

United Nations Conference on Trade and Development

**Ad Hoc Expert Meeting in preparation for the Mid-term Review
of the Programme of Action for the Least Developed Countries
for the Decade 2001-2010**

Case Study on Bangladesh*

prepared by

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May 2006

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Introduction

During the period 2001 - 2005, Bangladesh achieved impressive successes related to various socio – economic issues, while formidable development challenges remain, notably on governance aspects. At the end of 2005, Bangladesh had completed and approved its Poverty Reduction Strategy Paper (PRSP) which provides a cohesive policy framework for achieving pro-poor growth and meeting the Millennium Development Goals (MDGs). The continued use of public resources in supporting technological progress in agriculture, rural infrastructure, health and education, combined with progressive policies to ensure community participation and robust partnerships with non-government organizations (NGOs) to deliver public services at the grass root level, have helped Bangladesh make a strong start in meeting the MDGs. Major achievements include higher rates of primary education enrollment, gender parity in primary and secondary education, higher literacy rates, a rapid decline in the population growth rate and, a steady reduction in infant mortality. However, overall levels of human development, including literacy are still low. Child malnutrition rates are among the highest in the world, while maternal mortality rates are among the highest outside sub-Saharan Africa. In 2003, for the first time, the United Nations Development Programme (UNDP) placed Bangladesh in the medium human development category, along with its neighbors Bhutan, India, and Sri Lanka. Bangladesh is a new democracy with its fourth consecutive general election due by early 2007. A dynamic civil society and a *relatively free* press have contributed to holding governments accountable and to proceed on the path of democracy.

Despite substantial progress in various macroeconomic and social indicators, Bangladesh is facing arduous challenges to expand the intensity of these achievements and to overcome the shortcomings in gaining more efficiency. Almost half of the population still lives below the poverty line, child malnutrition and maternal mortality rates are still very high and poor quality of education undermines the achievements of expanded access to education. Inequality among rich and poor is on the rise. A weak law and order situation and widespread corruption is holding back the wheel of progress. The quality of public services remains feeble and there is ample scope to improve the situation.

The Government has felt the need of an *optimal mix* of public, private and community initiatives to unlock the potential of the nation. The PRSP has designed its multi dimensional policy agenda to address this need. In recent years, Bangladesh has taken several important policy measures to facilitate good governance, to improve the efficiency of development

programmes, to stimulate agricultural and manufacturing growth, mobilize domestic resources, encourage private sector development, increase public–private interactions, improve the investment climate, mobilize savings, attract foreign direct investment, develop skills and, encourage technological advancement. It is expected that such measures will help Bangladesh to achieve sustainable growth, reduce inequality and alleviate poverty.

1. National efforts for development – achievements and challenges

1.1 Development policy framework - Poverty Reduction Strategy Paper (PRSP)

1.1.1 *Goals and priorities*: The Government has finalized Bangladesh’s Poverty Reduction Strategy Paper (PRSP) titled “*Unlocking the Potential: National Strategy for Accelerated Poverty Reduction*”. It provides an assessment of the various dimensions and trends in poverty in the country and, identifies key factors impacting upon the poverty situation. It provides a consolidated way forward for accelerated poverty reduction and meeting the MDGs. The main goals set by the PRSP for national level development are: (i) employment generation; (ii) nutrition; (iii) quality education (at primary, secondary, and vocational levels); (iv) local governance; (v) maternal health; (vi) sanitation and safe water; (vii) criminal justice; and (viii) monitoring. The PRSP recognizes the growing significance of the *meso-level* economy (rural market centres) and thus, it promotes greater policy attention to it for growth and employment generation. The PRSP addresses poverty in a broader sense, which includes human deprivation in income, food security, quality of life and vulnerability. It seeks to address such poverty through a strategically prioritized policy framework that has pro-poor growth, human development, and governance as its central pillars. The priority policy areas pointed out in the PRSP are: (i) macroeconomic stability; (ii) choice of critical sectors for pro-poor growth, including rural, agricultural, informal and small and medium enterprises (SMEs), rural electrification, roads, and telecommunications; (iii) safety net measures for the poor and the vulnerable, with special attention to women; (iv) human development of the poor for raising their capability; (v) participation and empowerment of the poor; (vi) promoting good governance; (vii) improving delivery of basic services; and (viii) caring for environmental sustainability. With the adoption of the PRSP Bangladesh is mainstreaming the actions and commitments under the Plan of Action (PoA) into the national development policies and strategies and thus, moving forward to achieve the millennium development goals. Under the guidelines of the PRSP various social sectors are formulating their sectoral programmes.

1.1.2 Medium Term Macroeconomic Framework (MTMF) to achieve poverty reduction goals¹. The PRSP contains a Medium Term Macroeconomic Framework (MTMF) within which the poverty reduction strategy is to be implemented. The reference period of the MTMF covers the financial period 2006 – 2009. The MTMF lays out the targets and projections for key macroeconomic indicators for these three years and also spells out the broad policy thrust in the area of fiscal, monetary, external sector and macro management, to match with the indicated strategy of accelerated poverty reduction. In the light of the growing development spending needs and the predicted reductions in trade taxes (for greater trade liberalization), strengthening domestic tax mobilization is at the core of the MTMF. A National Poverty Focal Point has been created in the General Economics Division (GED) of the Planning Commission to monitor poverty and track progress in implementing the PRSP.

1.2 Macroeconomic stability and challenges during 2001 – 2005

1.2.1 Economic Growth. Following the later half of the 1990s Bangladesh's GDP continued to grow at a rate of more than 5 per cent during the period 2001–2005. Compared to the 5.1 per cent annual compound growth rate experienced during 1995-96 and 1999-2000, Bangladesh's economy grew at a rate of 5.4 per cent during the period 2001-2005. The GDP growth rate reached a record level of 6.3 per cent in the financial year 2004². Per capita GDP grew at an annual compound rate of 3.9 per cent compared to 3.1 per cent during the 1990s. In addition to the higher growth rate of overall GDP, this was facilitated by a fall in the rate of growth of the population. During the 1980s, the population grew at an annual compound rate of 2.2 per cent, and the rate of growth of per capita GDP was recorded at 1.7 per cent per annum. In contrast, the population growth rate came down to 1.7 per cent during the 1990s and then to 1.3 per cent during the period 2001-2005. However, in terms of the absolute level of per capita income, Bangladesh continues to remain at the lower end of the income scale. Per capita income of \$440 in 2004 (\$446 in 2005³) compares unfavourably against the South Asian average of \$590 and the low-income country average of \$510.⁴ ⁵A change in the composition of output and employment away from the agricultural sector in the direction of manufacturing and service sectors is often used as a measure of development. In Bangladesh the share of agriculture in the GDP has declined from 25.6 per cent in FY2000 to 21.9 per

¹ Throughout this write up the targets and values used for MTMF are according to the published version of PRSP, October 2005.

