

BANGLADESH

MORE AND BETTER JOBS TO ACCELERATE SHARED
GROWTH AND END EXTREME POVERTY

A Systematic Country Diagnostic

Discussion Draft

June 29, 2015



WORLD BANK GROUP

South Asia Region

ABBREVIATION

ADM	Adaptive Delta Management	IRT	International Road Transport
ADP	Annual Development Plan	IWT	Inland Water Transport
AGPs	Apprenticeship Grants Programs	KCT	Key <i>Construction</i> Test
AL	Awami League	KM	<i>Kilometer</i>
ALMPs	Active labor market programs	kW	Kilowatt
ASA	Association for Social Advancement	LDC	Least Developed Countries
BAU	Business as usual	LFS	Labor Force Survey
BBS	Bangladesh Bureau of Statistics	LGED	<i>Local Government Engineering Department</i>
BDT	Bangladesh Taka)	LNG	Liquefied Natural Gas
BEPZA	Bangladesh Export Processing Zones Authority	LPI	Logistics Performance Index
BERC	Bangladesh Energy Regulatory Commission	LSCI	Liner Shipping Connectivity Index
BIWTA	<i>Bangladesh Inland Water Transport Authority</i>	NBR	National Board of Revenue
BNP	Bangladesh Nationalist Party	NGO	Non-governmental organizations
BMET	Bureau of Manpower, Employment and Training	NFP	National Food Policy
BPDB	Bangladesh Power Development Board	NMCT	New Moorings Container Terminal
BR	Bangladesh Railways	MCF	Million Cubic Feet
BRAC	<i>Bangladesh Rural Advancement Committee</i>	MDG	<i>Millennium Development Goals</i>
BST	Bulk Supply Tariff	M&E	Monitoring and Evaluation
CCT	Chittagong Container Terminal	MOC	Ministry of Commerce
CIP	Country Investment Plan	MoEF	<i>Ministry of Environment and Forests</i>
COEL	Center of Excellence for Leather Skill	MOU	Memorandum of Understanding
CPA	Chittagong Port Authority	MIC	Middle-income Country
CPIA	Country Performance & Institutional Assessment	MICS	Multiple Indicator Cluster Survey
DNCC	Dhaka North City Corporation	MRAs	Mutual Recognition Agreements
DPT	Diphtheria-Pertussis-Tetanus	MTIR	Mid-Term Implementation Review
DSCC	Dhaka South City Corporation	MW	Megawatt
EPB	Export Promotion Bureau	PCU	Passenger Car Units
ERD	Economic Relation Division	PFM	Public Financial Management
ETPs	Exchange Traded Products	POA	<i>Price On Application</i>
EU	<i>European Union</i>	PPP	Purchasing Power Parity
FDI	<i>Foreign Direct Investment</i>	PPPs	Public-Private Partnerships
FP	Family Planning	PPRC	Power and Participation Research Centre
FTA	Free Trade Agreement	PWC	Pricewaterhouse Coopers
FY	Fiscal Year	RCP	Representative Concentration Pathway
FYP	Five-Year Plan	RMG	Ready Made Garments
GBM	Ganges-Brahmaputra-Meghna	RTI	Right to Information
GDP	Gross Domestic Product	SCD	Systematic Country Diagnostic
GDW	Greater Dhaka Watershed	SFYP	Second Five-Year Plan
GED	General Economic Division	TB	Tuberculosis
GOB	Government of Bangladesh	TEUs	Twenty-Foot Equivalent Units
GON	Government of the Netherlands	TFP	Total Factor Productivity
GNI	<i>Gross National Income</i>	TVET	Tech. & Vocational Education and Training
GSP	Generalized System of Preferences	TWH	Terawatt hour
GTZ	<i>German Agency for Technical Cooperation</i>	UN	United Nations
GWH	Gigawatt Hour	UNDP	United Nations Development Programme
HDRO	Human Development Report Office	UNCTAD	UN Conference on Trade and Development
HIES	Household Income and Expenditure Survey	UNIDO	UN Industrial Development Organization
ICD	<i>Inland Clearance Depot</i>	UAE	United Arab Emirates
IDA	International Development Association	UK	United Kingdom
IGC	Intergovernmental Committee	USA	United States Of America
IFC	<i>International Finance Corporation</i>	USD	US dollar
IMF	International Monetary Fund	VAT	Value Added Tax
IT	<i>Information Technology</i>	WDI	World Development Indicators
IOCs	International Oil Companies	WBG	World Bank Group
IPPs	<i>Independent Power Producers</i>	WTO	World Trade Organization

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EXECUTIVE SUMMARY

1. Situated in a fertile low-lying river delta, Bangladesh combines high vulnerability to floods, tropical cyclones, earthquakes, and climate change with one of the world's highest population densities, with around 159 million people living in less than 150,000 sq. km. With the world's second lowest per capita income in 1975, it was labeled "the test case for development" in view of the formidable development challenges it faced. Nevertheless, Bangladesh has proven to be remarkably resilient and developed well beyond initial expectations. GNI per capita has grown from around US\$100 in 1972 to US\$1,314 in 2015, and the country crossed the World Bank threshold for the lower-middle-income group in 2015. Five striking achievements of Bangladesh since its independence merit special mention:

- Impressive achievements of a pro-active family planning program, which helped lower total fertility from over 6 children per woman in the 1970s to 2.1 in 2011: Even though Bangladesh's population increased by about 15 percent between 2000 and 2010, the working age population expanded even more rapidly, by 25 percent. This "demographic dividend" offers a promising, albeit short and one-time, window of opportunity for Bangladesh to enact policies and promote investments to raise human capital and productivity of these citizens entering the workforce.
- Improved food availability: Thanks to the uptake of high-yield varieties, improved availability of fertilizer and other key inputs, and better irrigation, domestic rice production (the main food crop) has risen from around 12.3m metric tons in the 1980s to 37.6m metric tons in 2014.
- Stronger disaster-coping mechanisms, as evidenced by reduced impact of recent storms, cyclones, and floods: The government, with active community participation, has devised effective strategies to mitigate the damage of natural disasters, including early warning and response systems and countless cyclone shelters in coastal areas across the country.
- Development of the extensive rural road network built in the 1980s by the Local Government Engineering Department: This network blurred the rural-urban divide and helped develop a continuum linking Dhaka, Chittagong, other secondary cities, towns, market centers, and villages.
- Special initiatives taken to tackle gender inequality and promote women's empowerment:¹ This included a schooling system that expanded girls' education, mobilization of women by NGOs, and—more recently—their proactive recruitment by the readymade garments (RMG) industry.

