by improving women’s awareness of relevant mechanisms, fostering access to digital tools, and addressing restrictive social norms.

104. **Strong public institutions provide a critical foundation for Bangladesh’s transformation toward UMIC status, cutting across all three frontier challenges.** The diagnostics presented earlier point to the distance Bangladesh must travel compared to its peer countries in terms of the strength of public institutions. Key aspects of institutions that can help the country address the three frontier challenges are strong public financial management, in particular public investment management systems; enhancing capacity, efficiency, and accountability in the government’s business processes and services to businesses and citizens, including by leveraging digital technology; a sound role for the public sector in supporting market creation through SOE reforms and ensuring the independence of regulators; strong statistical capacity; and citizen engagement.

105. **The country’s public financial management (PFM), particularly public investment management (PIM), needs to be strengthened to support the government’s ambitious investment plans and their implementation in the context of the transition to UMIC status.** With Bangladesh ranking below LMIC averages under most of the Public Expenditure and Financial Accountability Assessment pillars, PFM bottlenecks to improving the efficient allocation, availability, and use of resources, and to raising demand for good governance, need to be addressed. Strengthening Bangladesh’s PIM process is particularly relevant, as the country scales up public investments. Critical elements for PIM are a systematic, coordinated, and comprehensive funding plan for public investments, whether procured traditionally or through public-private partnerships; a more standardized, systematic, and comprehensive upstream framework identifying, appraising, and selecting suitable investment projects; and a standardized downstream capability to monitor and assess the performance of investment projects.⁸⁹ The current five-year rolling Medium-Term Budgetary Framework needs to be strengthened, with better management of investment projects and by ensuring that budget proposals are consistently prepared and reviewed. The overall accountability in PIM should also be strengthened, with enhanced access to information tools and citizen engagement in planning and decision-making. Overall accountability in PFM also needs to be bolstered, for example, through reforms in budgetary reporting norms that enable effective tracking of expenditures and ensure that budget and reporting information systems are interoperable and compatible. Key public oversight institutions also need further strengthening.

106. **Strengthening government service delivery requires addressing current capacity constraints in implementation and coordination.** Limited coordination mechanisms and planning across sectors hinder the delivery of programs and investments and are an underlying issue behind the three frontier challenges. Urgent policy efforts are needed to address overlapping mandates across multiple institutions involved in key development issues such as urbanization, transport, water, and social protection, and to build effective coordination mechanisms. Strengthening the capacity of local government institutions is

⁸⁹ World Bank 2020f.

also a key reform area, particularly in addressing the urbanization agenda and in delivering quality human development services in a coordinated and integrated manner. The ability of local government institutions to act as efficient, responsive, and accountable local self-government bodies is currently being hindered by the segmentation of the local government system and extensive reliance on earmarked transfers.⁹⁰ The heavy reliance on the central government for key human resources results in personnel shortages and limited technical capacity at the local level.

107. Efficiency and accountability in government services and business processes should also be improved to provide a more predictable regulatory environment. This applies to various areas, including public procurement. An important priority is the modernization of the regulatory apparatus that governs business operations, including the Companies Act, Foreign Exchange Regulation Act, Foreign Private Investment Promotion and Protection Act, and Bank Company Act, some of which date back to the pre-independence period. Consistency across regulatory rules and their implementation needs to be strengthened, while the degree of discretion in the regulatory process should be minimized. The independence of regulatory bodies in individual sectors, including the financial sector, needs to be ensured for efficient and transparent regulations to be implemented. Current regulatory weaknesses have pervasive effects across the private sector, including for foreign investors, undermining corporate governance, blocking market entry, stifling growth, preventing the emergence of micro, small, and medium-sized enterprise supply chains, and hindering investment in new technologies, new sectors, and new firms.

108. Although SOEs are playing a declining role in the economy, they remain significant in key enabling sectors and generate significant contingent liabilities for the budget, while potentially reducing space for private sector growth. Bangladesh's sprawling network of SOEs has diminished over time. The value of SOE assets has fallen from 10 percent to less than 2 percent of GDP in the past two decades. Although as of March 2021 there were only 49 SOEs (only six of them in industry) monitored by the SOE Monitoring Cell of Finance Division, they are active in sugar, fertilizer, paper, textile, and jute production, as well as motor vehicle assembly, tourism, and the media. SOEs also remain involved in key infrastructure sectors (shipping, ports, inland waterways, telecommunications, energy) and in banking. Critical reforms include strengthening governance and the financial management of infrastructure and banking SOEs, which have significant service delivery implications and fiscal costs. The 8th Five Year Plan envisages reform to corporatize SOEs in infrastructure, which will be critical for productivity growth and for managing contingent liabilities and reducing subsidies. Reviewing the role of SOEs for market competitiveness is also needed, because weak competition in these sectors raises prices and hinders the productivity of the private sector.

109. As Bangladesh aims to become an upper middle-income country, continuous innovation is needed to strengthen institutional capabilities and to improve efficiency by leveraging technology, as exemplified by the Government of Bangladesh's (GoB's) digital government procurement platform (electronic government procurement [eGP]). The GoB has promoted adopting technologies, but there are some areas for improvement. Data literacy, inside the government and across society, is the largest hurdle to overcome for Open Data and Bangladesh's overall digital development. Bangladesh has achieved significant success in launching an eGP platform, which provided continuity in public procurement services throughout the pandemic, helping the private sector assess business opportunities during the period. Similarly, the government has made significant progress in using government-to-people (G2P) payments, including for the payment of many of its employees and the beneficiaries of social protection programs.

⁹⁰ World Bank 2020f.

These processes have been supported by other positive developments, such as the creation of a national enterprise architecture, a national data center, and a national cybersecurity center. The government could consider scaling up the eGP platform and introducing similar digitally enabled processes within the government itself and in government-to-business (G2B) services (for example, one-stop service for business regulatory approvals), and G2P services (for example, wages, pensions, social protection allowances). This would not only strengthen the capacity of the public sector but would also enhance its effectiveness in delivering services to businesses and citizens. The Bangladesh Investment Development Authority has already introduced one-stop service, which has been expanding the list of regulatory approvals for businesses. Full operationalization of one-stop service for regulatory approvals for businesses based on a single digital platform will be vital to reducing the existing regulatory burden.

110. **Strong statistical capacity will boost efficiency and transparency.** Statistics are a crucial public goods for effective decision making by policymakers, businesses, and households. To strengthen public institutions in support of Bangladesh’s UMIC transition, timely, quality statistics produced and published by the government need to be available and accessible. The government, through the Bangladesh Bureau of Statistics, needs to improve the availability, accessibility, frequency, and quality of official statistics, including surveys and quarterly national accounts data, better leveraging digital technology. Development of statistical capacity has to be rooted in strong political commitment to build up this essential governance resource. This can be shown in the government’s commitment to provide adequate budgetary resources for statistical development and ensure independence and objectivity in producing and maintaining official statistics.

111. **Greater citizen engagement, including fostering the engagement of women, is needed to boost accountability and quality of service delivery.** Since the transition toward democracy in 1991, the GoB has made significant efforts to incorporate citizens’ views, both in national policymaking and local service delivery. However, proper application of existing legal provisions, such as implementation of the Right of Information Act 2009, is needed to enhance citizen engagement.⁹¹ There is currently limited transparency on the budget, with pre-budget statements not publicly available, budgets not being evaluated through a publicly available midyear review, and audit reports not publicly available. A backlog of four years exists in the submission of Finance Accounts for audit. Multiple efforts to promote citizen engagement, transparency, and accountability could improve the quality of public services, in addition to ongoing efforts to develop central grievance mechanisms.⁹² Special attention is needed to foster citizen engagement among women by improving women’s awareness of mechanisms for engagement, fostering access to digital tools, and addressing restrictive social norms.

D. Macroeconomic and financial sector stability

Box IV. 4. Priority policy measures for macroeconomic and financial sector stability

Immediate actions:

- Adopt and start implementing a medium-term road map of reforms in the banking sector to (i) strengthen banking sector supervision in line with Basel Core Principles and bringing the Bangladesh Bank’s regulatory framework for asset classification, loss provisioning, and capital adequacy in line with Basel III requirements and International Financial Reporting Standards; and (ii) introduce a regulatory framework for nonperforming loan resolution, including the timeline of asset quality review
- Adopt measures to strengthen capital buffers.

⁹¹ World Bank 2021d.

⁹² World Bank 2021d.

Medium-term actions:

- Improve efficiency of domestic taxes, including moving toward a single value-added tax (VAT) rate, as envisaged under the original 2012 VAT Act
- Enact a new direct tax law, which would overhaul and simplify the income tax system, and reduce overall tax expenditures
- Strengthen the governance of state-owned banks
- Remove distortionary measures, such as caps on interest rates, and phase out National Savings Certificates.

112. **Macroeconomic and financial sector stability is critical to underpin Bangladesh’s timely transition to UMIC status. There is an urgent need to address current vulnerabilities in the financial sector. Doing so will support private-sector-driven growth and strengthen domestic resource mobilization to finance the country’s development needs.** Bangladesh’s favorable macroeconomic conditions have supported its strong development progress in the past two decades. However, macroeconomic stability cannot be taken for granted going forward, given substantial global economic uncertainties. Continued attention is needed to maintain macroeconomic stability and address the long-pending agenda of boosting domestic resource mobilization. The economic shock following COVID-19 has exacerbated existing financial sector vulnerabilities, which must be addressed urgently to prevent future crises and provide necessary support for sustainable, inclusive, private-sector-led growth.