² FY refers to fiscal year which starts from July of the previous year. Thus FY05 refers to fiscal year July 2004 – June 2005.

³ The Bangladesh Economic Review, 2005

⁴ Throughout this document \$ refers to the US\$.

⁵ Bangladesh PRSP Forum Economic Update, November 2005.

cent in FY05. The average annual growth rate of agriculture was 2.13 per cent between FY01 – FY05. The growth of agricultural GDP (without fisheries) was negative (-0.7 per cent) in FY05. The growth performance of the fishery sector was far below the performance of the 1990s. As a result, its share of GDP has declined. The share of manufacturing in GDP increased from 25.7 per cent in FY2000 to 28.4 per cent in FY05. Manufacturing GDP grew at an annual average rate of 7.5 per cent during FY01 – FY05 as compared to a 5.5 per cent growth rate during the second half of the 1990s. The construction sector also continues to grow at a high rate. Although the share of agriculture in GDP is declining, it still employs more than 50 per cent of the labour force. In FY03, agriculture was employing 51.7 per cent of the 44.3 million labour force of Bangladesh, while the manufacturing sector was employing only 9.7 per cent. In the MTMF the real GDP growth target has been set at 6.5 per cent for FY06, 6.8 per cent for FY07 and 7.0 per cent for FY08 and FY09.

1.2.2 Savings – Investment. The higher growth performance of the country during the period 2001 – 2005 was partly driven by increases in both private investment and domestic savings. Private investment increased from 15.6 per cent of GDP in FY2000 to 18.5 per cent of GDP in FY05. During this period the share of public investment as a percentage of GDP declined from 7.4 per cent in FY2000 to 5.9 per cent in FY05. Total investment stood at 24.4 per cent of GDP in FY2005 in contrast to 23 per cent in FY2000. This increase in investment was mostly driven by the growth of private investment. Although the percentage of private investment has been increasing in recent years, the rate will need to accelerate further to reach a growth rate of 7 per cent (as envisaged in the MTMF). In fact, along with an acceleration of private investment, an increase in selected public sector investment in priority sectors will also be needed. The domestic saving rate increased from 17.9 per cent of GDP in FY2000 to 20.2 per cent in FY05. National savings increased from 23.1 per cent of GDP in FY2000 to 26.5 per cent of GDP in FY05. One important aspect of the savings-investment scenario is that Bangladesh has a low rate of savings and, it has not been able to translate existing savings into investment. The savings-investment gap has been persistent from the early-1990s. This excess liquidity, i.e. excess of savings over investment, has been almost 2 per cent of GDP in recent years. Investment usually flows if the investment-climate is cooperative. The overall investment climate in Bangladesh is *non-conducive* to potential investors and entrepreneurs.

Bangladesh's capital market is still very small. Market capitalization in other South Asian countries is significantly higher than that in Bangladesh. Market capitalization in India is about 70 per cent of GDP. In Pakistan and Sri Lanka, this ratio stands at 20 per cent and 15

per cent respectively. In contrast, market capitalization in Bangladesh is only 6 per cent of GDP.⁶ However, the general index and market capitalization have both increased substantially over the past two years. Up to June 2005 market capitalization in the Dhaka Stock Exchange was Tk224611 million compared to Tk62924 million in FY2000.

1.2.3 *International Trade:* During the period FY01-FY05, several important events made it interesting to keenly follow the external sector performance of Bangladesh's economy. The most important among these was the abolition of import quotas under the Multi-Fibre Arrangement (MFA) at the end of December 2004, so that from 1 January 2005 the world's textile apparel products were quota-free. . The other important issues for the external sector of Bangladesh were the signing of the South Asian Free Trade Agreement (SAFTA) in 2005, the start of a new EU Generalized System of Preferences (GSP) rule in 2005 and, the issues under the Doha Development Agenda of the WTO. For the last one and half decades ready-made garments (RMG) have been the main export item of Bangladesh. Various studies showed that after the abolition of MFA import quotas, Bangladesh would face export shocks causing economic and welfare losses for the country. A huge job loss was also predicted (up to 17 per cent).⁷ However, the immediate post-MFA period has not revealed this trend. It has been observed that even after the abolition of MFA, export growth was substantial during January – July 2005, resulting in a 13 per cent export growth for FY05. Knitted garments registered a phenomenal growth of 31 per cent in FY05. Moreover, frozen food, raw jute, jute goods and chemical products also showed significant growth. In contrast to an export – GDP ratio of 9.5 per cent in FY96 and 14.2 per cent in FY2000, Bangladesh achieved an export-GDP ratio of 20 per cent in FY05. However, the annual compound growth rate of exports was 10.2 per cent during the period 1996 – 2000 which declined to 8.6 per cent during the period 2001 – 2005. The import/GDP ratio increased from 17.1 per cent in FY96 to 30.2 per cent in FY05. The annual compound growth rate of imports was 5 per cent during the period 1996 – 2000 and increased to 9.2 per cent during the period 2001 – 2005. In FY04 import payments grew substantially compared to the previous year because of i) higher oil prices and ii) a 20.6 per cent increase in payments for merchandise imports. The import bill for crude and refined petroleum, food and investment goods, including capital goods and industrial inputs, increased significantly. Stronger demand for industrial inputs implies positive movement in industrial performance. However, the balance of payments situation

⁶ The Daily Star, 15 -02-06.

⁷ Mentioned in “end of MFA Quotas: Key issues and Strategic Options for Bangladesh Readymade Garment Industry”, Bangladesh Development Series, the World Bank (2005).

has experienced increased pressure as a result of a higher growth rate in imports. Remittances are largely helping to tackle this imbalance (discussed later in this document). The trade imbalance grew at an annual compound rate of 3.4 per cent during the period 1996 – 2000 which increased to an annual compound rate of 5.4 per cent during the period 2001 – 2005. It is evident from the external sector performance of Bangladesh that the export basket of Bangladesh continues to be narrow and also market concentration continues. Similar to the situation in the 1990s, around 75 per cent of Bangladesh's export go to the EU and the United States. Bangladesh has not been able to diversify its export markets to a greater extent, although exports to Canada increased after receiving duty and quota-free entry into the Canadian market since January 2003. The overall export price index exhibited a modest rise during the period 2001- 2004, while the import price index increased by a higher margin. As a result, the terms of trade deteriorated during the period 2001 – 2004.