GOOD JOBS: KEY DRIVERS OF PROGRESS IN THE POST-2000 PERIOD

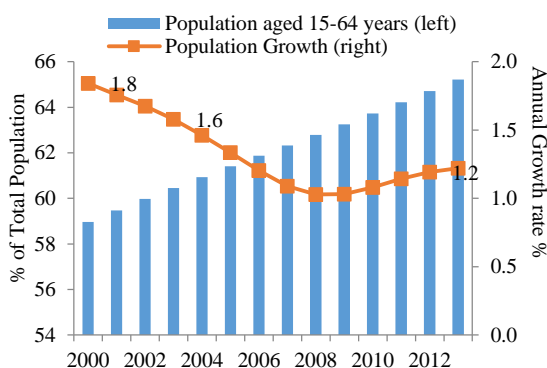
2. Annual GDP growth in Bangladesh averaged about 6 percent over 2005 to 2015, notwithstanding the adverse impacts of the global recession, oil price rise, unrest in the Middle East (an important destination for Bangladeshi migrants) and local natural disasters. Several factors explain the resilience of the economy to global shocks, including strong macroeconomic fundamentals at the onset of the crisis, strong growth of exports and remittances, and relatively under-developed and insulated financial markets. The pace of poverty reduction also picked up considerably since 2000, and Bangladesh is amongst the select group of countries which have experienced a modest decline in inequality in the post-2000 period. The main drivers of faster GDP growth and poverty reduction observed between 2000 and 2010 have included (i) the ongoing demographic transition that has led to an increased share of working-age population, (ii) key structural shifts in the economy, including better wage and salaried employment opportunities for workers in the

¹ Amartya Sen has attributed Bangladesh's success in this particular regard to the "general determination in post-independence Bangladesh to target the elimination of female disadvantage". *What's happening in Bangladesh?* [http://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(13\)62162-5/fulltext](http://www.thelancet.com/journals/lancet/article/PIIS0140-6736(13)62162-5/fulltext)

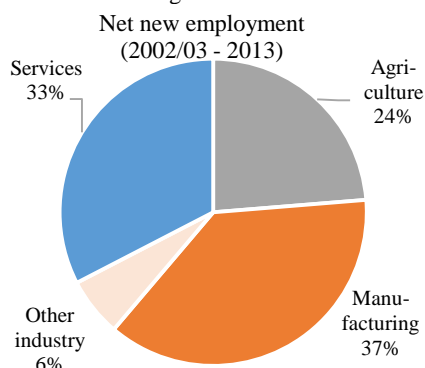
manufacturing and services sectors, (iii) higher agricultural incomes, and (iv) higher remittances. Key factors behind these remarkable improvements include not just economic reforms and good macroeconomic management, but also special attention to gender equality, education, health outcomes, and family planning.

Main Drivers of Progress Since 2000

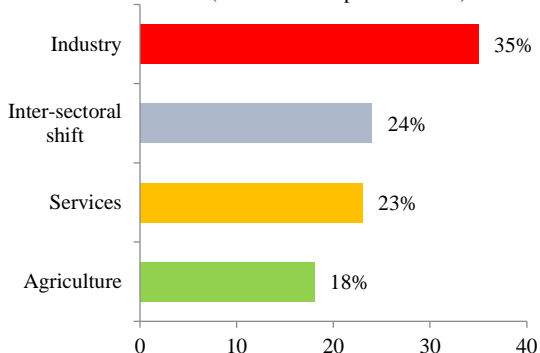
Demographic Dividend: lower population growth has led to a higher working-age population share



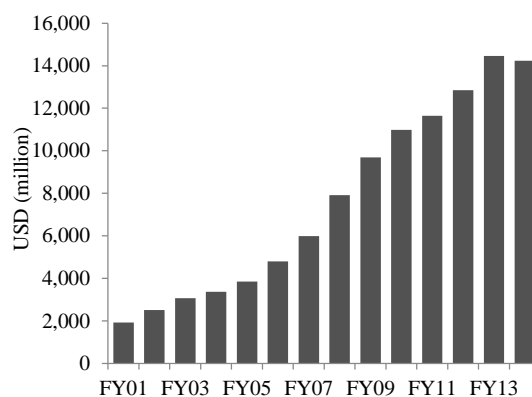
Most new jobs added recently have been in the manufacturing and services sectors



Contribution to increased output per worker: 2000-2010 (sum of all components =100)



Agriculture contributed nearly one-fifth of the higher output per worker in 2010 vs. 2000



Remittance inflows from overseas workers have recorded double-digit annual growth since 2000

3. **The economy has undergone important structural shifts.** The manufacturing sector in Bangladesh has been the largest single contributor to growth, and its share in GDP has risen from 13 percent in 1981 to 17 percent in 2015. Industry's contribution to growth peaked from about 1 percentage point in the 1980s to 2.7 percentage points in 2015. The share of the services sector has stabilized at 53-54 percent of GDP, and its contribution to GDP growth has risen from around 2 percentage points in the 1980s to over 3 percentage points in the 2000s. By contrast, agriculture's share in GDP has come down from 30 percent in 1981 to 15 percent in 2015, and its contribution to GDP growth was below 1 percentage point throughout most of the past three decades. Growth in industry came largely from manufacturing and construction, while that in the services sector was broad-based, led by wholesale and retail trade and transport, storage and communication.