113. **Crucial for macroeconomic stability will be strengthening fiscal and debt sustainability through stronger domestic resource mobilization, efficiency in public expenditure, and prudent government borrowing.** The low level of domestic revenues, contingent liabilities from SOEs, and increasing domestic borrowing, including through National Savings Certificates, pose a growing risk to fiscal and debt sustainability. Those risks need to be appropriately managed and contained through policy reforms. The government also needs to finance COVID-19 response measures, including economic stimulus programs, but has faced challenges in raising domestic revenue in a context of chronically low tax revenues. Low revenues have the potential to pose a major barrier to achieving the 8th Five Year Plan goals.

114. **Rigorous policy and administrative reforms are necessary to boost domestic revenue, in particular improving efficiency in domestic taxes.** Promising reforms include broadening the tax base with equity, fairness, and improved fiscal management of tax expenditures; enhancing the efficiency and effectiveness of the tax system; and reducing the cost of compliance for taxpayers by, for example, making taxpayer services more predictable and promoting voluntary compliance across the value-added tax (VAT) and income tax. To improve overall efficiency in the tax system, the country needs to shift away from distortionary trade taxes, such as tariffs and para-tariffs, to domestic taxes such as the VAT and income tax. Means to advance this agenda include rationalizing the tariff structure and enacting a new customs law; improving the efficiency of domestic taxes, including moving toward a single rate for the VAT, as envisaged under the original 2012 VAT Act; enacting a new direct tax law, which would overhaul and simplify the income tax system; and reducing overall tax expenditures. There is a strong synergy between domestic resource mobilization and modernization of tariffs for export diversification, to be discussed shortly.

115. **The COVID-19 shock has deepened long-standing banking sector vulnerabilities.** Even before the pandemic, weak regulatory enforcement and deviations from international classification standards impeded the recognition of nonperforming loans (NPLs). In addition, a moratorium on debt repayment and asset foreclosures was introduced from March to December 2020, masking the financial challenges of lenders and borrowers. Although this moratorium was lifted, Bangladesh Bank subsequently allowed lenders to restructure loans for previously non-defaulted borrowers. This will ease the burden on

borrowers and will reduce loan loss provisioning requirements for banks, but it will defer to a later date the recognition of NPLs and losses, as well as adequate provisioning.

116. **Going forward, Bangladesh will benefit from robust reforms to address the roots of vulnerabilities in its financial sector. Ambitious reforms can achieve a stable macrofinancial environment to support the country's UMIC transition.** Continued deterioration of balance sheets in the banking sector, particularly among state-owned banks, is a growing risk to macrofinancial stability and investments. State-owned banks are already undercapitalized. Despite accounting for more than 90 percent of financial assets, numerous banks in Bangladesh are small relative to the size of the economy, operationally inefficient (high NPLs, low profitability), and are struggling to meet growing private sector credit needs. Priority reforms are strengthening Bangladesh Bank (BB) banking sector supervision in line with Basel Core Principles, and bringing BB's regulatory framework for assets classification, loss provisioning, and capital adequacy in line with Basel III requirements and the International Financial Reporting Standards (IFRS). Measures to strengthen capital buffers are also of the utmost importance, because implementation of reforms to address the NPL stock and flow will take some time, while banks will need to absorb losses related to underperforming assets. Other priority reforms include strengthening the governance of state-owned banks and removing distortionary measures such as caps on the interest rate, while phasing out National Savings Certificates.

IV-2. Four enabling priorities: Levers to shift gears to accelerate the transformation

117. **For Bangladesh to accelerate its UMIC transition, the country needs to shift gears, with a new round of reforms that promote openness and competition and forcefully ease the most acute constraints on private sector growth.** Significant opportunities exist for Bangladesh's private sector to expand to new sectors and upgrade itself in existing ones. Taking advantage of the opportunities first requires an environment that promotes export orientation, helps foreign and domestic investors establish themselves and operate across a wide range of sectors, and provides incentives for firms to invest in competitiveness, rather than focus on exploiting rents. This also requires reforms to address outstanding gaps in energy, transport, and digital infrastructure; create a vibrant financial sector that can finance infrastructure and business expansion and innovation; and equip Bangladesh's labor force with the skills required for broad-based economic growth and diversification. The analysis thus points to four enabling priorities: competitive and diversified markets, skills development and technology adoption, closing infrastructure gaps, and private sector financing for development. These capture the most critical reforms for opening markets and addressing constraints on private sector growth. Delivering on these reforms will depend on a stronger institutional context and governance in both the public and private sectors, as outlined in the previous subsection on foundational priorities.

E. Competitive and diversified markets

Box IV. 5. Priority policy measures for competitive and diversified markets

Immediate actions:

- Adopt a national tariff policy to rationalize import tariffs and para-tariffs
- Fully implement the Bangladesh National Single Window and the Customs Modernization Strategic Action Plan
- Modernize the Foreign Private Investment Promotion and Protection Act and other FDI-related laws and foreign exchange regulations
- Remove constraints on off-farm value addition and commercialization (for example, a limited number of off-takers, inadequate and costly marketing infrastructure and logistic services with limited private sector investments, and inadequate upholding of appropriate food safety practices and product quality standards)

- Address on-farm productivity constraints for non-paddy crops, such as limited access to quality seeds.

Medium-term actions:

- Establish an autonomous investment promotion agency to promote FDI, which will also offer aftercare functions to existing investors
- Address land fragmentation and informality in land rental markets.

118. Diversification, openness, and competitiveness need to be central tenets of Bangladesh's approach to private-sector-led growth and job creation in the coming years. For Bangladesh to become an upper middle-income country, the private sector will need to continue expanding and become more diversified. Leading actors in the private sector will need to embrace openness, outward orientation, and competitiveness, rather than seeking to maximize the rents from existing markets protected by high import tariffs, FDI barriers, and policy incentives for already established sectors. As part of this shift, the leading private sector actors will need to demand more efficiency from government institutions, rather than seeking to take advantage of these inefficiencies or simply work around them. The first-order priorities to foster competition are reducing domestic market protection, creating a more favorable environment for FDI, and removing other policy distortions that disincentivize economic diversification. The change agenda will advance through the development of new sectors and markets and the provision of a level playing field. Diversifying exports, fostering competition, promoting FDI, and enhancing agricultural productivity are key in establishing a competitive and diversified domestic market in Bangladesh.

119. Reducing high trade protection of domestic industries will provide incentives to diversify exports and improve competitiveness. The current high level of trade protection, provided through high tariffs and complex and nontransparent para-tariffs, such as regulatory and supplementary duties, is a key reason for the static export basket. Excluding para-tariffs, the average most favored nation tariff in FY2019/20 stood at 14.8 percent. However, when all import taxes and duties are taken into account, the equivalent tariff, referred to as the nominal protection rate (NPR), doubles to 29.6 percent, compared to a 17.1 percent NPR in India, and 9.5 percent in Vietnam.⁹³ This high degree of protection has created an enclave for domestic industries, incentivizing them to focus on the domestic market rather than exports.⁹⁴ Not only are tariffs and para-tariffs substantially higher in Bangladesh than in peer countries, but their levels increase greatly across the stages of production. Such escalation significantly increases profitability for domestic producers of import-competing products, further reinforcing an anti-export bias. A protective tariff regime will increase the challenges related to LDC graduation when Bangladesh loses its preferential market access, including more favorable rules of origin for apparel exports to the European Union and the UK. Bangladesh will have to make a gradual policy shift from trade protection by adopting a national tariff policy that will reduce the overall NPR through rationalizing import tariffs and para-tariffs (regulatory and supplemental duties), while strengthening trade facilitation, through such measures as full implementation of the Bangladesh National Single Window and of the Customs Modernization Strategic Action Plan (2019–2022). Adjusting tariff policies will help Bangladesh respond to the medium- and long-term impact of the COVID-19 pandemic while preparing for LDC graduation.

120. It is also important for the RMG sector to continue upgrading its products toward higher quality and sophistication along value chains. The country does have successful experience in maintaining competitiveness by upgrading its RMG products. While many other apparel-exporting developing countries rapidly lost ground when the Multifiber Agreement phased out in 2003, Bangladesh expanded

⁹³ World Bank Group 2021a.

⁹⁴ Sattar 2020; Kathuria and Rizwan 2020.

its market share. While the Bangladeshi RMG sector maintained its cost competitiveness through its labor cost being lowest among major RMG exporters, the sector also went through important restructuring and upgrading with regard to production processes, capabilities, and backward linkages, which reinforced Bangladesh's competitive position.⁹⁵ Building on lessons learned from the past, effective policies are needed to enable Bangladeshi producers to innovate and leverage technologies to upgrade their product sophistication while investing in skills.

121. While the RMG sector will remain the backbone of the economy for the foreseeable future, the country has opportunities to expand into new sectors. Bangladesh has the potential to diversify into new industries that require capabilities similar to those involved in RMG, including footwear and leather goods, as well as electronics assembly. These labor-intensive sectors will help address the pressing need for job creation, expand labor income opportunities for women and youth, and support further human capital investments. As the earlier RMG experience showed, greater opportunities for women in the manufacturing sector were associated with delayed marriage and childbirth and expanded female participation in education.⁹⁶

122. Taking greater advantage of FDI will be critical to support export diversification. FDI not only brings long-term capital, but also links to global value chains and export markets, as well as technology and knowledge to help upgrade standards and productivity in domestic value chains.⁹⁷ FDI is an important instrument to source technology, upgrade production processes and managerial skills, and access distribution networks, which ultimately help grow and diversify exports. It gives direct access to new export markets and, in case of expansion to more developed economies, it enables access to more advanced technologies and helps lift quality standards. Over the past two decades, Bangladesh's FDI inflows averaged less than 1 percent of GDP. The FDI law (the Foreign Private Investment Promotion and Protection Act), which is 40 years old, includes many restrictions and allows for substantial regulatory discretion. Although full repatriation of capital invested from foreign sources is legally allowed, it is challenging in practice. As a result, foreign investors are unable to make timely decisions about reconverting local currency into foreign currency and repatriating it. The outdated foreign exchange regulations impose restrictions on repatriation of profits and foreign borrowing, important considerations for foreign investors. Therefore, modernizing FDI and foreign exchange regulations is an urgent policy priority, along with strengthening FDI promotion and aftercare functions, including establishing an autonomous investment promotion agency.