1.2.4 *Fiscal management.* In Bangladesh fiscal management continues to be prudent. Public expenditure of the Government comprises mainly revenue and development expenditures. Total public expenditure as a percentage of GDP was 13.8 per cent of GDP in FY05 compared to 13.5 per cent in FY2000. Current (revenue) expenditure as a percentage of GDP increased from 7.5 per cent in FY2000 to 8.4 per cent in FY05. Expenditure for the Annual Development Programme (ADP) as a percentage of GDP, was 6.4 in FY2000 which had declined to 5 per cent of GDP in FY05. Between FY01 and FY05, ADP increased at an annual average rate of 8.2 per cent, although there was negative growth in FY02. The sectors receiving larger shares of the ADP included transport, power, rural development and education. These four areas receive around 50 per cent of the ADP allocation.

The increase in total public expenditure in recent years is mainly due to the increase in revenue expenditure. A part of this revenue expenditure is incurred by interest payments for earlier borrowings by the Government. A considerable part of both revenue and development expenditures is spent on social sectors (mainly health and education) which are meant to improve the quality of life. The share of social sectors in total public expenditure has increased from 18.7 per cent in FY91 to 24.5 per cent in FY05. Both tax and non-tax revenue is collected to finance public expenditure. Revenue has grown at an annual average growth rate of 15 per cent. In FY05 the total revenue–GDP ratio was 10.3 per cent compared to 8.4 per cent in FY2000. In FY2000 the tax-GDP ratio was 6.7 per cent and it increased to 8.3 per cent in FY05. Between FY01 to FY05, tax revenue increased at an annual average rate of 14.2 per cent. Around 80 per cent of revenue is earned from tax and the rest from non-tax sources. Non-tax revenue mainly consists of income from state owned enterprises, the central

bank (the Bangladesh Bank), development finance institutions and nationalized commercial banks. According to MTMF, the fiscal framework foresees an increase in the tax-GDP ratio by 1.4 percentage points and non-tax revenue-GDP ratio by 0.2 of a percentage point over the next four years (FY06-FY09). The total revenue-GDP ratio is projected to rise by 1.6 percentage points. As a result, revenue will be 12 per cent of GDP in FY09. Total expenditure is projected to rise to 15.5 per cent of GDP in FY06, and then increase further to 16.4 per cent over the following three years. In Bangladesh, the collected revenue cannot meet the total need for public expenditure and therefore the government has to borrow both from domestic and foreign sources. It is observed that in recent years, the increasing share of public expenditure has been financed by revenue collection, as a result of which the total deficit has declined. While in FY01, 64.4 per cent of public expenditure was financed through revenue collection, in FY05 it increased to 72.1 per cent. The deficit was 5.1 per cent of GDP in FY 2000 which declined to 3.5 per cent in FY05. Before FY2000, the deficit was mainly financed through foreign sources while in recent years borrowing from domestic sources has been higher. In FY05, 56 per cent of the deficit was financed from domestic sources and the rest from foreign sources. Domestically, the Government borrows both from bank and non- bank sources to finance the deficit. For the last three years (since FY03) the more expensive domestic financing remains capped at 2 per cent of GDP, with the rest coming from foreign sources. Nevertheless, the size of the deficit remains a concern for development. According to MTMF of PRSP the overall deficit should remain at 4.5 per cent of GDP in FY06 and, 4.4 per cent in FY07, FY08 and FY09. Domestic financing is projected to increase from 1.9 per cent of GDP in FY05 to 2 per cent in FY06, then decline to 1.9 per cent in FY07 and again to 1.8 per cent in FY08 and FY09. This implies that net foreign financing will need to increase from 1.6 per cent of GDP in FY05 to 2.5 per cent in FY06 and FY07 and, to 2.6 per cent in FY08 and FY09. The rising oil price is posing a threat to attaining the deficit target of 4.5 per cent in FY06. Rising oil import costs resulted in an increase in the Bangladesh Petroleum Corporation's (BPC) losses from Tk10 billion in FY04 to Tk28 billion in FY05 (or 150 million to 425 million US dollars), equal to 0.7 of GDP. An additional risk of decline in revenue collection stems from the dependence on import duties, which may decline with further liberalization. Revenue collection from international trade consisting of import duty, value added tax on imports and supplementary duty comprises around 50 per cent of total tax income. The proper utilization of ADP is a long standing concern in Bangladesh. The inadequate prioritization process of ADP projects and their weak evaluation has led to the approval of an unduly large number of projects. This is accompanied by under-funding, the crumbling of resources and a backlog of incomplete

projects. Typically, there has been a 10% shortfall of ADP spending compared to the budget target. However, the Government has achieved progress in reducing the time needed to complete ADP projects. The estimated completion time needed for ADP projects at current funding levels was reduced from almost ten years in FY02 to around seven years by FY05. The Planning Commission intends to reduce the project completion time to five years.⁸ It is important that the fiscal balance targeted in the MTMF is maintained during the implementation years. This assumes special importance in view of the ambitious target that has been set for the ADP for the fiscal year 2005-06 (Tk245,000 million, 19 per cent growth over the actual ADP of FY05). With the national election coming up, it will remain a major challenge for the Government to maintain macro stability in the face of such expansionary fiscal measures. ADP implementation will have to undergo major improvements to ensure the timeliness, efficiency and cost effectiveness of development expenditure.

1.2.5 Monetary management: Monetary policy has broadly supported growth and, has remained reasonably successful in managing exchange market transactions and keeping inflation at a lower rate (at least until recently). One of the key concerns of monetary management in the MTMF is price stability. The task has assumed special importance in view of enhanced inflationary pressure. The average rate of Consumer Price Index (CPI) inflation during 2004-05 on a point-to-point basis was 6.5 per cent. The average rate of CPI inflation during 2003-04 was 5.8 per cent. CPI inflation steadily increased from 1.9 per cent in 2000-01 to 2.8 per cent in 2001-02 and then to 4.4 per cent in 2002-03 and, it became 6.5 per cent in FY05. While several factors were responsible for this rising inflationary trend, higher levels of economic activity in recent years have been prime contributors to this trend. Overall monetary growth in FY05 increased to 16.8 per cent, compared with 13.8 per cent in FY04.⁹ Domestic credit growth in FY05 was 17 per cent, compared with 13.6 per cent in FY04. The rise in domestic credit reflects a 17 per cent increase in credit to the central government, compared with 15 per cent in FY04. Credit to both the central government and State Owned Enterprises (SOEs) increased significantly. Private demand for credit was also strong, due to a rise in domestic manufacturing and in service sector activities. Private sector credit growth increased to 16.8 per cent in FY05, compared with 12 per cent in FY04. Trade and working capital finance to the private sector increased by 16.6 per cent and 36.2 per cent respectively in FY05. The stock of outstanding term loans extended by banks and non-bank