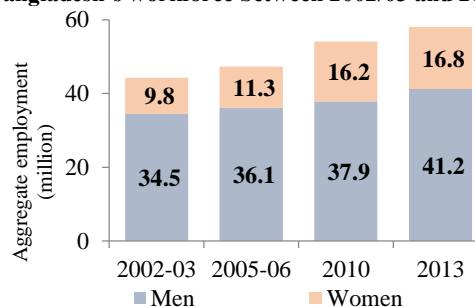
4. **These structural shifts have been accompanied by improved job opportunities for both men and women.** Several key changes have taken place in Bangladesh's labor market since 2000, including a gradual decline in the share of total employment in agriculture and strong employment growth in urban areas. Successive labor force surveys confirm that three-quarters of the new jobs added in Bangladesh between 2002/03 and 2013 were in the non-agricultural sector. Of the estimated 14m net new jobs created over this

period, 10.5m were outside agriculture; accordingly, the share of the workforce engaged in agriculture fell from 52 percent to 45 percent, while that in manufacturing rose from 14 to 21 percent. One-half of the net increase in total employment was due to women’s increased participation in the workforce: the total number of employed women increased sharply from 9.8m in 2002/03 to 16.8m in 2013 (Figure). The gender gap in labor force participation rate narrowed, particularly amongst lower age-cohorts, as did the gender gap in wages.

5. Bangladesh has made good use of the deep and elastic demand offered by the global economy to expand job opportunities in the manufacturing sector.

The largely export-driven readymade garment (RMG) sector in Bangladesh has provided very good employment opportunities for young women and contributed to their empowerment. While the manufacturing sector overall (i.e., RMG and other industries) continues to employ more men than women, the number of jobs for women in the sector more than doubled between 2002-03 and 2013. Bangladesh is now the world’s second largest exporter of readymade garments after China, making it unique among low-income countries in its high share of manufactured goods in exports. The share of exports in GDP has more than trebled since 1981. In FY14, exports of the ready-made garment sector exceeded US\$24 billion, and the sector employed an estimated 4m workers, mostly women, many of whom were from poor rural areas. The potential rewards of continued export-led job creation and growth are extremely high: if Bangladesh were to capture 20 percent of China’s current garment exports, its total exports would more than double, creating millions of new jobs in the economy.

An equal number of men and women joined Bangladesh’s workforce between 2002/03 and 2013



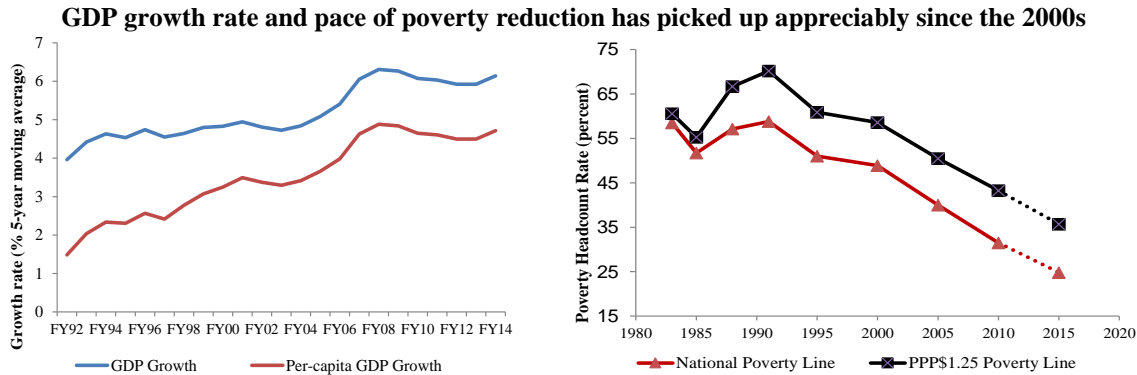
Source: Labor Force Surveys, various rounds. BBS.

6. Remittances from workers abroad have also emerged as a significant source of income. In many areas of rural Bangladesh, remittance incomes from family members working abroad represent both a significant proportion of household income as well as a substantial source of fund inflows into the local economy. Agriculture is no longer the dominant source of income in rural areas (Ahmed, forthcoming); instead, rural households now draw a substantially larger proportion of their incomes from non-agricultural activities and transfers from both local and foreign migrant workers. With an estimated 8m citizens working abroad, overseas remittances to Bangladesh exceeded US\$14 billion in 2013-14 (FY14), equivalent to about 8 percent of GDP, or nearly double the share a decade ago. That said, while Bangladesh is among the world’s top ten remittance receiving countries, it has the lowest remittance per worker amongst this group because of the low level of education and skills of the typical migrant worker.

TRIPLE PAYOFF: FASTER GROWTH, FEWER POOR, BETTER HUMAN DEVELOPMENT

7. Bangladesh is among the select group of countries worldwide that have recently experienced both faster growth as well as a modest decline in inequality. GDP growth has risen from an average of 4.7 percent per annum in the 1990s to 5.6 percent in the 2000s, and to over 6 percent since 2010 (figure). Higher labor incomes and rising remittances have been extremely important drivers of broad-based growth. Inequality in rural areas, where about 70 percent of Bangladesh’s population resides, remained more or less unchanged between 2000 and 2010 while inequality in urban areas trended downwards. With a Gini index of per capita consumption of about 0.3 at the national level, inequality in Bangladesh is lower than in Nepal, India, Sri Lanka, Indonesia, and most other East Asian countries. Thanks to its much-improved economic performance since 2000, poverty projections indicate Bangladesh has surpassed the Millennium

Development Goal of halving the incidence of extreme poverty between 1990 and 2015. Between 2000 and 2010, the number of poor based on the national poverty line fell by more than 17 million, compared to a decline of less than one million between 1991-92 and 2000, making this decade the most remarkable period in its history in terms of fastest-ever growth and poverty reduction.



Note: Poverty estimates based on HIES data except those for 2015 which are based on projections).