123. Targeted policies to raise the productivity of the agriculture sector and crop diversification are essential for the sector to become a new anchor of value chain development and job creation, and to reduce spatial welfare disparities. In the next 10 years, consumption of meat, fish, fruits, and vegetables in Bangladesh is projected to increase 50 to 70 percent. Productivity in these subsectors is still 30 to 50 percent lower than in other countries in the region. At the same time, as mentioned earlier, farm-level margins are significantly higher than for rice, which now dominates agricultural production. Bridging productivity gaps, shifting to higher-value-added products, and scaling up agro-processing will increase the domestic supply of nutritious food, help reduce imports, increase exports, and create better income opportunities in rural areas. It is imperative to focus on making agricultural policies favorable toward a more balanced incentive structure for non-rice commodities to support this process. For example, limited access to quality seeds needs to be addressed to enhance on-farm productivity of non-paddy crops.

⁹⁵ Lopez-Acevedo and Robertson 2012.

⁹⁶ Heath and Mobarak 2015.

⁹⁷ World Bank Group 2020.

124. **It is also important that the overall on-farm productivity in agriculture be enhanced** by addressing land fragmentation and informality in land rental markets; limited knowledge and adoption of good agricultural practices, reflected in the imbalanced use and overuse of inputs; and limited use of farmer aggregation models, which constrains the delivery of extension services, access to finance, and market linkages. It is equally important to tackle constraints on off-farm value addition and commercialization constraints, such as the limited number of formal off-takers, inadequate and costly marketing infrastructure and logistic services, with potentials for private sector investments; and inadequate upholding of appropriate food-safety practices and product quality standards. It is also important that agricultural practices shift toward more climate-smart, resilient, and environmentally friendly practices. Other cross-sectoral challenges, such as access to finance, overall investment climate, and competitiveness challenges, are as important for agribusiness as for other sectors. The latest Enabling the Business of Agriculture (EBA) index indicates that Bangladesh’s agriculture-related regulatory burdens are particularly high compared to other countries in South Asia on the EBA indicators that concern supplying seed and registering fertilizer. These indicators measure the quality of regulations, as well as the time and cost required to register new seed varieties and fertilizers.⁹⁸

125. **Growth of higher-value agriculture and agro-processing can also help develop other urban areas and the rural non-farm economy.** The existing spatial distribution of firms suggests that sectors that serve domestic markets, in particular agro-processing, have more potential in the short term for non-farm job creation in urban areas outside Dhaka and Chittagong. The current spatial distribution of agro-processing activities is more even across the country than is the case for other non-farm activities, highlighting the potential of agro-processing to create non-farm income opportunities in a decentralized way.⁹⁹ Secondary cities and other urban centers are well placed to host value-adding processing of agricultural products and can be a critical link to boost agricultural productivity and rural incomes.¹⁰⁰

F. Skills development and technology adoption

Box IV. 6. Priority policy measures for skills development and technology adoption

Immediate actions:

- Strengthen institutional capacity and improve coordination among various ministries through effective implementation of the recently approved National Skills Development Policy
- Permit secure access to, and greater use of, the national ID database and National Household Database by all government agencies and private sector players for verifications, service delivery, and identification of beneficiaries
- Fully adopt a whole-of-government approach to avoid GoB agencies pursuing their own uncoordinated information technology (IT) investments, and introduce policy and regulatory frameworks to promote and mandate that GoB agencies use the Bangladesh National Digital Architecture
- Enhance last-mile service delivery for excluded groups, especially women, through the government’s Union Digital Centers.¹⁰¹

Medium-term actions:

- Improve science, technology, engineering, and mathematics (STEM) skills, through improved quality of teachers and relevance of curriculums, particularly for women and girls
- Build the capacity of government officials to create information and communications technology (ICT) knowledge-based human resources for the country

⁹⁸ World Bank 2019d.

⁹⁹ Muzzini and Aparicio 2013.

¹⁰⁰ Muzzini and Aparicio 2013; Farole and Cho 2017; World Bank Group 2020; Genoni et al. 2021.

¹⁰¹ Union Digital Centers are technology-based information service points available at the Union level.

- Harness digital literacy among citizens to use online services provided by the government and minimize cyber risks and threats
- Launch several women-centric government-to-business (G2B) and government-to-person (G2P) e-services.

126. **Achieving UMIC status requires boosting productivity. Strengthening skills development and fostering technology adoption will enable the process.** Most importantly, this means pushing for more resources to be invested in skills development, supported by broader human capital development (Priority A). Development of foundational capabilities, including technical and managerial skills, requires special attention, as they directly connect skills with better technology adoption. An enabling legal and regulatory framework is important for fostering development of the digital economy in Bangladesh, while the digital divide, particularly among women, must be addressed to ensure that digital technology contributes to inclusive growth.

127. **Investing in skills development will be key for fostering innovation, raising labor productivity, and expanding job creation.** In the World Economic Forum Global Competitiveness Index business opinion survey, “inadequately educated workforce” was the fourth-most-cited constraint. Bangladesh’s ranking in the skills category of the index (117th out of 141) is in line with South Asia and LMIC averages but is at only half the level of its UMIC peers. Evidence points to several challenges in meeting Bangladesh’s skills deficit. First, while academic higher education and technical and vocational education and training are expanding rapidly in the country, major quality gaps undermine their effectiveness. Opportunities for skills development after formal schooling are limited, with minimal private sector on-the-job training available. A skills-framework approach to the education system should be a priority, which requires investments in education infrastructure, improving teachers’ digital skills, and the development of local-language content.

128. **Beyond the formal school system, it is also critical to ensure opportunities for skills development for those who have not benefited from formal education, including the poorest and most vulnerable.** A priority policy focus is to strengthen institutional capacity and improve coordination among various ministries.¹⁰² In this context, the recently approved National Skills Development Policy needs to be implemented effectively. It sets out priorities for skills development for all actors and serves as a platform for sector-wide coordination of public and private institutions. Industry collaboration will also be vital for the skills development system to provide students with quality learning experiences, especially to keep up with new technologies. Such skills development programs should be designed to benefit the poor and the more vulnerable, who are engaged in low-productivity employment, so as to boost their productive potential and increase their welfare. Creating a sustainable financing mechanism that seeks private-sector participation for the Industry Skills Councils (12 established to date) is also important.¹⁰³ Digital literacy needs to be strengthened in Bangladesh at a broader level, given the country’s heavy dependence on low-skilled labor and remittances, especially as digital disruption of traditional sectors and occupations will cause labor-intensive export-led manufacturing to be less feasible, potentially limiting job creation.¹⁰⁴

129. **Stronger foundational capabilities, including technical and managerial skills among workers and managers, will allow better technology adoption among Bangladeshi firms.** The World Bank Bangladesh Firm-level Adoption of Technology (FAT) Survey shows that Bangladeshi manufacturing firms with higher levels of managerial and technical human capital, and a more educated workforce, have significantly

¹⁰² World Bank Group 2020.

¹⁰³ World Bank Group 2020.

¹⁰⁴ World Bank 2021e forthcoming.

higher technology levels. Yet, most manufacturing firms lack foundational skills, such as technical skills among workers. Reforms to improve the quality of foundational skills, along with science, technology, engineering, and mathematics (STEM) skills, are important in removing supply-side skill constraints. Needed reforms include addressing the quality of teachers and the relevance of curriculums, particularly for women and girls. On the demand side, relevant managerial skills—knowing which skills to hire, how to screen potential employees, and how to motivate them to perform well—are critical.¹⁰⁵

130. Bangladesh would also benefit from harnessing disruptive technology to transform traditional business models and expand access to basic services. Bangladesh’s young population, growing middle class, large domestic market, and favorable growth potential, combined with a large pool of IT graduates and expanding mobile and internet penetration, provide sound fundamentals for developing a dynamic startup ecosystem. Tech-enabled startups in areas critical for development—such as ed-tech; med-tech; FinTech; e-logistics; business solutions for micro, small, and medium-sized enterprises; and so forth— increase access to services and improve firms’ productivity. Startup ecosystems also create new jobs, including in traditional industries that are either influenced or disrupted by startups. Therefore, it is important that policymakers focus on creating a favorable startup ecosystem, which comprises access to talent and risk capital, fiscal and regulatory incentives, and growing uptake of technology by businesses and households and improved access to digital infrastructure.

131. More enabling legal and regulatory frameworks are needed to promote technology adoption by businesses and households.¹⁰⁶ There are four important aspects in setting up such a framework. First, permit secure access to, and greater use of, the national ID database and National Household Database by all government agencies and private sector players for verifications, service delivery, and identification of beneficiaries. Partners likely to seize this opportunity would include banks, FinTech firms, insurance, and healthcare providers. Second, fully adopt a whole-of-government approach to avoid different government agencies pursuing their own uncoordinated IT investments. Specifically, policy and regulatory frameworks should be introduced to promote and mandate that GoB agencies use the Bangladesh National Digital Architecture. Third, build the capacity of government officials to create ICT knowledge-based human resources for the country. Fourth, harness digital literacy among citizens to use online services provided by the government and minimize cyber risks and threats.