⁸ Bangladesh economic review, 2005

⁹ The quoted rates follow the *Economic Review, 2005*, published by the Ministry of Finance and are slightly different from the numbers mentioned in the MTMF.

financial institutions (NBFIs) increased by nearly 10 per cent, reflecting a rapid expansion of private investment demand, especially in textiles and readymade garments (RMG), cement, pharmaceuticals, telecommunications and medical services. The monetary expansion was strengthened by a sharp increase in reserve money growth from 8 per cent in FY04 to 14.2 per cent in FY05 due to an increase in net credit to the Government from the Bangladesh Bank. The latter reflected temporary central bank financing of the budget deficit. Under the current trend it may be challenging to maintain the CPI inflation rate envisaged in the MTMF for FY06, FY07, FY08 and FY09 to be 6.5 per cent, 6 per cent, 5 per cent and 4.5 per cent respectively.

1.3 Role of public and private sectors in the economy

1.3.1 The private sector has taken over the dominant role in the national economy in the areas of employment, investment, production, value addition, exports, banking, insurance, and the media and, is making advances in electricity and gas production, education, and even in health services.

The private sector accounts for nearly 76 per cent of total investment, 80 per cent of GDP, and 90 per cent of total employment (considering both rural and urban employment).¹⁰ Maintaining a stable macroeconomic framework, opening up the economy, including the privatization of a number of nationalized industries, allowing private investment in many previously restricted sectors (including finance, energy, and telecommunications) and, removing government involvement in the trade and distribution of agricultural inputs (seeds, fertilizers), have boosted the confidence of investors and contributed to private sector-led growth. Privatization of state owned enterprises (SOEs) continues and, since the inception of the Privatization Board (now called the Privatization Commission) in 1993, a total of 61 enterprises have been privatized. In FY92, the value of registered private project proposals amounted to about \$116 million compared to \$3,204 million in FY05.¹¹ Currently five private cellular mobile companies are operating in the country and they cover almost 90 per cent of the land area with 6.1 million subscribers (by June 2005). Such a rapid expansion of telecommunications has stimulated not only the urban economy, but also the rural economy. Rural farm and non-farm activities are largely benefiting from broader information access regarding prices, availability of employment and sources of raw materials etc. There are a total of 40 privately owned banks in the country including 10 foreign banks. Moreover 60

¹⁰ The rest of the employment is in the public sector.

¹¹ Economic Review, 2004, 2005.

private insurance companies and 28 non – banking financial institutions are in operation. There are 24 private medical colleges, seven dental colleges, 1,055 private hospitals and 1,311 clinics. Bangladesh also has 56 private universities to meet the higher education needs of students.¹² However, the contribution of state owned enterprises (SOEs) in the GDP, value addition and employment generation and revenue earning, is still substantial, while together these enterprises continue to make huge losses. Half of the 44 existing SOEs were making losses in FY05 which amounted to Tk28771 million (around \$468.7 million). Out of this, the Bangladesh Petroleum Corporation alone incurred a loss of Tk27,727 million. Previously losses in SOEs dramatically fell from Tk26,594 million in FY01 to Tk4,617 million in FY03 and then started to rise again. The sharp rise in losses in FY05 compared to losses in FY04 was due to petroleum price rises in the international market.¹³ The losses of SOEs as a percentage of GDP, decreased from 1.2 per cent in FY01 to 0.03 per cent in FY04 and then, sharply rose to 1.1 per cent of GDP in FY05.

1.4 Performance of social sectors

Bangladesh has made remarkable progress in social indicators compared to the situation in 1990-91. As a result, the overall income and poverty situations have improved. It is observed that Bangladesh has achieved notable progress in various indicators of health and education, although a variety of weaknesses remain.

1.4.1 Education. Gross primary enrolment was 96 per cent in 2002-03 compared to 77 per cent in 1990. This rate is almost equal to the South Asian average (97 per cent) and higher than the low-income country average (94 per cent). It is notable that 98 per cent of the female school age population is enrolled (gross) in primary education, which is higher than the South Asian average of 92 per cent and, the low-income country average of 88 per cent. Net primary enrolment was 75 per cent in 1999 rising to 82.8 per cent in 2003. The primary completion rate was 41 per cent in 1991 and 67 per cent in 2002-03. Thus, the primary completion rate is still a challenge for Bangladesh, as it is targeted to be 100 per cent by 2015. However, completion of 4th grade of primary education (out of 5 grades) increased from 70 per cent in 1999 to 80.6 per cent in 2002. Gender parity in education is a notable achievement of Bangladesh. The ratio of girls to boys in primary education was 95 per cent in 1999 rising to 101 per cent in 2001. Bangladesh is the only country in South Asia other than Sri Lanka to have achieved parity in male and female enrolment, not just at primary

¹² Statistics are taken from the Daily Star, 4-02-06.

¹³ Monitoring Cell, Finance Division, Ministry of Finance.

level, but also at the secondary level. The overall literacy rate of 15+ was 47.5 per cent in 2001 and 49.2 per cent in 2004. The female literacy rate (of the 15+ population) was 40.8 per cent in 2001 which rose to 43.3 per cent in 2004. The ratio of literate females to literate males rose from 40 per cent in 1995 to 78.7 per cent in 2004. The Government policy to exempt tuition fees of female students for up to 12 years of education, has largely stimulated the expansion of female participation in primary and secondary education and thus, increased the female literacy rate. Moreover, meritorious female students are receiving scholarships (in addition to the exemption of tuition fees) to pursue studies. Although the education sector receives a large share of total public expenditure, the share has declined since 2001. While the education sector constituted 16.2 per cent of total public expenditure in 2001, the share was 14.4 per cent in 2005. In terms of quantity there is no doubt that the education sector is showing a notable advance. However, the quality of education is a big challenge, specially in rural areas. An inadequate number of teachers, poor infrastructure and a lack of monitoring of the delivery of the service are posing challenges to the achievement of human development through the development of the education sector.