8. Significant achievements in human development over the years have contributed towards improving labor market prospects for workers, which in turn have spurred demand for education and skills. Bangladesh is world-renowned for its non-governmental organizations (NGOs) like BRAC and ASA, and microfinance institutions like the Grameen Bank, which have pioneered innovative mechanisms to provide services to the poor. The country has made remarkable progress in improving human development indicators, including life expectancy, fertility, infant and child mortality, education, immunization rates, and sanitation. Successive governments have exhibited willingness and flexibility to work with NGOs to experiment with community-based approaches to service delivery, and have achieved notable successes in several areas. In 1991, the educational attainment of Bangladeshi women was among the lowest in the world (80 percent illiteracy, 33 percent secondary school enrollment). However, through massive expansion of schools, targeted stipends to bring the poorest and girls into schools, and continued investments in education, female primary school enrollment rates are now higher than those in Pakistan, Nepal, and Bhutan, and about the same as in India. This has helped set in place a virtuous cycle in Bangladesh whereby better-educated women now have significantly better labor market prospects than before, and increased labor force participation by women in turn leads to better human development outcomes as well as higher demand for more and better education and skills.²

² The vast majority of Bangladesh's RMG workers are rural women, who were introduced to formal employment through this sector (Afsar 2001, Kabeer and Mahmud 2004). Increased employment helped improve several key outcomes, including women's bargaining power within the household, fertility choices, and investments in children's education (Kabeer 2001, Hossain 2012, Heath and Mubarak 2014). Heath and Mubarak (2014) estimate that about 15 percentage point of the national gain in girls' school enrollment rate can be attributed to the growth of the RMG industry since rural families kept girls in school due to cognitive skill requirements of garment industry jobs.

Significant Poverty Reduction Challenges Still Remain

Despite Bangladesh's noteworthy development achievements, many Asian countries have done much better since 1980 (see Table below) and so Bangladesh remains one of Asia's poorest countries, with constrained public services and comparatively weak institutions. Moreover, even if its economy were to continue to grow as rapidly as it has since 2000—i.e. much faster than it ever has before—simulations indicate that the poverty rate in the country would fall to 15-20 percent by 2030—good progress indeed, though nevertheless still well short of what is required to eliminate extreme poverty by 2030. In 2010, 31.5 percent of Bangladesh's population (around 48m people) lived below the national poverty line; about 45 percent still did not have access to electricity. Today, pockets of high poverty persist across the country, particularly in places with poor infrastructure and where the population has low human capital and skills. Despite good progress with poverty reduction and other MDGs, Bangladesh's under-nutrition burden is one of the highest in the world. Interventions to increase access to water and sanitation, better rural road connectivity, and improved social services remain very important for poor people.

While Bangladesh has done well, many other countries did much better over the same period

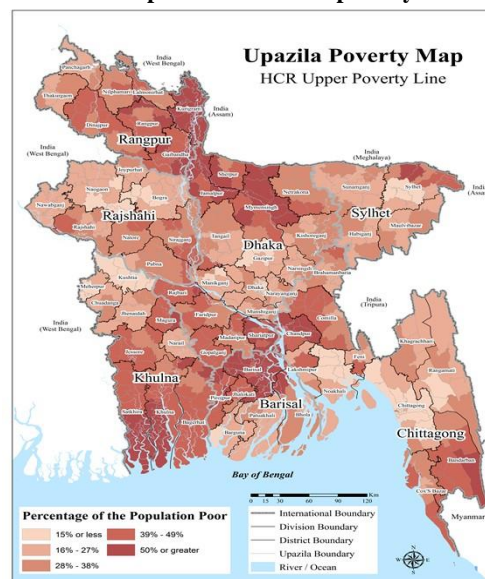
	GDP per capita (current US\$)			GNI per capita (Atlas method, current US\$)		
	1980	2013	% (annual)	1980	2013	% (annual)
China	193	6,807	11.4	220	6,560	10.8
South Korea	1,778	25,977	8.5	1,900	25,920	8.2
Sri Lanka	273	3,280	7.8	280	3,170	7.6
Indonesia	536	3,475	5.8	510	3,580	6.1
India	271	1,499	5.3	270	1,570	5.5
Philippines	685	2,765	4.3	700	3,270	4.8
Bangladesh	220	958	4.6	220	1,010	4.7
Pakistan	296	1,275	4.5	340	1,360	4.3

Source: World Development Indicators. *Data for 1985; ** 1989.

Despite encouraging recent developments in the labor market, nearly half of all workers remain in agriculture, and an overwhelming majority still languishes in the informal sector. Unemployment rates are higher among the youth compared to the overall population. While rural areas continue to account for the bulk of the poor, the share of the poor population living in urban areas has been increasing over the past two decades, as more people move from rural areas in search of better employment and income generating opportunities. In 1991, the urban poor accounted for 10 percent of the national poor population; in 2000, this share had risen to 14.4 percent, and further to 17.7 percent by 2010. Between 1991-92 and 2010, the number of poor people residing in urban areas increased by 2.1 million; by contrast, the total number of rural poor declined by 17 million over the same period. Rapid urbanization has adversely impacted economic performance and general livability of urban settlements. In Dhaka alone, an estimated 3m people live in urban slums, where the standard of living and environmental conditions are generally worse than in rural areas.

Despite Bangladesh's relatively compact land area, upazila-level poverty maps reveal considerable spatial variation in poverty incidence. Mapping the results of a recently concluded exercise to prepare more disaggregated poverty estimates reveals considerable variation in poverty incidence within each division (see adjacent Figure). For instance, while the poverty rate in the five poorest upazilas in Rangpur division is more than twice as high as the national average, the poverty rate in the ten richest upazilas is lower than the national average. Similarly, poverty incidence in selected upazilas in the ecologically-vulnerable southwest region are much higher than the national average.

Considerable spatial variation in poverty incidence



9. As highlighted in the Seventh Five Year Plan background paper on ending extreme poverty, **the agricultural labor market in Bangladesh tightened significantly in the decade of 2000s**, which led to an increase in the real agricultural wage rate. Three main channels were the primary contributors: (a)

relocation of farm labor to rural non-farm sectors; (b) relocation of rural labor to urban activities through the “pull effects” of urbanization, creating employment opportunities for the extreme poor in labor-intensive construction and transport activities; and (c) jobs for the poor created in the manufacturing sector. Robust inflows of remittances from overseas workers contributed to spurring the creation of non-farm employment opportunities in rural areas.