132. More inclusive and equitable access to digital infrastructure, especially access by women and the poor, is vital in making digital technologies spur productivity growth and job creation. Current gender gaps in technology access and use are disadvantaging women entrepreneurs and stifling their economic empowerment.¹⁰⁷ Despite the growth of mobile financial services, Bangladesh’s gender gap in mobile money is even more significant than in bank accounts, at 22 percent and 18 percent, respectively; mobile finance is thus further increasing the country’s financial inclusion gender gap.¹⁰⁸ This requires attention, as financial technology could be an important tool to narrow financial inclusion gender gaps. In

¹⁰⁵ Gu, Nayyar, and Sharma 2021.

¹⁰⁶ Compared to businesses and households, there has been more progress in the connectivity and online service delivery of the public sector. In 2020, Bangladesh moved up 15 ranks to 119th out of 193 countries in the United Nations Global eGovernment Development Index (EGDI).

¹⁰⁷ Digital technology is reducing, and in some cases perhaps even eradicating, particular barriers to women’s businesses, including in terms of mobility and accessing previously impenetrable male-dominated business and trade networks (Brenton et al. 2014; World Bank 2012); participation in international trade fairs (Kunaka 2011); and access to crop market price information that enables informed negotiations with middlemen and breaking into new markets (ITC 2015). Mobile phones allow women to reduce or eliminate some travel time and costs while maintaining timely communication with clients and suppliers (World Bank 2012).

¹⁰⁸ Global Findex Database 2017. <https://globalfindex.worldbank.org/>

fact, despite the pandemic-driven flourishing of and growing dependence on e-commerce, evidence indicates that most women’s online businesses and women entrepreneurs in the IT industry have experienced massive losses.¹⁰⁹ Policy priorities include (i) integrating an overarching gender lens in implementing the National ICT Policy 2015 and the 8th Five Year Plan, by establishing key performance indicators and results-oriented outputs; (ii) enhancing last-mile service delivery for excluded groups in the country, especially women, through the government’s Union Digital Centers; and (iii) launching several women-centric government-to-business (G2B) and government-to-person (G2P) e-services, aimed at enhancing the status of women in Bangladesh and bringing about digital inclusion.

G. Closing infrastructure gaps

Box IV. 7. Priority policy measures for closing infrastructure gaps

Immediate actions:

- Open the transportation sector to greater private investment through public-private partnerships and direct investment, including by foreign investors, and by reducing the state footprint
- Introduce private participation in the port sector and separate port oversight and operations to improve efficiency
- Reduce regulatory risks for the private sector by strengthening the independence of the Bangladesh Telecommunication Regulatory Commission and eliminating discretion and undue influence in the issuance of licenses, the imposition of fees, and the introduction of ad-hoc rules
- Establish a formal platform of private-public dialogue to enhance a common understanding between policymakers and market participants, so that the effect of policy changes on the industry is adequately assessed and communicated
- Move away from fossil-fuel subsidies, exit from emergency power, and ensure competitive procurement of all sources of power generation
- Expand private participation, including through a pilot public-private partnership, in the transmission and distribution sector.

Medium-term actions:

- Maximize potentials for regional infrastructure connectivity in transport, energy, and digital
- Develop climate-risk-informed master planning, capital investment, and asset management planning against floods, droughts, and cyclones; strengthen financing mechanisms for climate-adaptation projects (including BDP 2100 projects)
- Increase the share of renewable energy in Bangladesh’s energy mix through a more developed regulatory framework, a systematic effort to identify domestic project sites and develop them competitively as public-private partnerships, elimination of fossil fuel subsidies, investments in battery storage, deliberate focus on importing renewable-energy-based electricity from neighboring countries, and expansion of cross-border transmission.

133. **While Bangladesh has made good progress in building infrastructure in recent decades, gaps remain to support the economic transformation to UMIC status. New infrastructure needs have also arisen through the country’s agenda for green growth, climate resilience, and inclusive growth.** Key aspects for this enabling priority are addressing infrastructure needs to maximize benefits from urbanization, making infrastructure climate resilient, building effective transport and digital infrastructure, and sustainable energy development through fostering the energy transition and investing in transmission.

¹⁰⁹ IFC pulse survey; BRAC BIGD 2020; BRAC 2020.

134. **Outstanding infrastructure gaps remain significant, limiting Bangladesh’s ability to diversify its economy, reduce spatial disparities, and support a greener growth path.** Bangladesh’s infrastructure needs, estimated at US\$608 billion by 2040, are significant. Annual infrastructure investment needs are estimated to be as high as 10 percent of GDP, of which transport infrastructure investment needs represent about half.¹¹⁰ Major investments are needed to manage the rapid urbanization that increasingly hampers quality of life and drains productivity. Such investments need to increase connectivity across areas. This will facilitate participation in local marketplaces while boosting digital infrastructure for the modern economy and making the energy sector more sustainable.

135. **Massive investments are required in urban infrastructure to address severe congestion in Dhaka and develop secondary cities.** Roads continue to dominate other modes of transportation in Bangladesh, and the quality of roads remains poor—road length and density are less than optimal throughout the country except for Dhaka.¹¹¹ Traffic congestion in Dhaka, the biggest urban center, is expected to worsen. If unaddressed, it is likely to hinder productivity and increase gender and income inequalities.¹¹² The fundamental bottleneck for dealing with traffic congestion in Dhaka is hard transport infrastructure. As Dhaka continues to grow, it will be critical to address congestion by upgrading transport infrastructure and services (airport, bus system, roads). Urban logistics is an integral element of the logistics improvement agenda, because major industry clusters are located around main urban centers. Significant investments are also needed to improve waste management and water supply while addressing environmental degradation.

136. **Investments are also needed to reduce spatial disparities in access to social services and infrastructure and improve connectivity across regions and between rural and urban areas.** Transport investment needs to strengthen connectivity across the country, particularly to connect the center of the country with its periphery and increase access to opportunities across areas. Priorities to close investment gaps in rural areas include investments in infrastructure to raise agricultural productivity.¹¹³ These include (i) investment in high-efficiency irrigation coverage and flood protection, particularly in hilly and highland divisions; (ii) investment in reliable drainage, particularly in low-lying areas where production of non-paddy crops is especially difficult; and (iii) continued promotion of the shift away from boro paddy, as this crop is rapidly depleting groundwater storage. In rural areas, renewed efforts in energy and transport remain central for both farm and non-farm income growth. Actions to close electricity gaps in terms of coverage and reliability of supply should continue for rural areas, where strengthening infrastructure for transmission plays a critical role. Closing transport and digital infrastructure gaps in rural areas is also central, with a stronger emphasis needed on infrastructure maintenance for transport infrastructure.

137. **Climate-resilient public service infrastructure and risk-informed land-use planning are critical to achieve sustainable urbanization.** Strengthening the institutional, legal, and regulatory enabling environment—especially in terms of planning, design, procurement, and project-lifecycle management—is necessary to bolster climate-resilient infrastructure. An immediate priority is to strengthen climate risk-informed master planning, capital investment, and asset management planning against flood, drought, and cyclones, and to reinforce financing mechanisms for climate adaptation projects, in particular BDP 2100 projects. It is also urgent to boost climate resilience in infrastructure. Priorities include (i)

¹¹⁰ Andrés, Biller, and Herrera Dappe 2013.

¹¹¹ Road density in Bangladesh remains low: In 2018, paved road density was 0.68 kilometers per 1,000 population (CIA World Fact Book <https://www.cia.gov/the-world-factbook/countries/bangladesh/>). Only 27 percent of the country’s rural roads and 40 percent of main roads are paved, and only half of paved roads are in good condition.

¹¹² Hill and Genoni 2019; Hill and Rahman 2019.

¹¹³ Genoni et al. 2021.

development of resilient water, wastewater, and solid waste management infrastructure, in alignment with strengthened environmental safeguards; and (ii) providing incentives for green urban transportation. Such incentives can facilitate shifting from private transportation to bus and urban rail modes, and shifting from fossil fuel to electric vehicles and other greener technologies in urban transport.

138. Better transport infrastructure and logistics are necessary to support Bangladesh's participation in the global marketplace. Transport infrastructure remains poor. This pattern is associated with elevated logistics costs, congestion on roads and in ports, lack of reliability in ports, weak intermodal connectivity, informality across logistics service providers, limited use of ICT, and inadequately qualified personnel. Whereas physical investments in infrastructure and technology are important to keep pace with the growing demand, sector governance needs to be strengthened concurrently to improve its efficiency, especially tackling the following challenges: (i) an outdated, complex regulatory landscape, combined with weak enforcement; (ii) the lack of an integrated policy framework and fragmentation in sectoral governance, which hold back the development of more efficient multimodal transportation systems; and (iii) the dominant role of SOEs, which lack technical and financial capacity to advance sector modernization and efficiency improvements. Accordingly, policy priorities include development of an integrated multimodal transport and logistics master plan, strengthening coordination mechanisms among relevant government agencies, and opening the transportation sector for greater private investment through public-private partnerships and direct investment, including by foreign investors, and by reducing the state footprint. Introduction of private participation in the port sector and separation of port oversight and operations are especially important because, globally, privately operated ports have demonstrated higher efficiency. A more efficient transport and logistics sector would significantly boost export growth; it is estimated that reducing congestion on the national highways would cut logistics costs as a share of sales by 0.5 percentage points and increase exports by 3.7 percent.¹¹⁴

139. A more assertive expansion and optimization of the use of digital infrastructure will be critical for meeting the needs of the modern economy and reducing the digital divide. Despite significant progress over the past decade, digital infrastructure is still underdeveloped. Only 5 percent of the population is connected to broadband,¹¹⁵ while less than 29 percent of the population uses the 4G technology necessary for most modern applications, due to the prohibitive cost structure. National coverage of mobile services is high but uneven, with 22 percent of rural households using the internet compared to 53 percent of urban households.¹¹⁶ The gender gap in mobile phone ownership, at 29 percent, is the second worst in the region after Pakistan.¹¹⁷ Addressing these gaps requires large capital investments to build high-quality digital infrastructure, especially fiber-optic backbone infrastructure, 4G capacity expansion, and telecom towers. To extend connectivity and meet data usage growth as users transition from 2G and 3G to 4G, Bangladesh will also need a combination of more efficient spectrum management, deployment of small cells for improved indoor connectivity, deployment of additional towers, and both active and passive infrastructure sharing.