1.4.2 Health. The health sector of Bangladesh has been receiving increased attention from both public and private sectors. In 2005, health, family planning and the social welfare sector received 9.6 per cent of total public expenditure. Looking at various health indicators, it is evident that Bangladesh has achieved considerable improvements, although challenges remain. The infant mortality rate (per 1000 live births) came down from 66 in 1999 to 46 in 2003. The under-five mortality rate (per 1000 live births) also declined from 109 in 1999 to 88 in 2004. This improvement was induced (among others) by an expanded immunization programme, under which 81 per cent of children aged between 12 to 23 months were covered in 2004. The corresponding rate in 2000 was 74.4. The maternal mortality rate, although it has declined, is still very high, with 3.9 mothers dying out of every 1000. To achieve the MDG target for maternal mortality, Bangladesh must reduce this figure to 1.43 per 1000 live births by 2015. This will require greater access to quality reproductive health services, encouraging mothers to change their behaviour and, a general improvement in the socio-economic situation. It is to be noted here, that only 12 per cent of births were attended by skilled health personnel in 2000-02, although the situation has improved compared to 1995 (5 per cent). Bangladesh has nearly achieved the safe water goal under the MDGs, with 96.3 per cent of the population having access to pathogen-free water. However, *arsenic* contamination is exposing a second round of challenges. Access to pathogen- and arsenic-free water now

roughly stands at 80 per cent in urban areas and 70 per cent in rural areas.¹⁴ The “total sanitation” programme of the Government has been very successful in rural areas, with a very high coverage. However, more challenges to MDG attainment are emerging, partly due to urbanization, as only 14 per cent of slum dwellers in metropolitan areas have access to sealed toilets. Moreover, the urban population is projected to nearly double to 50 million people by 2015. In general, there has been improvement in the percentage of the population having access to sanitary toilets, currently 52.6 per cent compared to 41.2 per cent in 2000. The total fertility rate declined from 3.1 per cent in 1999 to 2.6 per cent in 2002 with increased contraceptive use. Improvements in the health and education sectors have improved the situation of life expectancy at birth. While life expectancy at birth was 58.1 years in 1997, it rose to 64.9 in 2002. Although Bangladesh has achieved impressive progress in various health indicators, the quality of the public health care service is not up to the mark. The service providers are not accountable to the clients, particularly to the poor clients. The recent Health Nutrition Population (HNP) Strategic Investment Plan 2003-2010 shows the Government’s commitment to pro-poor health service provision.

1.4.3 *Poverty alleviation.* There are different estimates of the extent and range of poverty in Bangladesh. Absolute income poverty at national, urban and rural levels has decreased, according to both Food Energy Intake (FEI) and Direct Calorie Intake (DCI) methods, although the extent of decrease is different under different methods of calculation. According to the FEI method, the head count ratio of national poverty decreased from 44.7 per cent in 1999 to 42.1 per cent in 2004. Rural poverty is found to have decreased to a lesser extent than urban poverty. According to the DCI method, the head count ratio decreased from 46.2 per cent in 1999 to 40.9 per cent in 2004. The incidence of hardcore poverty also decreased from 25 per cent to 18.7 per cent during the same period. As a result of poverty, child malnutrition (prevalence of under weight among under five year old children) prevails, although the situation has improved. 43 per cent of children under five, in terms of stunted growth, are malnourished. The human poverty index (HPI) of Bangladesh was 41.8 per cent in 1995, 35.5 per cent in 2000 and 33.7 per cent in 2003. In terms of per capita income, Bangladesh still ranks 174 out of 201 countries.¹⁵ Although the extent of poverty has decreased in Bangladesh, the income gap between rich and poor has increased. Such a deterioration in the equality situation can be observed from the share of the poorest five

¹⁴ Bangladesh PRSP Forum Economic Update: Recent Development and Future perspectives, World Bank (2005).

¹⁵ Bangladesh PRSP Forum Economic Update: Recent Development and Future perspectives, World Bank (2005).

per cent of people in national consumption. It was 8.5 per cent in 1991-92 and rose to 9 per cent in 2000-02. The sources of rising inequality are linked with the uneven spread of economic and social opportunities in different areas, unequal distribution of human capital and financial capital and, rural – urban disparities. There are also serious regional disparities in the poverty situation. Most of the gains are centred in the Dhaka division (the capital city), while Rajshahi, Khulna and Chittagong have widespread poverty, resulting in regional disparities in the progress towards achieving the MDG goals. This increases the risk that at the national level, the targets will be met even with the prevalence of extreme vulnerability in some areas. Various attempts have been made to identify the backward areas, including the development of poverty maps and, initiating special programmes for vulnerable areas. To make the poverty reduction attempts meaningful and effective, there should be accelerated economic growth with social and distributional justice and environmental sustainability. These objectives also call for dynamic rural development strategies, which will encourage employment-generating activities through the effective use of available resources.

1.4.4 *Human resource development.* In the 2004 UNDP Human Development Report, Bangladesh ranked 138 among 177 countries with an HDI score of 0.509. All the other South Asian countries, Sri Lanka (93), Maldives (96), India (127), Bhutan (134), Pakistan (135) and Nepal (136) are also in the medium HDI category but, all ranked above Bangladesh.¹⁶ According to that report, Bangladesh is considered to have a medium level of human development. Bangladesh's success in achieving impressive progress in various human resource indicators was made possible by macro economic stability in recent years, a low population growth, increased women's empowerment, food self sufficiency, reduced aid dependence, vast activities of non-government organizations ((NGOs), an active civil society and, an active free press. According to the UNDP Gender Development Index (GDI) for 2004, Bangladesh's rank was 110 out of 144 countries. In 1999, this rank was 123. However, women's representation in government is still very low. Bangladesh's initiatives to develop human resource capacity encompass health and education development, women and child development, population control, special programmes for youth development and cultural development. In addition to various Government initiatives, various NGOs are initiating programmes to improve people's skills. In recent years, Bangladesh has achieved notable progress in the information and communication technology (ICT) sectors. In particular, the software industry is showing great prospects. Bangladesh has been exporting software since

¹⁶ United Nations' Common Country Assessment of Bangladesh, 2005.

2001. In FY05, export earnings from software grew by 75%. About 50 ICT companies are exporting their software and ICT enabled services to 30 countries. The bulk of these exports are for programming services and graphics/animation work. However, Bangladesh is increasingly becoming a destination for software support services, multi-media content development and, business process outsourcing.