MORE AND BETTER JOBS ARE NEEDED FOR FASTER PROGRESS ON TWIN GOALS

10. Looking ahead, accelerating the ongoing employment shift of casual workers and small farmers engaged in agriculture into salaried employment in more dynamic and remunerative sectors of the economy offers by far the most promising exit out of poverty. Jobs are atop the development agenda for both citizens and policy makers in Bangladesh. The labor force is growing by 3.1 percent per annum—1.3 times the South Asian average and 1.7 times the global average—and 21m people are projected to enter the workforce between 2015 and 2025. Nearly one-half (45 percent) of the country’s estimated 58m workforce is engaged in the agricultural sector, which contributes about one-fifth of GDP. About 34 percent is employed in the services sector, which contributes about one-half of GDP; the rest—i.e., 20 percent—works in the industrial sector, which contributes over 30 percent of GDP. Gross output per worker is thus nearly four times as high in industry and services compared to agriculture.

11. Given the importance of creation of more and better jobs in the Bangladeshi context, the main role of public policy should be to help ensure that the conditions are in place for strong private sector led job creation and growth, to understand why there are not enough good jobs, and to remove or mitigate the constraints that prevent the creation of more of those jobs. The Bangladesh Systematic Country Diagnostic (SCD; see Box) classifies priority areas for action into two main groups: (i) foundational priorities—i.e., those which are pre-requisites for faster job creation and growth, and (ii) key public policy areas where concerted action over the next 3-5 years could have a transformative impact on the pace of progress towards eliminating poverty and boosting shared prosperity.

What is an SCD?

Two years ago at the 2013 Spring Meetings in Washington DC, the Board of Directors of the World Bank Group representing its 188 member countries endorsed ambitious goals to end extreme poverty and promote shared prosperity. The first goal is a global target of reducing the extreme poverty rate – i.e., the percentage of people living on less than \$1.25 per day in purchasing power parity (PPP) adjusted terms – to 3 percent by 2030. The second goal is a country level target to promote shared prosperity – i.e., to foster income growth of the bottom 40 percent of the population in every country.

This Systematic Country Diagnostic (SCD) aims to identify key priorities for Bangladesh to reduce extreme poverty and boost shared prosperity. In line with the World Bank Group’s new country engagement model, the findings of this SCD will provide inputs for the preparation of an upcoming Country Partnership Framework, which will outline the WBG’s engagement to help Bangladesh achieve these twin goals.

12. This report identifies five key areas where concerted efforts over the next 3-5 years could have a transformative impact on accelerating the creation of more and better jobs: (i) energy, (ii) inland connectivity and logistics, (iii) regional and global integration, (iv) urbanization, and (v) delta management. Broad consensus already prevails among key stakeholders in Bangladesh on the importance of each of these areas, as evidenced by the high priority accorded to them in the government’s latest Five Year Plan as well as the support voiced for each of these in the public consultations carried out across different parts of Bangladesh as part of the SCD preparation process. This report goes beyond presenting just a diagnostic per se, and also includes a number of recommendations and suggestions on how best to tackle these challenges.

13. **An extensive body of work clearly shows how access to infrastructure in Bangladesh is an important determinant of both agricultural and non-farm incomes in rural areas.** To date, Bangladesh has largely neglected investment in infrastructure. Public investment in (hard) infrastructure was less than 2 percent of GDP, and it lags far behind its regional competitors in infrastructure quality (Table). By contrast, total investment in hard infrastructure in China, Thailand, and Vietnam exceeded 7 percent of GDP. Those countries also invested another 7-8 percent of GDP in education, training and health. Unless infrastructure bottlenecks in Bangladesh are addressed in a timely manner, they risk becoming increasingly important constraints limiting future growth prospects. WBG estimates indicate that reaching sustained 7.5-8.0 percent growth rates will require significant increases in investment to at least 33 percent of GDP, including an increase in infrastructure investments to around 10 percent of GDP per year.

Infrastructure Quality in Bangladesh Lags Behind its Regional Competitors

Country	Country Ranking	Infrastructure Score (Overall)	Electricity	Roads	Railroad	Port
China	46	4.7	5.2	4.6	4.8	4.6
Thailand	48	4.6	5.1	4.5	2.4	4.5
Sri Lanka	75	4.0	4.8	5.1	3.7	4.2
Vietnam	81	3.7	4.2	3.2	3.0	3.7
India	87	3.6	3.4	3.8	4.2	4.0
Cambodia	107	3.1	3.0	3.4	1.6	3.6
Pakistan	119	2.7	2.1	3.8	2.5	4.4
Bangladesh	127	2.5	2.5	2.9	2.4	3.7
Myanmar	137	2.1	2.8	2.4	1.8	2.6

Source: World Economic Forum, Global Competitiveness Report 2014-15; Ranking out of 144 countries.

1. THE ENERGY SECTOR

14. **Even though electricity generation capacity has doubled since 2009, Bangladesh continues to face significant power shortages.** In 201, Bangladesh generated only 7,xxx MW of electricity (from an installed capacity of 10,xxx MW), a quantity that is grossly inadequate to sustain middle- or high-level economic activity for a nation of almost 160m people. At the same time, only 60 percent of the population had access to electricity, and per-capita electricity consumption of 294 kWh per year was one of the lowest in the world. In light of these basic facts, the availability and reliability of power is a key concern for businesses: surveyed on 15 factors that comprise the business environment, Bangladeshi firms rated electricity second highest as a constraint to their operations (after political instability, and— ahead of finance and corruption). More specifically, 28 percent of firms surveyed identify electricity as their top obstacle and 52 percent identify its as a major constraint to doing business. In the 2014 *Doing Business* report, Bangladesh was also ranked the lowest out of 189 economies on the "Getting Electricity" indicator. Domestic firms face ten times as many outages in a typical month as the average for all countries for which Enterprise Survey data are available and five times as many as the average for low-income countries. There was a 22 percent shortfall in meeting peak capacity in FY13, and 13 percent in non-peak demand. at the same time, energy demand is projected to rise nearly five-fold to over 190 TW hours by 2030.