140. To facilitate these developments, the government needs to reduce regulatory risks for the private sector by strengthening the independence of the Bangladesh Telecommunication Regulatory Commission and eliminating discretion and undue influence in the issuance of licenses, the imposition of fees, and the introduction of ad-hoc rules. It will be particularly important to establish a formal platform

¹¹⁴ Herrera Dappe et al. 2019.

¹¹⁵ Based on the data from the Bangladesh Telecommunication Regulatory Commission as of August 2021. <http://www.btrc.gov.bd/content/internet-subscribers-bangladesh-august-2021>

¹¹⁶ MICS 2019.

¹¹⁷ Rowntree 2020.

of private-public dialogue to enhance a common understanding between policymakers and market participants, and to ensure that the effect of policy changes on the industry is adequately assessed and communicated. It is also important to address last-mile connectivity in commercially nonviable areas. Connectivity in hospitals, clinics, schools, and local government offices will need to be prioritized, especially considering the COVID-19 pandemic.

141. While past energy deficits have been addressed, it is important to recalibrate the energy mix toward a cheaper and low-carbon power supply, particularly focusing on clean energy imports and phasing out emergency plants. Bangladesh quadrupled energy generation capacity during 2009–20, ramping up grid-based access from 32 percent to 85 percent between 2000 and 2018.¹¹⁸ Total generation capacity will still need to grow to support the country’s future economic growth toward UMIC status, but with less carbon intensity. The trade-off between immediate energy needs and long-term sustainability needs to be internalized. Domestic and imported natural gas is still a better alternative to coal or expensive heavy fuel oil, while in the medium and long run, the country can leverage opportunities for renewable energy sources, including through hydropower imports from neighboring countries. Off-grid electricity solar home systems increase access by an additional 10 percent. Growing evidence suggests that there are potentially more suitable sites for the rollout of wind and solar power than previously thought, given land availability. In addition, regional energy trade offers opportunities for cleaner, reliable, and cost-effective energy supply.¹¹⁹ Leveraging the potential development of a regional power market among BBIN countries will allow Bangladesh to leverage hydropower generation in India, Bhutan, and Nepal. The recent decision by the GoB to sign a power purchase agreement for 500 megawatts from Nepal as announced in June 2021 is a positive step forward.

142. The country’s successful energy transition requires coordinated policy actions to ensure fiscal sustainability of the sector and to enable private investments. The GoB also announced in June 2021 its decision to cancel at least 10 major coal-fired power plants (approximately 8,451 megawatts). To complement such positive decisions, it is important that the country attract foreign direct investment for alternative sources of power generation, including renewables, which are affordable, to meet the rising demand on power. Increasing the share of renewable energy in Bangladesh’s energy mix will require several conditions, including a more developed regulatory framework, a systematic effort to identify domestic project sites and develop them competitively as public-private partnerships, elimination of fossil fuel subsidies, investment in battery storage, deliberate focus on importing renewable-energy-based electricity from neighboring countries, and expansion of cross-border transmission. Moving away from fossil fuel subsidies, exiting from emergency power, and ensuring competitive procurement of all sources of power generation are also important for the sustainability of the energy sector. It is also crucial to adopt a power sector master plan based on sound demand projections, least-cost power supply, and a special focus on imports.

143. Enhanced energy delivery and access also require addressing bottlenecks in transmission and distribution (T&D) capacity. While installed generation capacity has quadrupled, transmission capacity has grown by only 40 percent, contributing to low utilization of installed generation. There are many small, inefficient power stations below 100 megawatts that remain in operation, in part as transmission bottlenecks reportedly prevent lower-cost power from reaching load centers. Idle power plants also receive significant capacity payments, contributing to the losses of the Bangladesh Power Development

¹¹⁸ World Bank World Development Indicators. <https://databank.worldbank.org/source/world-development-indicators>

¹¹⁹ World Bank 2020f; World Bank Group 2020.

Board.¹²⁰ The need for such capacity payments to rental plants and high-unit-cost energy payments requiring subsidy can be reduced if those plants can be phased out in a few years. The existing grid would also not be capable of absorbing the planned higher share of renewable energy capacity. Internationally, private sector participation in T&D has proven to be conducive to capital mobilization for new investments in transmission lines and the improvement of operational and financial performance in distribution.¹²¹ While, for now, the government contemplates less than 10 percent of T&D investment up to 2025 to come from the private sector,¹²² considering tight fiscal constraints, greater private participation, including a pilot public-private partnership in T&D, is an important policy priority. Draft policy guidelines for transmission sector PPPs have been prepared by the Power Division but have not yet been approved by the government. Ideally, such guidelines would stipulate specific modalities for implementing transmission projects with private participation, fiscal incentives and incentives for foreign investors, environmental requirements, and service charges.

144. **Bangladesh will gain significantly from strengthened regional connectivity in infrastructure.** In addition to leveraging the potential regional power market, regional connectivity in transport and digital infrastructure brings significant benefits to the country. For example, improving transport connectivity between Bangladesh and India could further increase exports, yielding a 297 percent increase in Bangladesh’s exports to India and a 172 percent increase in India’s exports to Bangladesh.¹²³ In expanding the capacity of overall digital infrastructure services, strengthening international connectivity is essential. Regional connectivity projects like the South Asia Subregional Economic Cooperation Program can further address the international connectivity issue.

145. **Cross-cutting governance challenges that significantly impact infrastructure sector performance must be tackled to resolve infrastructure gaps.** These challenges cut across the Infrastructure Governance Assessment Framework dimensions, including project planning, preparation and selection, efficiency and value for money, fiscal sustainability, transparency, integrity, resilience and climate change, and market contestability.

H. Private sector financing for development

Box IV. 8. Priority policy measures for private sector financing for development

Immediate actions:

- Shift to market-based pricing for National Savings Certificates
- Strengthen the institutional framework and implementation capacity for public-private partnerships to support a robust pipeline and to manage quasi-fiscal risks effectively
- Build a pipeline of bankable projects for green financing, and introduce de-risking instruments for green investment.

Medium-term actions:

- Develop a well-functioning government debt market, including sovereign bond issuance in international markets
- Liberalize the foreign exchange regime through an overhaul of the 1947 Foreign Exchange Act, and introduce a regulatory framework for currency swaps to ease access to foreign capital for trade and investment
- Introduce a regulatory framework for green bonds.

¹²⁰ For example, the almost-completed Payra coal-fired power plant is reportedly receiving capacity payments of around US\$19 million a month, but half of its capacity is unused due to a delayed transmission line connection (Nicholas and Ahmed 2020).

¹²¹ World Bank 2015.

¹²² World Bank 2020f.

¹²³ Dappe and Kunaka 2021.

146. **As Bangladesh aspires to upper middle-income status, private sector financing from both domestic and foreign sources will play a critical role in financing development needs in the context of addressing the frontier challenges.** Significant investments are needed to overcome development gaps and continue growth. The government's 8th Five Year investment plan envisages an increase in investment from around 31 percent to 36 percent of GDP, of which 27 percent of GDP is projected to come from the private sector. To achieve the targets, the country needs to develop and strengthen channeling of domestic and international savings toward productive investment. This will require major restructuring and deepening of the financial system, including increasing efficiency and sophistication of the banking sector, and developing a long-term capital market. The country also needs to source external resources and leverage public-private financing instruments proactively. Unlocking private sector financing for green investments and climate risk financing will become increasingly important. Expanding access to finance in underserved segments, such as women and micro, small, and medium-sized enterprises (MSMEs), also remains relevant for job creation and diversification.

147. **In the banking sector, there is significant scope to improve efficiency and introduce financial products to better cater to the needs of the private sector.** Banks have limited capacity to provide loans with longer tenors, because they rely on a short-term deposit base to fund their operations. Housing finance, especially in an affordable segment, is mainly constrained by banks' funding structure. Elevated NPLs, operational inefficiencies, and competition for deposits with National Savings Certificates drive the cost of credit, especially for MSMEs, which are considered a riskier group, due to limited collateral and inadequate financial literacy. Interest rate caps further undermine banks' ability to lend to MSMEs. Building bank capacity in MSME finance, establishing an effective collateral registry supported by an adequate regulatory framework, phasing out interest rate caps, and enhancing financial literacy, will be critical to improve access to finance for MSMEs. Strengthening banks' balance sheets—by addressing NPLs, building up capital buffers, and improving corporate governance—will build trust in the banking system, helping improve banks' access to long-term funding and their ability to provide longer-term credit. A set of reforms for financial sector stability was discussed previously. This is highly relevant for increasing the efficiency of the banking sector and its capacity to serve the needs of Bangladesh's economy. A shift to professional boards and enhanced technical expertise among bank executives, promoted by the regulator, will also help banks become more efficient, expand, and become more stable.