1.5 Domestic political environment and Governance

1.5.1 One of the priority policy areas considered under the PRSP of Bangladesh is to ensure good governance. In Bangladesh, democracy is now firmly established. However, confrontational politics is still a source of potential instability and political uncertainty which, to some extent, adversely affects Bangladesh's international reputation and the investment climate. The parliamentary functions are not performed effectively, as successive opposition parties boycott Parliament for a substantial period in every regime. The overall law and order situation continues to be unsatisfactory, hampering a secure everyday life for the population. This situation could be improved by taking timely and effective measures against the illicit exercise of power by political leaders and their alliances, violence on minority groups and, the activities of some extremist (mostly religious) groups. Although the Government is trying to maintain a stable law and order situation, some of the mechanisms used by the Government are controversial and criticized on human rights grounds. In its desperate attempt to tackle crime and unrest, the Government has initiated some extra-judiciary law enforcing bodies containing personnel from the armed forces. This has been criticized by opposition political parties, human rights organizations and civil society.

1.5.2 Although the overall governance setting is marked by poor law and order, systemic corruption, and a decline in civil service quality, several positive aspects of governance refer to Bangladesh's success in accelerating growth and reducing poverty over the past decade. Recent measures by the Government to address core governance issues, include improving public expenditure and financial management; reforming public administration; strengthening revenue mobilization; establishing an independent Anti-corruption Commission; reforming the civil justice system and also, improving various social service delivery systems. The Government is strengthening public expenditure planning within the medium-term budgetary framework designed under the PRSP, as well as the essential financial management and accountability functions of accounting, auditing, expenditure tracking and procurement. The new Public Procurement Regulations (PPRs) are a notable achievement in the path of good governance in Bangladesh. The framework of procurement

has been reshaped since 2003, when the Government put in place a uniform procurement policy (October, 2003) for all public sector entities in Bangladesh. The PPR substantially reduced layers in the procurement approval process and introduced a procurement tracking system through a modern Management Information System (MIS). The culture of non-payment to energy companies has long been a root of systemic corruption in Bangladesh. Recently, the Government has tightened the billing and collection mechanisms in the power sector, established the Energy Regulatory Commission and, also reduced power sector system losses through theft reduction and better maintenance. As a result of these measures, system losses in the power sector fell from 30 per cent to 24 per cent between FY02 and FY04, collection efficiency improved from 84 per cent to 99 per cent and, the collection to generation ratio from 59 per cent to 74 per cent. Arrears to public utilities fell from nine months equivalent in FY02 to about 4.5 months in FY05. To improve the regulatory environment in the telecommunication sector, the Bangladesh Telecom Regulatory Commission has been established. To improve the efficiency of tax administration and customs, the Government has taken initiatives to modernize the National Board of Revenue (NBR), establish a Large Taxpayers Unit (LTU) and a Central Intelligence Unit (CIU). Moreover, there has been streamlining of customs port clearance procedures through the introduction of the ASYCUDA++ system involving electronic processing and the tracking of files. It is anticipated that full implementation of tax administration reforms will help to reduce corruption in this major area. The Board of Investment (BOI) has introduced e-government processes that allow on-line tracking of various approval requests. In the banking sector, regulations and supervision have been strengthened, competition enhanced and, the privatization of Nationalized Commercial Banks (NCBs) has been initiated. As a result of these measures, the non-performing loan rate fell from 27 per cent to 18 per cent in NCBs and, from 16 per cent to under three per cent in private banks between FY98 and FY04. Moreover the NCB's share of total bank assets fell from 54 per cent in FY98 to 40 per cent in FY04. The power of the central bank has been further strengthened and, it has introduced various measures to improve the corporate governance of various banks.

1.5.3 To improve overall governance, the Government has established an independent Anti-Corruption Commission (ACC). However, it is still not fully functional. Its effective operation will be a major step in monitoring and preventing corruption. Moreover, full separation of the judicial branch from the executive remains a contentious issue. With the aim of empowering the poor, the Government has launched several reforms in service delivery systems, mainly in the education and health sectors. In the education sector, a

system of expenditure tracking has been initiated, the establishment of a National Teachers Registration and Certification Authority (NTRCA) has been approved and, textbook production at the secondary level is being privatized. NTRCA is expected to improve teacher quality and reduce the scope for bribery during recruitment.

2. International economic factors and development

2.1 International trade and market access

2.1.1 To attain the targets set in the MTMF of the PRSP, Bangladesh has to maintain a stable export growth and a drastic decline in the import growth rate. The MTMF has projected a 2 percentage point decline in the export growth rate and a 9.1 percentage point decline in the import growth rate between FY05 to FY09. In this perspective, greater market access to the international market is crucial. It has already been noted above that Bangladesh's exports are highly concentrated in few market and, the range of products is also narrow. In the post-MFA world, Bangladesh's major export product RMG, has already been exposed to intense competition, which is expected to intensify when safeguard measures against China will have been phased out by 2008. Thus, Bangladesh's future trade performance depends on its success in achieving greater access to existing major markets and, access to new markets. Under the Everything but Arms (EBA) initiative in the Generalized System of Preference (GSP) of the EU, Bangladeshi products receive duty and quota-free entry into the EU market. However, the prevailing stringent rules of origin (ROO) criteria restrain the full utilization of this facility. Bangladesh's export industries are heavily dependent on imported inputs, which leads to low added value. The ROO remains the same under the new GSP scheme, which started functioning on 1 January 2006. Compared to the earlier GSP, it provides free market access for a greater number of LDC products, especially agricultural and fishery products. A 'GSP Plus' component will provide poorly diversified (and therefore vulnerable) economies duty-free access for 7,200 products, so long as they ratify and apply 27 international conventions on human rights, labour standards, environmental protection, and governance principles. Bangladesh could not receive this special treatment as it could not meet the required standards. The regional cumulation facility allowed under the EU-EBA, can be a possible solution to the ROO constraint faced by Bangladesh's export products. Bangladesh, as a member of the South Asian Free trade Area (SAFTA), should try to increase market access in the EU by taking advantage of this regional cumulation facility. In the United States market, Bangladesh's exports are facing new challenges after the abolition of quotas for textile and garment products. Moreover, the RMG products face high import tariffs (15 per cent to 20 per cent) in the United States. At

the last WTO ministerial meeting in Hong Kong, LDCs as a group, received a limited market access deal. Bangladesh also understands that its main export product RMG, will be excluded from the list of those commodities that will receive duty free entry into the United States market.