15. **Gas is critical for the power sector in Bangladesh, since it fuels 70 percent of generation.** However, World Bank estimates suggest that domestic gas production will peak at 3,000 mmcfd in 2017 and then begin to decline. Exploration of additional domestic gas is now a priority, particularly offshore. In the meantime, LNG imports will likely be required soon to fuel existing gas-fired plants as well as those under construction. Given Bangladesh's over-reliance on natural gas, power supply diversification is also a key need. Other issues facing the power sector include: (i) the dual challenge of massive investment in new capacity while simultaneously facing an increasing cost of supply; (ii) enhancing private sector investment (despite early success in attracting private investors, only one new large independent power producer has

started operation in Bangladesh in the last decade); (iii) raising current end-user gas prices to parity with prices in neighboring countries and regional benchmarks (currently they are well below parity); and (iv) managing the increase in fuel oil use by rental power plants and independent power companies, which has resulted in a nearly three-fold increase in the average cost of power supply (a cost that has not been fully passed on to consumers).

16. Chapter 3 of this report provides a number of specific suggestions and recommendations on priority actions for the energy sector to support Bangladesh achieve sustained growth, enhance access for the forty percent lacking power, and contribute to faster poverty reduction.

2. INLAND CONNECTIVITY AND LOGISTICS

17. Bangladesh needs to accelerate the economic transformation of its rural areas; and improving connectivity is key. There is a wealth of evidence on the role of improved inland connectivity on raising agriculture productivity, promoting the movement of the workforce from farm to non-farm employment, and reducing poverty. Research using household-level panel data shows rural road investments in Bangladesh have reduced poverty significantly through higher agricultural production, higher wages, lower input and transportation costs, and higher output prices, and also led to higher girls' and boys' schooling.ⁱ Adequate attention to ensuring this network is properly maintained and developed and further integrated with the larger transport network remains an important public policy priority. In particular, Bangladesh needs to move away from the “build, neglect, rebuild” mindset, and instead ensure enough funding is available for maintenance. In addition to investments in rural roads, the country also needs to improve east-west connectivity, particularly connecting the southwest to Dhaka.

18. In addition, Bangladesh can enhance its international competitive edge by improving logistics. High logistics costs are an implicit tax that biases the economy away from exports, and limit access to imported inputs and final goods. There is significant evidence on the impact of logistics costs on trade. Chittagong port, which handles nearly 85 percent of the country’s merchandise trade, is plagued by labor problems, poor management and lack of modern equipment, and is the only major port in South Asia that has not implemented the landlord port model. Similarly, railway and road networks connecting the ports with hinterland are underdeveloped and beset with logistical problems that impose significant costs on firms. Air transport is also inefficient, due to congestion and lack of capacity at the air terminal. The Dhaka-Chittagong corridor is Bangladesh’s most important trade link, but it is extremely congested and its current performance hinders export growth. The government’s role in the transport sector is worth reviewing, particularly regarding logistics services. Finally, as the report argues, Bangladesh should improve physical connectivity with India, but priority should be to remove the policy constraints to seamless cross-border movement of cargo.

3. REGIONAL AND GLOBAL INTEGRATION

19. Export-led growth has served Bangladesh well; there remains significant potential for further expansion in this crucial area. An extensive body of evidence has documented the benefits that accrued to Bangladesh’s economy from trade liberalization in the 1990s. There is, however, still a large unfinished trade reform agenda. Thus far, Bangladesh’s strong success in exports has primarily been based on low-skill, low-wage-based competitiveness in garments, which dominate the export basket. However, this strategy does not guarantee continued growth in exports, given the pressures of global competition and the possible emergence of future competitors with a better wage-productivity combination. The example of Vietnam shows the benefits of accelerated export-oriented development, moving in the space of 25 years from being one of the poorest countries in the world to a lower-middle income one, with FDI and trade

playing a dominant role in the economy: exports and imports each form 90 percent of GDP, with exports more than seven times as much per capita as Bangladesh today. Bangladesh is well placed to expand manufacturing exports given its geographic proximity to two of the world's most populous countries, as well as other fast-growing economies. Finally, attracting more FDI in the country would help upgrade technology and improve export market linkages, thereby improving upon an area where Bangladesh has had only limited success to-date.

20. Bangladesh needs an export-led strategy that builds on existing labor-embedded exports and focuses on diversifying products, skills, and markets. Faster export growth will require both consolidating on strengths in RMG through further expansion and moving to higher-value garments, as well as a gradual diversification into other manufacturing areas such as pharmaceutical products, non-leather footwear, light-engineering goods, and ship-building, plus other areas such as information technology and IT-enabled services.ⁱⁱ As elaborated later in this report, the 2013 Diagnostic Trade Integration Study outlines a four-pronged strategy to enhance the integration of Bangladesh's economy with regional and global markets: (i) breaking into new markets through better trade logistics and exploitation of regional trading opportunities, (ii) breaking into new products through a more neutral and rational trade policy, concerted efforts to spur private investment, and strategic development and promotion of services trade, (iii) improving worker and consumer welfare, and (iv) building a more supportive environment for export growth, including strengthening the institutional capacity for strategic policymaking aimed at increasing international competitiveness and bringing focus and coherence to the government's reform efforts.

4. URBANIZATION

21. Urban population growth in Bangladesh has recently been faster than in most other South Asian countries, with employment opportunities being by far the most important attraction for incoming migrants from rural areas and other smaller urban settlements. It is well known that urban density can help businesses to prosper, as long as the agglomeration advantages of network effects and economies of scale outweigh the disadvantages of congestion, pollution and other negative externalities. As noted earlier, export-led growth has been a powerful engine for job growth in Bangladesh's urban areas. The "pull effects" of export sector jobs in urban areas have also created additional employment opportunities for the poor in construction and transport, which have been powerful drivers of poverty reduction. But the adverse consequences of rapid urbanization, such as the fast-deteriorating living conditions, are now becoming prominent and need to be addressed: UNESCAP estimates indicate that about 70 percent of the urban population in Bangladesh lives in slums (twice as high as India), with poor quality housing that is often located in precarious areas. In addition, improving urban transport in response to increasing congestion has emerged as a key challenge. Both economic performance and general livability of urban settlements has been adversely impacted due to inadequate and poor quality of urban transport infrastructure and services. Developing transport systems requires policy and institutional reforms to ensure better planning, and coordination among the various government departments and agencies entrusted with their completion. Institutional development programs are required to re-align institutions to urban transport functions and strengthen their capacity.