148. **The right policy mix will help Bangladesh develop a vibrant domestic capital market to provide long-term financing in local currency.** The availability of local currency financing is crucial for sectors that underpin development, including infrastructure, housing, MSMEs, and climate. Bangladesh's fixed-income market remains small and underdeveloped. The market capitalization of equity markets is close to 28 percent of GDP and is much lower than India (80 percent) and Vietnam (55 percent). The bond market totaled US\$16 billion in 2018, or about 6 percent of GDP, compared to 16 percent in India. Currently, the high interest rates of National Savings Certificates disincentivize market-based pricing for private bonds.¹²⁴ Approval processes for corporate bonds, especially with the Bangladesh Security and Exchange Commission (BSEC), are complex and lengthy. The base of domestic institutional investors remains relatively small. There is no official pension fund, and the combined assets of insurance companies, provident funds, and mutual funds are below 1 percent of GDP. Key policy measures to support domestic capital markets include (i) development of a well-functioning government debt market, including sovereign bond issuance in international markets; (ii) shifting to market-based pricing for

¹²⁴ In the last year, however, there has been some reform in the system due to the government's move to make savings certificate sales transparent through automation and to enforce individual limits on purchases of instruments, as well as a decline by 20 percent in net National Savings Certificate sales between 2018 and 2019.

National Savings Certificates; (iii) strengthening capacity and oversight functions of the BSEC, including streamlining its processes of corporate bond issuance; and (iv) incentivizing the growth of institutional investors. Greater uptake of good corporate governance and robust financial market infrastructure (including credit bureaus, rating agencies, and auditors) will facilitate the growth of debt and equity markets.

149. **Greater leverage of public-private partnerships will support Bangladesh’s ambitious investment growth.** While the government’s budget allocation for physical infrastructure more than tripled between 2008 and 2018, public debt has been gradually rising to support these investments. Greater engagement with the private sector is needed to meet this financing gap. To that end, the GoB has embarked on a systematic effort to capitalize on PPPs to crowd in private capital and derive broader efficiency gains.¹²⁵ The institutional framework and implementation capacity for PPPs must be strengthened to support a robust pipeline and to manage quasi-fiscal risks effectively.

150. **Foreign capital can become an important source to fund private investment.** Foreign borrowing provides an attractive opportunity for the private sector to supplement domestic financing with cheaper international capital. In the case of financing infrastructure investments and other projects involving large capital investments, the international capital market provides access to larger loans and longer tenure than may be available in the domestic market. Bangladesh makes much less use of foreign commercial borrowing than other developing countries. This type of borrowing totaled less than 1.5 percent of gross national income in 2019, much lower than in India (9 percent), Thailand (11.4 percent), or Vietnam (12.6 percent). Foreign exchange transactions—including external commercial borrowing—are regulated by the Foreign Exchange Regulation Act (FERA), dating to 1947, and entail a lengthy approval process and a de facto interest rate cap, which significantly constrains access to foreign finance. Although FERA has a role in protecting foreign exchange, partial liberalization of the foreign exchange regime is needed. This can occur through an overhaul of the 1947 FERA to ease access to foreign capital for trade and investment, supporting a modern investment environment. The development of market-based solutions to hedge currency risks—such as onshore and offshore currency swaps—is a more desirable approach to managing these risks. Currency swaps allow domestic companies to borrow in local currency from foreign lenders, who, in turn, hedge their currency risk through swaps with domestic or foreign financial intermediaries.

151. **Taking greater advantage of FDI will be critical to meet investment needs while also supporting export diversification, upgrading domestic supply chains, and closing infrastructure gaps.** Given Bangladesh’s large investment needs, the increasingly constrained financing capacity of its government, and the shortage of long-term financing from the domestic financial sector, FDI can help bridge the financing gap and foster deeper integration into the global economy. The 8th Five Year Plan targets an increase in FDI from the current level of around 1 percent of GDP to 3 percent of GDP. This will require a stronger FDI promotion and aftercare function, as discussed previously, and the overhaul of numerous FDI restrictions set out in the main law governing FDI.

152. **Climate finance market development will become increasingly important for green and sustainable development.** IFC estimates total climate-smart investment potential in Bangladesh at US\$172 billion between 2018 and 2030.¹²⁶ This includes investment in green buildings, transportation infrastructure, urban water, climate-smart agriculture, waste management, and renewable energy. Bangladesh Bank (BB) has introduced a set of policies and incentives to promote sustainable financing to scale-up green investment. This set includes green banking policy guidelines, donor-aided projects, on-

¹²⁵ World Bank 2020f.

¹²⁶ IFC 2017.

lending facilities, and concessional refinancing schemes. BB has also set a minimum target of direct green finance at 5 percent for all financial intermediaries. Banks, however, face challenges to meet the quota, stemming from the narrow list of eligible green products, the thin pipeline of bankable projects, and limited capacity to assess and underwrite green projects. There have as yet been no climate bond issuances. BB and BSEC, in coordination with the Ministry of Finance, can play a catalyzing role in developing the green bond market by introducing a clear regulatory framework for green bonds, building a strong pipeline of bankable projects, matching issuers with potential investors, and de-risking green bonds. This will also require fundamental changes in the foreign exchange regime so that financial institutions can more easily hold foreign-currency-denominated instruments and hedge currency risk.

V. Knowledge and Data Gaps

153. **This Systematic Country Diagnostic (SCD) Update identifies four key knowledge gaps that warrant policy attention and work.**

- **Land markets:** Given that land markets in Bangladesh are characterized by significant hurdles and large formal and informal transaction costs, more analytical work is needed to better understand both how these obstacles and constraints manifest themselves, and how they should best be tackled to enable new manufacturing units and better jobs to emerge.
- **Analysis of climate change and green growth:** Existing analytical work provides evidence on what needs to be done to manage the consequences of climate change. However, knowledge gaps exist regarding how climate-change-related actions can be mainstreamed in the various sectors.¹²⁷ To answer these questions, it is important to build knowledge based on quantitative research. Such research can investigate climate change and environmental sustainability issues in terms of both their potential costs and gains (mitigation) from policy interventions. Research can analyze how these issues might interact with other economic activities and contribute to overall economic growth and poverty reduction in Bangladesh. This will require a better understanding of the economic value of natural capital and available options for green financing. The upcoming World Bank Group Country Climate and Development Report is expected to shed light on such questions. Comprehensive growth analytics on climate change and green growth would support the government in developing long-term strategies and policies for sustainable growth and poverty reduction, including a sustainable energy transition. Wider application of economic modeling tools that integrate climate and environmental factors will facilitate developing robust analytics about growth and poverty implications of climate change and green growth.
- **Analysis of urban welfare dynamics and inequality:** Despite the increasing urbanization of poverty, nearly all analysis of well-being, poverty, and income dynamics in Bangladesh has been focused on rural areas. There are critical knowledge gaps in the qualitative understanding of urban welfare dynamics. Issues that need to be investigated include the nature of multidimensional poverty in large urban centers like Dhaka, community in fluid urban contexts, and urban spaces that might facilitate or hinder entry into labor markets and influence the nature and quality of urban services. These topics need research to enable the formulation of more effective policies to address urban poverty and inclusive growth.

¹²⁷ World Bank 2021f.

- **Analysis of technology and innovation:** Given the increasing importance of the digital economy in driving the country's development, further knowledge generation is important to promote technology adoption and to foster innovation in the public sector, the private sector, and households, including in the areas of compatible skill development. This will enable identification of key reform areas to build institutions for better technology adoption and innovation.

154. **The analysis has also highlighted the following areas where the existing database is weak:**

- **Outcomes on quality education (Sustainable Development Goal 4) and cleanliness of water and sanitation (Sustainable Development Goal 6):** There is insufficient data to track these outcomes.¹²⁸ Currently, information on education is tracked through data from the Bangladesh Bureau of Educational Information and Statistics data, which capture details on the number of schools, teacher-student ratios, and enrolments by gender and by district. However, the government could set national learning goals and systems to consistently track these goals using high-quality learning assessments to enhance accountability and inform policies. Similarly, there are limited data (available through surveys like the Multiple Indicator Cluster Surveys) that track access to and quality of water and sanitation sources or their management.
- **Firm-level and labor market data:** These data are insufficient and outdated. The last economic census conducted by the government was in 2013, which is a key data source used to track firm and labor market dynamics. Notably, high-frequency firm-level data will be critical to generate deeper knowledge on economic activity, sectoral performance, and labor markets, as Bangladesh aims to move to upper middle-income status. Updated and high-frequency firm-level data on trade will also be essential for the country to better track its exports, which have been the primary driver of economic growth in the last decade.
- **Spatially and group disaggregated and migration data:** While an enormous amount of data are available on various fronts, more spatially and group disaggregated information needs to be collected consistently across surveys. Much of the data currently available are at the division level and some are at the zila (district) level. Better data are needed to assess variations at the local level in order to understand spatial disparities and devise effective and targeted strategies for equitable growth. Moreover, all primary data must collect information disaggregated by gender, migrant status, slum dwellers, urban-rural residential status, and age cohorts to understand and tackle existing group-based inequalities. Relatedly, limited survey data on urban households has hampered an understanding of welfare dynamics and urban poverty. For example, urban panel surveys that follow the same households across time are currently lacking, although there are many long-run and well-used rural panel surveys in Bangladesh. In addition, cross-sectional data that are available for urban areas do not allow for disaggregation within a city to see how dynamics differ in different parts of the city, such as the center and periphery or slum and non-slum areas. Limited information on internal migration also limits the understanding of the size of flows, use and benefits of transfers, and underlying motivations and constraints of this process.

¹²⁸ One factor which contributed to the data gap was related to definitional issues in metadata, which has been resolved. Relevant government offices in the area of education are currently coordinating with the Bangladesh Bureau of Statistics to address the gap.