2.2 Remittances

2.2.1 For the last five years, remittances from Bangladeshi workers working abroad and expatriate Bangladeshis, have played a notable role as a source of foreign exchange earnings and, also as an investible resource, augmenting national savings. In 1990-91, the ratio of remittances to GDP was 3.3 per cent. Between 1990-91 and 1995-96, the compound rate of growth in remittances in US\$ was nearly 9.8 per cent, raising the share of remittances in the GDP to 3.8 per cent. However, since 1995 the growth of remittance has slowed down due to volatile international political and economic situations. Between 1995-96 and 1998-99, the compound rate of growth of remittances was only 3.4 per cent. As a result, the share of remittances in the GDP went down to 3.5 per cent in 1998-99. In FY2000, the share of remittances in the GDP was 4.8 per cent. Since FY01 there has been a sharp rise in remittances which have grown at an annual compound rate of 18.9 per cent. As a result, the share of remittances to GDP became 8.8 per cent of GDP in FY05. The MTMF has predicted that a double digit growth rate of remittances will continue until the end of this medium term development agenda, i.e. until FY09. Nevertheless, it foresees a fall in the remittance growth rate by 3.2 percentage points (from 14.2 per cent to 11 per cent) between FY05 and FY09. Bangladesh receives remittances mainly from the Bangladeshis working or living in Middle East countries, the United Kingdom and the United States. Since the mid -1990s, East Asian countries such as Singapore and Malaysia have become important sources of remittance earnings for Bangladesh.

2.3 Foreign direct investment (FDI)

2.3.1 Foreign Direct Investment (FDI) plays an important role in filling the big gap between domestic savings and investment requirements. Bangladesh continues to improve the investment climate to attract FDI. Measures include trade and exchange rate liberalization, convertibility of both current and capital accounts, liberalization of the investment regime, including various liberal industrial and tax policies, the setting up of more Export Processing Zones etc. In fact, Bangladesh has one of the most liberal investment environments in the region. However, Bangladesh continues to be an underperformer in attracting FDI. In

FY2000, the FDI flow was \$383 million, which rose to \$652.5 million in FY04.¹⁷ Thus, FDI as a percentage of GDP increased from 0.8 per cent in FY2000 to 1.5 per cent in FY04. According to the statistics of the World Investment Report (WIR), 2005 of UNCTAD, FDI inflows into Bangladesh increased to \$460 million in 2004, which was a 72 per cent increase from \$268 million in 2003. The FDI growth is the second highest in Asia after Pakistan, which secured a 74 per cent increase in FDI in the same year. With this growth, Bangladesh has moved to the rank of 122 in UNCTAD's FDI performance index, from the previous rank of 133.

According to the economic performance analysis of the Ministry of Finance, during 2004-05, the registration of foreign investment projects (100 per cent foreign and joint venture) grew by 92.4 per cent. Total registration in this period stood at \$885 million in 120 projects.¹⁸ Out of this, 75 per cent was in services. Other sectors of investment included textiles, the agro-processing sector, chemicals and engineering. Investment commitments in services include telecommunications, power, gas and oil, and hotels etc. FDI flows have supported infrastructure, energy and, export oriented manufacturing. FDI flows have also created notable employment, especially in the RMG sector. Up to June 2003, a total of \$643 million had been invested in the EPZs resulting in the creation of 128,917 jobs, of which 86 per cent were created in the RMG related sectors. Currently, three big investment proposals worth over \$15.5 billion are under negotiation. The Tata Group of India plans to invest \$2.5 billion in power, steel and fertilizer. The UAE- based Dhahi group has signed a memorandum of understanding to invest more than \$1 billion in telecommunications and the hotel business. The United Kingdom-based Asia Energy Corporation submitted a feasibility study on its investment plan worth \$12 billion for a coal mining project over the next 30 years.¹⁹

2.4 External Assistance

2.4.1 *Types and purposes.* External assistance is an important source of financing the deficit in public expenditure. Bangladesh has been receiving foreign assistance since its independence in 1971. Since then, Bangladesh has received a total of \$43,261million (up to FY05) in foreign assistance or official Development Assistance (ODA). In FY2000, total disbursement of foreign assistance amounted to \$1,588 million and \$1,491 million in FY05. Assistance received through NGOs is not included in these statistics. There are sometimes notable discrepancies between commitments and disbursements of foreign assistance. For example, in FY03 the actual disbursement was 72.7 per cent of the commitment. The

¹⁷ Provisional Results of 4th FDI Inflow Survey, Board of Investment, April 2005.

¹⁸ Bangladesh Economic Review, 2005

¹⁹ The Daily Star, 15-03-06.

assistance includes both loans and grants. It is observed that 54.8 per cent of the total assistance received up to FY05 were loans and 45.2 per cent were grants. Until FY2000, almost half of foreign assistance was in the form of grants. Since FY01, there has been a sharp fall in the share of grants in foreign assistance, and thus an increase in the share of loans. Loans constituted 62 per cent to 68 per cent of total assistance between FY01 to FY04 and, rose to as high as 84 per cent in FY05. Foreign assistance is directed to serve three broad purposes – food, commodities and projects. Since the early 1990s, foreign assistance has been directed mainly for various projects. Project oriented assistance comprised around 75 per cent of total assistance before FY01 while after FY01 its share has risen to 86 per cent to 97 per cent. Between FY01 to FY04 there was a drastic decline in the food-aid component of foreign assistance. In FY04, only 3.1 per cent of foreign assistance was for food. Self-sufficiency in rice production stimulated this reduction in food-aid. It is notable that food-aid comes completely as grants, whereas the greater proportion of project-aid is in loans. In the case of commodity aid, the proportion of loans is lower than the proportion of grants but, they are close to each other. Project assistance is channelled to various sectors such as agriculture, rural development, water resources, power, transport, the industrial sector, public administration, education and health. Transport has long been receiving the highest amount of project assistance, comprising almost a quarter of total project assistance. Public administration, the power, health and education sectors also receive considerable amount of project aid. In recent years, the proportion of the power sector has increased in total project aid disbursement. However the proportion of foreign assistance arriving for health and education projects has remained somewhat stagnant for the last 10 years.

2.4.2 Sources of foreign assistance. Bangladesh receives foreign assistance from both multilateral and bilateral sources. Half of the assistance arrives through bilateral sources and the rest from multilateral sources. The International Development Association (IDA) and the Asian Development Bank (ADB) are two major sources of assistance. Japan was a dominant source of assistance until FY03 but there has been a drastic decline since then. In FY04 assistance from Japan declined by 67.4 per cent compared to the previous year. Various UN agencies are extending assistance and UNICEF alone is the biggest UN source of foreign assistance. However, only 0.05 per cent of OECD/DAC donor's GNI comes to Bangladesh as foreign assistance.