22. Improved municipal governance and revenue enhancement will be key to improve productivity, livability, and inclusiveness of urban settlements. Municipal governments in Bangladesh are heavily dependent on central government grants, which account for over 85 percent of their development expenditures. The financial resource for urban development is very limited: less than 1 percent of GDP is spent on urban infrastructure development, compared to about 4 percent in China during the 1990s when

urbanization was comparable to Bangladesh's current rate. Even much more developed cities like New York budget 5 percent of their GDP to urban development. As argued later in this report, local governments in Bangladesh should be granted greater financial autonomy and responsibility. Moreover, the current municipal service provision models are worth reviewing, especially service providers' institutional capacity and performance. Finally, a key public policy priority is to increase the economic density of Dhaka, which currently accounts for over one-third of Bangladesh's GDP, as well as of other urban areas across the country.

5. ADAPTIVE DELTA MANAGEMENT

23. Bangladesh's major rivers and its long shoreline on the Bay of Bengal have shaped its comparative advantage and determined the location, nature, and pace of its development. The rivers have conferred unquestionable benefits to transport, trade, agriculture, and livelihoods, but also pose significant risk through recurrent floods, erosion and water pollution. The long coastline has enabled sea-bound trade and created opportunities for Bangladesh to be a transportation hub for countries in its hinterland—including particularly northeast India, Nepal, Bhutan and southwest China—but it has also brought the risk of cyclones, storm surges and tsunamis, saline intrusion, and incessant hydromorphic modification of coastal land areas. Moreover, the associated risks will grow greater with climate change, raising the frequency and severity of extreme events. . In fact, in 2014, Bangladesh was ranked the most climate-vulnerable country in the world. For Bangladesh, growth will be sustainable only if it accompanied by better resource management and particularly adaptive delta management: the threats to the Bangladesh delta, which covers xx% of Bangladesh's land area, are existential, particularly when they are exacerbated by climate change, and so adaptive delta management should be integrated in all aspects of planning and sector development—including agricultural practices, water supply and sanitation, the placement of energy and transport infrastructure, and indeed the location of all public and private infrastructure.³

24. Although increased investment in infrastructure for land and water management has reduced vulnerability in rural areas in recent years, strengthening and expanding existing delta infrastructure is needed to reach optimal levels of resilience. To this end, the government is preparing the Bangladesh Delta Plan 2100, an integrated and holistic long-term plan to ensure safe living and sound economic development in Asia's largest and the world's most populated delta country. A key aspect of this endeavor will be the adoption of an adaptive delta management approach to enable robust decisions to be made that affect all aspects of life and livelihood development, based on several future scenarios. Adaptive delta management will help to ensure that investments in all sectors anticipate long-term uncertainties in climate change and socio-economic growth, and limit over- or under- investment. In addition, it is particularly important (i.e., in terms of making prudent decisions on resource allocations) that impacts on long-term developments like climate change and socio-economic growth are fully integrated into delta management and development planning more generally.

25. One sector that is particularly sensitive to the successes and failures of delta management is agriculture. Since nearly half the labor force in Bangladesh continues to be employed in agriculture, and much of that labor force is poor, for poverty reduction to continue in Bangladesh delta management needs to continue to support higher land productivity, crop diversification, and reduced vulnerability. Bangladesh has recently done remarkably well in agricultural productivity growth – largely on account of technical change. Key drivers have been liberalization of input markets, adoption of modern varieties, increasing use

³ Even though Bangladesh's response to these challenges has achieved some encouraging results, strengthening and extension of the current delta-infrastructure is required to protect the population, economic assets and future investments.

of machinery, greater access to markets and price hike of agricultural products. Looking ahead, a top priority for Bangladesh is to shift away from a relatively narrow focus on staple crop productivity towards meeting the fast-growing demand of Bangladeshis for a more diverse, sophisticated, and nutritious diet. There is significant potential to further increase productivity and incomes in agriculture while making it more climate resilient and nutrition-sensitive. An important part of the economic and ecological sustainability is to assist farmers in improving the effectiveness in the use of inputs. Farm level evidence shows that a large share of farmers are overusing fertilizers (well beyond technical recommendation levels, and to the point of not yielding any additional output). In addition to increased agricultural productivity and diversification, the main drivers of growth in the rural non-farm sector will likely remain connectivity and proximity to urban areas.

FOUNDATIONAL PRIORITIES:

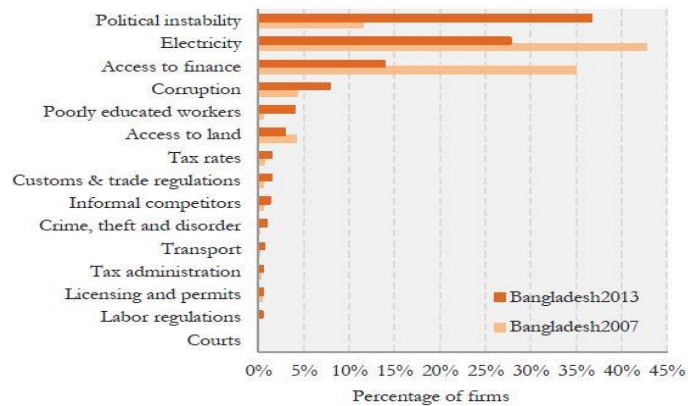
26. The previous section discussed five areas (energy, inland connectivity, trade integration, urbanization, and delta management) where sustained achievement in addressing bottlenecks could result in transformational growth of 8% or more, creating more and better jobs and lifting greater numbers out of poverty. But growth and job creation also depend critically on Bangladesh sustaining and extending its achievements in establishing the foundations for growth. These foundations include (i) maintaining sound macroeconomic management, (ii) consolidating and deepening its exemplary achievements in human development, and (iii) further expanding a supportive environment for increased private investment. In each of these areas, Bangladesh has done well in the past, but past success cannot be taken for granted or expected to continue without effort, and so these areas will continue to require sustained policy attention.