Annex 1. Prioritization Process

This SCD identifies priority action areas required to allow Bangladesh to reduce poverty further, boost shared prosperity, and take advantage of emerging opportunities as the country enters a new phase of development. The priority constraints were identified based on an assessment of the country’s progress under the eight priority constraints presented in the 2015 SCD. In addition, the SCD analyzed emerging challenges and opportunities as the country strives to become an upper middle-income country by 2031 while facing a post-COVID and post-LDC external environment. The analysis considered the implications of future demographic shifts as Bangladesh’s demographic dividend window closes.

To update the list of priority constraints, the SCD relied on the following methods: (i) benchmarking exercises to indicate how the country stands in specific areas compared to the performance of South Asia and lower middle-income countries as a group, (ii) review of existing evidence to assess the progress and challenges around constraints and identification of how binding a constraint may be, and (iii) country expert consultations to determine whether a particular constraint remains binding. See figure A2.1. This process led to a “long list” of constraints, which are summarized in table A2.1.

Figure A2. 1.. Prioritization steps

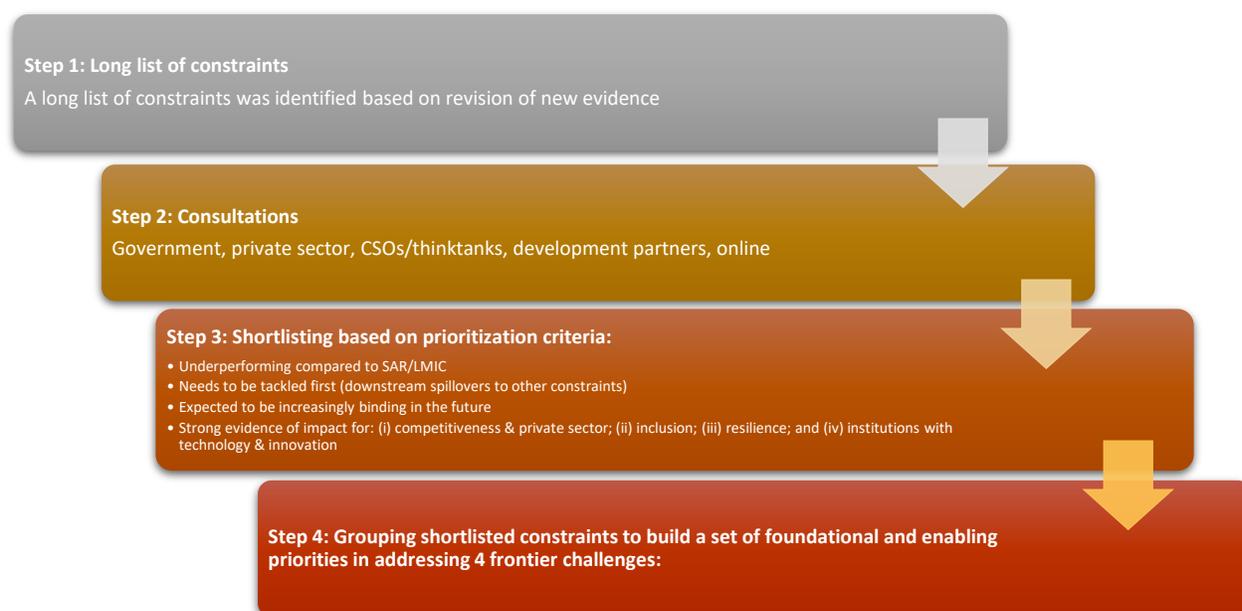


Table A2. 1. Long list of constraints

	Economic Diversification	Spatial Transformation	Climate Resilience and Green Growth
1. Constraints in energy (e.g., lack of long-term energy generation capacity with a resilient and lower-carbon trajectory, including inadequate exploration of domestic gas resources, bottlenecks in transmission and distribution capacity, and risks to sector financial sustainability)	x	x	x

2. Poor transport infrastructure, particularly road, and lack of multimodal integration	X	X	
3. Lack of port efficiency and poor logistics infrastructure and services, which raise logistics costs and reduce trade competitiveness	X		
4. Poor urban infrastructure governance and services (e.g., housing, urban/public transport, waste management, water and sanitation, emission/pollution controls)		x	X
5. Uneven access to quality digital infrastructure and services (e.g., 4G connectivity, broadband)	X		
6. Limited technology adoption by producers in agriculture, industry, and services	X		
7. Inadequate public financing for human development	x		
8. Poor quality of human development service delivery, starting in early years	x	x	
9. Poor access and low coverage of age-appropriate services and practices in nutrition and health; child development; and water, sanitation, and hygiene (WASH)		x	
10. Skills gaps to improve labor productivity, particularly in leveraging digital technology and among women	X		
11. Lack of shock-responsive and climate-resilient social protection, health, and education systems (including high out-of-pocket health spending)			X
12. Prevalence of child marriage, which limits girls' opportunities for education and skills development	X	X	X
13. Disincentive to export in the tariff structure and incentive programs for producers	X		
14. Low agriculture productivity and policy bias that supports underperforming (crop) agriculture	X	X	X
15. Limited FDI for capital and technology transfer	X		X
16. Low female labor force participation	X	X	
17. Limited market entry and formal employment	X	X	
18. Weak compliance with environment and safety standards and product standards for manufacturing and agribusiness (including food safety and quality standards)	X	X	X
19. Untapped regional integration opportunities (e.g., trade, energy, transport, digital)	X		X
20. Congestion in megacities and underdeveloped secondary cities		X	X
21. Weak institutions to support market development (e.g., outdated laws and regulatory systems, limited market competition due to relationship-based governance, poor market linkage services for producers)	X		
22. Poor institutional capacity and coordination in the public sector (e.g., multisectoral coordination, public investment management, public procurement system, bureaucratic process efficiency)	X	X	X
23. Weak institutional capacity of local governments (e.g., inadequate financing and weak citizen engagement)		X	X
24. Limited use of technology to improve transparency and efficiency in the public sector	X	X	X
25. Weak social protection system to provide a safety net for the poor and the vulnerable (e.g., weak targeting, financing, program efficiency)		X	X
26. Limited private sector participation in provision of infrastructure and service delivery, including public-private partnerships	X	X	X
27. Weak institutions and capacity for mobilizing long-term private financing for development (e.g., inefficient banking system, financial inclusion, and SME finance gaps, low FDI, distorted and undeveloped contractual savings market, small domestic capital market)	X	X	X
28. Financial sector vulnerability (e.g., elevated NPLs, low capital buffers, government borrowing from banks, weak bank governance, insufficient regulatory powers and quality of supervision and enforcement)	X		X

29. Increasing risks to fiscal and debt sustainability (e.g., SOE risks including contingent liabilities, expanding domestic debt through National Saving Certificates)	X	X	X
30. Limited domestic resource mobilization to finance development needs	X	X	X
31. Weak policy coordination and investment planning for climate-resilient development and green growth (e.g., adaptive delta management, climate-smart agriculture, renewable energy, green economic inclusion)			X
32. Limited land availability and weakness in land use planning, land allocation, and land management	X	X	X
33. Poor management of natural resources including environmental regulation enforcement and monitoring	X	X	X

Based on the evidence, the long list of constraints was prioritized and integrated considering the following criteria:

- (i) Whether the country was underperforming in a particular area compared to South Asia and lower-middle-income countries
- (ii) The evidence indicates that the constraint needs to be tackled first, as it facilitates the removal of other constraints
- (iii) Whether the constraint is expected to be increasingly binding in the future
- (iv) The prioritization exercise also considered the impact of removing constraints in terms of four elements:

First, building competitiveness and private sector investment to drive job creation. Job creation is driven by economic growth, underpinned by investment and productivity growth. Evidence from across the globe shows that the private sector remains the main engine of investment, productivity growth, and job creation. Bangladesh will need to strengthen competitiveness and increase private sector investment to accelerate its recovery from the COVID-19 pandemic and to achieve ambitious growth and investment goals set by the 8th Five Year Plan, under the overarching goal of becoming an upper middle-income country by 2031. The upcoming LDC graduation, with the eventual loss of preferential market access, raises the urgency of increasing the productivity and competitiveness of Bangladeshi firms. Leveraging technology and innovation within the private sector is part of the agenda. At the same time, an environment conducive to private sector growth is important in terms of infrastructure, financial markets, macroeconomic stability, and the regulatory environment. In addition to job creation, other key development objectives, including environmental sustainability, urbanization, and infrastructure development, will also require the private sector to exploit the significant opportunities to invest, expand, and diversify.

Second, promoting inclusive job growth. The recent increase in spatial disparities and stagnation in labor force participation among women are highly linked to the unevenness in job opportunities across space and groups and the unequal impacts of the COVID-19 crisis. These elements highlight the centrality of expanding access to jobs, particularly for poor and vulnerable populations and across space. Ensuring that the recovery from COVID-19 and future growth leave no one behind can reduce inequalities in opportunities and outcomes and help excluded groups contribute to and benefit from economic growth. With the eventual closing of the demographic dividend phase, there is an urgent need to strengthen job opportunities and human capital development for all to minimize the intergenerational transmission of poverty.

Third, making growth more sustainable by building resilience. Jobs are vulnerable to economic downturns, natural disasters, public health crises, and all other types of shocks. The COVID-19

crisis shows how quickly income and human capital gains can be reversed. A large share of the population lives very close to the poverty line; when faced with income shocks, these households are at risk of falling into poverty. The country needs to prepare for, mitigate, and adapt to a wide range of risks and uncertainties, including climate change and exogenous economic shocks. To protect jobs in the long run, growth must become more sustainable by promoting growth through investments that eliminate (or at least mitigate) the adverse environmental effects of activities or policies to internalize negative externalities. Other vulnerability risks to economic stability that threaten future growth need to be addressed.