27. **Strong Macroeconomic Fundamentals:** In achieving and sustaining increasing levels of growth over the past few decades, Bangladesh has benefited from generally prudent management of fiscal and monetary policy, and the resultant macroeconomic stability it has generated. Looking ahead, this solid foundation needs to be strengthened and deepened. Key macroeconomic management challenges for the government include strengthening the tax system, both policy and administration-related aspects, to make it more efficient, transparent, and fair, improving the health of the financial sector and enhancing financial intermediation, and better implementation of the Annual Development Program. Successful implementation of the 2011-2016 Tax Modernization Plan, through which the government plans to increase tax collection by about 3 percent of GDP, will be key to providing the additional public resources to spur growth, especially much-needed investments in infrastructure, as will improvements in the income tax and customs code to enhance equity and efficiency. Improved performance of state-owned commercial banks is also important and can be achieved in part by implementing the Action Plan the government has developed with IMF support. Finally, improved public investment management is needed to strengthen the link between government policy priorities and resource allocation, and in turn between resource allocation and performance.

28. **Human Development Challenges:** While Bangladesh has had remarkable success in enhancing access and equity in education, striving to universalize access for the remaining hard-to-reach children is an important policy imperative. Notwithstanding notable achievements in nearing universal access to primary education, attaining gender equity at the primary and secondary education levels well ahead of the MDG target for 2015, marked reduction in repetition and dropout rates, and reasonably high levels of completion in primary education, gross enrollment rates of the poor lag those of the non-poor. Out of 10 primary students who enter school in Bangladesh, only about 7 or 8 students reach grade 5, and only 5 reach grade 10. Children living in urban slums in particular suffer from both demand and supply-side constraints.

29. Improving skills and productivity are crucial to Bangladesh’s quest to accelerate economic growth and create more and better jobs in the formal sector for its expanding workforce. Ensuring further improvements in the quality of education can help propel the economy into the next phase of higher productivity-led growth. International experiences show that improvement in quality of education has a much larger impact on economic and social development than increases in access without increases in quality. Yet learning achievements continue to be quite low in Bangladesh: for instance a recent assessment of literacy and numeracy in grade 5 indicates that only 25 and 33 percent of grade 5 students master Bangla and Mathematics competencies, with students from poor households generally doing much worse. Learning inequities begin early, and continue throughout students’ lifetimes. Nearly 90 percent of the labor force in Bangladesh is informal and has low levels of education and less than 5 percent of the current workforce has tertiary education. Due to lack of standards and limited partnerships with the active labor market, technical and vocational education and training and the higher education system in Bangladesh are not equipped to respond to changes in demand and quality standards both in the domestic labor market and overseas where the vast majority of Bangladesh’s emigrant workers are employed in low-skilled jobs.

30. **Institutions and Business Environment:** Bangladesh has experienced a variety of forms of government since its independence in 1971, including military rule. Following the reintroduction of the parliamentary system in 1991, power has, until recently, alternated between the two main political parties, the Awami League and the Bangladesh Nationalist Party. While successive governments have generally exhibited strong commitment to poverty reduction and human development, divisive and confrontational politics have created policy uncertainty and hampered efforts to address critical problems requiring long-term engagement. A comparative analysis of the Bangladesh Enterprise Surveys in 2007 and 2013 reveals that political instability has secured the position of top-most concern of businesses (figure). Looking ahead, many Bangladeshi institutions are not adequately equipped to address key challenges the country faces as it fast approaches middle income status, as they were established when it was at much lower levels of income. Stronger public sector institutions are needed to manage Bangladesh’s larger and more complex economy. Moreover, accelerating economic progress will require going into a more complicated phase of reforms that address a whole range of factors adversely affecting investment incentives and production efficiency, including corruption. Difficulties faced by investors in gaining access to serviced land is one of the key such obstacles and constraints impeding higher private investment.



31. **This SCD aims to identify why there are not enough good jobs in Bangladesh, what conditions would help to promote strong private-sector-led growth and job creation, and what can be done to remove or mitigate the constraints that prevent those conditions from obtaining.** To this end, it divides priority action areas into two main groups: (i) foundational priorities, which are pre-requisites for faster growth and job creation, and which Bangladesh has addressed reasonably well in recent years; and (ii) transformational areas, where concerted action over the next 3 to 5 years could have a transformative impact on the pace of progress towards

eliminating poverty and boosting shared prosperity—but also where Bangladesh has tended to lag behind its Asian peers. These latter include (i) energy, (ii) inland connectivity and logistics, (iii) regional and global integration, (iv) urbanization, and (v) delta management. Key stakeholders in Bangladesh already largely agreed on the importance of each of these areas, and they feature prominently in the government’s Seventh Five Year Plan (completed in 2015). The remaining sections of this SCD delve into each of these foundational and transformative areas in greater detail, presenting not only a diagnostic of each area but also suggestions on how best to tackle the challenges identified.

ⁱ Khandker, S. Bakht, Z. & Koolwal, G. (April 2006) *The Poverty Impact of Rural Roads: Evidence from Bangladesh*. World Bank Policy Research Working Paper 3875, Washington DC

ⁱⁱ Bangladesh’s online work industry has grown tremendously in recent years, and it is in a strong position to tap its early growth stage. The total yearly earnings from IT workers is estimated to have grown from around \$10m to over \$40m in the past few years, representing one of the fastest growth rates in the world on eLance, oDesk and Freelancer platforms. Bangladesh stood on the sidelines as the IT-BPO industry took off in the last decade, while neighboring India benefited tremendously - its industry employed 2.8m workers, generated \$69 billion in revenue, and 25 percent of total exports in 2012. By tapping this opportunity, Bangladesh could create mass employment and income for youth and women, increase total services exports, and help develop a knowledge-based economy.