Fourth, strengthening institutions with innovation and technology. Growth and poverty reduction are to be supported by strong and innovative institutions, for which technology can be better leveraged. The recent literature on innovation emphasizes the strong interlinkage between innovation and institution building, and underscores how an innovative economy requires investment in complementary factors, including institutions and human capital.¹²⁹ As Bangladesh aims to become an upper middle-income country, continuous innovation to strengthen and modernize institutions in both the public and private sectors is important in order to raise the quality of services. Transparency and fairness need to be strengthened in the ways in which the public and private sectors interact. This is essential in order to continue Bangladesh's growth and avoid the country's being trapped in a low equilibrium, in terms of the quality of development. In this context, digital technology can play an important role in improving accountability and efficiency in public sector functions, including domestic resource mobilization. This agenda will also make the availability, accessibility, and quality of statistics more central in public policymaking, while raising demand for good governance within the society.

This process allowed identification of four main frontier challenges for Bangladesh and eight underlying priorities to enable progress in tackling these challenges. Four priorities are considered foundational, as they provide an essential basis for transformation as the country moves up to UMIC status: (a) inclusive and resilient human capital, (b) productive and sustainable management of natural capital, (c) effective and efficient public institutions, and (d) macroeconomic and financial sector stability. In addition, the SCD identifies four enabling priorities, which are levers to shift gears toward addressing the frontier challenges: (e) competitive and diversified markets, (f) skills and technology adoption, (g) closure of infrastructure gaps, and (h) private sector finance.

¹²⁹ Cirera and Maloney 2017.

Annex 2: Policy Focuses under Foundational and Enabling Priorities

Priority	Immediate Actions	Medium-Term Actions
A. Inclusive and resilient human capital development	<ul style="list-style-type: none"> Strengthen policies and institutions for licensing and regulating childcare services and for incentives to promote their establishment and use, including proper implementation of the 2021 Child Daycare Act Improve the regulatory framework, including regulatory capacity and oversight in healthcare, for enhanced private sector participation 	<ul style="list-style-type: none"> Expand the national child benefit program and the coverage of the core social protection program Address the adequacy of public spending in health and education, and realign spending with policy priorities and closure of coverage gaps Address harmful social norms such as child marriage, constraints on access to reproductive health options, and restrictions on mobility outside the home Develop an efficient financing strategy for human capital development in responding to shocks and more flexible and scalable social protection programs to lower the cost of response while improving speed and impact Strengthen the health system to prevent or detect and respond early to disease outbreaks
B. Productive and sustainable management of natural capital	<ul style="list-style-type: none"> Strengthen the government's public investment management system and interministerial coordination in designing and implementing projects such as BDP 2100; ensure integrated land and water management, with environmental and social risk assessment and management in project development and implementation Strengthen implementation of BDP 2100 by operationalizing the Delta Governance Council and by strengthening the domestic governance structure for engaging international transaction advisors in implementing investment projects Amend the Environmental Conservation Act and Environmental Conservation Rules as described in the core text of the SCD Update 	<ul style="list-style-type: none"> Adopt fiscal and sector policies to enhance market-based green growth, including fiscal incentives for green investment, payment for ecosystem services, taxes on polluting activities, charges for waste management and water use, and phase-out of environmentally harmful subsidies Establish more efficient pricing for waste and water and create a proper water supply and sanitation (WSS) regulator Develop information systems for enhanced collection, processing, analysis, and concurrent dissemination of key data on air, water, soil, and other natural resources Strengthen the quality of the land administration system, including addressing currently overburdened courts, making the register of land titles and interest fully digitized and publicly searchable, and finalize the national settlement policy
C. Effective and efficient public institutions	<ul style="list-style-type: none"> Strengthen the public investment management process, particularly on fiscal aspects, by ensuring affordability and fiscal management in project appraisals and integrating investment decisions with the budget process Modernize the regulatory apparatus governing business operations (e.g., Companies Act, Foreign Exchange Regulation Act, Foreign Private Investment Promotion and Protection Act, Bank Company Act) Scale-up the digital government procurement platform (eGP) and introduce similar digitally enabled processes within the government, government-to-business (G2B), and government-to-person (G2P) services 	<ul style="list-style-type: none"> Address overlapping mandates across multiple agencies in key development areas (e.g., urban, transport, water, and social protection) Ensure independence of regulatory agencies Strengthen local government institutions' capacity to address the urbanization agenda and social services Strengthen governance and financial management of SOEs, including those in infrastructure and the financial sector, and review the role of SOEs for market competitiveness in infrastructure services, industry, and financial services Promote citizen engagement among women by improving women's awareness of citizen engagement mechanisms, fostering access to

	<ul style="list-style-type: none"> • Improve availability and accessibility of official statistics, with higher frequency and quality • Strengthen implementation of the Right to Information Act 2009 	digital tools, and addressing restrictive social norms
D. Macro-economic and financial sector stability	<ul style="list-style-type: none"> • Adopt and start implementing a medium-term road map of reforms in the banking sector to (i) strengthen banking sector supervision in line with Basel Core Principles and bringing BB's regulatory framework for assets classification, loss provisioning, and capital adequacy in line with Basel III requirements and IFRS; and (ii) introduce a regulatory framework for NPL resolution, including the timeline of asset quality review • Adopt measures to strengthen capital buffers 	<ul style="list-style-type: none"> • Improve efficiency of domestic taxes, including moving toward a single VAT rate as envisaged under the original 2012 VAT Act • Enact a new direct tax law, which would overhaul and simplify the income tax system; reduce overall tax expenditures • Strengthen the governance of state-owned banks • Remove distortionary measures such as caps on interest rates, and phase out National Savings Certificates
E. Competitive and diversified market	<ul style="list-style-type: none"> • Adopt a national tariff policy to rationalize import tariffs and para-tariffs • Full implementation of the Bangladesh National Single Window and of the Customs Modernization Strategic Action Plan • Modernize Foreign Private Investment Promotion and Protection Act and other FDI-related laws and foreign exchange regulations • Remove constraints for off-farm value addition and commercialization (e.g., limited number of off-takers, inadequate and costly marketing infrastructure and logistic services with limited private sector investments, and inadequate upholding of appropriate food safety practices and product-quality standards) • Address on-farm productivity constraints for non-paddy crops such as limited access to quality seeds 	<ul style="list-style-type: none"> • Set up an autonomous investment promotion agency to promote FDI, which will also offer aftercare functions to existing investors • Address land fragmentation and informality in land rental markets
F. Skills development and technology adoption	<ul style="list-style-type: none"> • Strengthen institutional capacity and improve coordination among various ministries through effective implementation of the recently approved National Skills Development Policy • Permit greater use of, and secure access to, the national ID database and National Household Database for all government agencies and private sector players for verifications, service delivery, and identification of beneficiaries • Fully adopt a whole-of-government approach to avoid GoB agencies pursuing their own IT investments, and introduce policy and regulatory frameworks to promote and mandate GoB agencies' use of the Bangladesh National Digital Architecture • Enhance last-mile service delivery for excluded groups, especially women, through the government's Union Digital Centers 	<ul style="list-style-type: none"> • Improve science, technology, engineering, and mathematics (STEM) skills, through improved quality of teachers and relevance of curriculums, particularly for women and girls • Build the capacity of government officials to create ICT knowledge-based human resources for the country • Harness digital literacy among citizens to use online services provided by the government and minimize cyber risks and threats • Launch several women-centric G2B and G2P e-services
G. Closing of infrastructure gaps	<ul style="list-style-type: none"> • Open the transportation sector to greater private investment through public-private partnerships (PPPs) and direct investment, including by foreign investors, and by reducing the state's footprint 	<ul style="list-style-type: none"> • Maximize potential for regional infrastructure connectivity in transport, energy, and digital • Develop climate-risk-informed master planning, capital investment, and asset management planning against floods, droughts, and cyclones,

	<ul style="list-style-type: none"> • Introduce private participation in the port sector and separation of port oversight and operations to improve efficiency • Reduce regulatory risks for the private sector by strengthening the independence of the Bangladesh Telecommunication Regulatory Commission and eliminating discretion and undue influence in the issuance of licenses, the imposition of fees, and the introduction of ad-hoc rules • Establish a formal platform of private-public dialogue to enhance a common understanding between policymakers and market participants, so that the effect of policy changes on the industry is adequately assessed and communicated • Move away from fossil fuel subsidies, exit from emergency power, and ensure competitive procurement of all sources of power generation • Expand private participation, including a pilot PPP, in the transmission and distribution sector 	<ul style="list-style-type: none"> and strengthen financing mechanisms for climate adaptation projects (including BDP 2100 projects) • Increase the share of renewable energy in Bangladesh’s energy mix through a more developed regulatory framework, a systematic effort to identify domestic project sites, and develop them competitively as PPPs; elimination of fossil-fuel subsidies, investments in battery storage, deliberate focus on importing renewable energy-based electricity from neighboring countries, and expansion of cross-border transmission
<p>H. Private sector financing for development</p>	<ul style="list-style-type: none"> • Shift to market-based pricing for National Savings Certificates • Strengthen the institutional framework and implementation capacity for PPPs to support a robust pipeline and to manage quasi-fiscal risks effectively • Build a pipeline of bankable projects for green financing, and introduce de-risking instruments for green investment 	<ul style="list-style-type: none"> • Develop a well-functioning government debt market, including sovereign bond issuance in international markets • Liberalize the foreign exchange regime through an overhaul of the 1947 Foreign Exchange Act and introduction of a regulatory framework for currency swaps to ease access to foreign capital for trade and investment • Introduce a regulatory framework for green bonds

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