2.4.3 Dependence on foreign assistance. Bangladesh has achieved progress in reducing aid dependency in both relative and absolute terms. Up to the first half of the 1990s, Bangladesh was heavily dependent on foreign assistance, which has gradually declined since then.

Foreign assistance as a percentage of GDP declined from more than 5 per cent in the early 1990s to less than 3 per cent in FY04 and FY05. Aid was 2.5 per cent of GDP in FY05. 30.9 per cent of public expenditure in FY91 was financed from foreign sources compared to 15.5 per cent in FY05. A considerable part of foreign assistance is directed to finance the annual development programme although the proportion of project aid in the total allocation of ADP has declined to a large extent since FY01. While 41 per cent of the ADP was financed from foreign assistance in FY01, the share came down to 29.4 per cent of ADP in FY05. In terms of utilization of ADP, the performance of domestically financed development projects is better than that of foreign aid financed projects.

2.4.4 *Position of external debt.* During the period FY72 – FY05 total external assistance received by Bangladesh amounted to \$23,727 million. Multilateral debt accounts for the highest share in total debt (e.g. 97 per cent in FY04). Borrowing from the International Monetary Fund (IMF) is the second highest component in outstanding debt. Moreover, there are debts for borrowing by sectors such as aircraft, food, shipping and crude oil. By FY05, total debt service payments (mainly for medium and long term debt and excluding short term borrowings such as loans from the IMF for food, aircraft, oil import etc.) were \$9,801million, which included \$6,575 million of principal amounts and \$3,226 million in interest payments. Yearly average debt servicing between FY01 and FY05 was \$600 million. In FY91, the outstanding debt (including short term loans) was \$12,714million and, this grew to \$16,211million in FY2000. Debt outstanding at the end of FY05 stood at \$18,777 million. The annual compound growth rate of outstanding debt was 1.7 per cent between FY91 to FY2000, while the annual compound growth rate between FY01 to FY05 became 5.9 per cent. Total debt service payment (including short term loans) is much higher than the above mentioned debt service for multilateral loans. In FY04, debt service for multilateral loans was only \$588.7 million, while the total debt service payment was \$1,043.4 million. Out of this total debt service, \$185.3 million was in interest payments. After the payment for multilateral loans, the highest debt payment was for the payment for oil imports (\$392.8million). Moreover, \$37.8 million went to the IMF. Debt service to the IMF has declined since FY2000 (except in FY03), although the trend of borrowing from the IMF has been rising since FY04 after a long trend of decline between FY96 to FY03. Borrowing, and thus debt service for oil imports has risen sharply since FY01 and, has imposed an extra burden on the economy.

In recent years, debt service payment as a percentage of export earnings has declined, as the export growth rate has been high. Considering debt service only for medium and long term

multilateral loans, debt service payment was as high as 18.5 per cent of export earnings in FY91, while in FY05 it was reduced to 7.2 per cent of export earnings. The share of debt service payment as a percentage of total foreign exchange earnings was 11 per cent in FY91 and declined to 4.5 per cent in FY05. Total debt service payment (including debt service for short term loans) as a percentage of exports was 34.1 per cent in FY91 and 13.7 per cent in FY04. However, cumulative debt, as a percentage of GDP, has risen in recent years. It was 34.3 per cent in 1990 and 43.4 per cent in FY05.

2.4.5 *Aid utilization.* Most of the aid in recent years has been in the form of long-term loans leading to a decrease in the debt-GDP ration. Moreover, over 70 per cent of ODA has been directed towards specific MDG targets, the most notable being trade, transport and hunger. However, Bangladesh faces notable obstacles to ensure the effective utilization of aid flows. The new procurement policies designed to reduce corruption in implementing foreign funded projects have created disincentives to spend. Bangladesh's access to additional foreign aid in the pipeline is jeopardized by its inability to meet obligations agreed to during previous aid cycles. Moreover, the centralized project planning and approval process, together with confusion relating to the state of the sector-wide approach, has made the utilization of resources more time consuming. Furthermore, the state of uncertainty permeating the public administration, against a backdrop of growing political confrontation, has resulted in reluctance on the part of key government personnel to take action. As a result, the effective handling of a large ADP is hampered. Decentralization is considered to be a possible solution for the effective handling of ADP.

3. Position of Bangladesh in implementing the goals and targets contained in the programme of action:

3.1 Fostering a people-centred policy framework

3.1.1 Bangladesh's medium term development policy framework is based on the core objective of reducing poverty through the empowerment of people, sound economic management, better distribution of resources and, an effective monitoring and regulatory system. Promoting gender equality and empowering women has also received considerable importance. In this connexion, Bangladesh has already achieved success in removing gender disparity in primary and secondary education. To improve women's participation in parliament, in FY05 there was an increase in seats reserved for women. To improve the legal and monitoring system, Bangladesh has also initiated policy changes in terms of establishing an independent Anti-corruption Commission, establishing a judicial service commission and, enacting a Money Laundering Prevention Act etc. There has been a notable improvement in

the information base of the economy. Regular publication of a review of the economy by the Ministry of Finance, expanded information provided by the Bangladesh Bureau of Statistics, on line statistics provided by the Central Bank, Ministry of Finance, Export Promotion Bureau of Bangladesh and also by various international agencies like UNDP, the World Bank and the Asian Development Bank have improved the information base of the country and supported policy formulation and monitoring. The overall agenda towards improving governance concentrates on making public service providers accountable to the targeted beneficiaries and removing system loss. Proper utilization of all these efforts is expected to improve the overall development policy framework.

3.2 Good governance at national and international levels

3.2.1 It is evident from the discussion above that Bangladesh has mainstreamed the agenda of improving governance in its core development policy framework. It has already initiated policies and programmes to improve governance in public procurement, tax administration, financial management, public administration, power and energy, state owned enterprises, education and health services, banking, telecommunications and the social safety net. Moreover, initiatives have been taken for legal and judicial reform and an independent Anti-corruption Commission has been established. International donors like the World Bank, UN agencies, the ADB, DFID and Japan are also considering the improvement of governance, the investment climate and, empowerment of the poor, as three core determinants of their assistance to Bangladesh in implementing the PRSP. Bangladesh was a poor scorer in all six governance indicators for 2004 produced by the World Bank Institute. Governance was measured for six dimensions: voice and accountability, political stability, government effectiveness, regulatory quality, the rule of law and control of corruption. Data on these indicators were collected for 209 countries. Bangladesh's percentile ranking for four of the six indicators was in the lowest quartile, while for two others it was in the second lowest quartile. For political stability, Bangladesh's percentile ranking was 11.7 per cent, for regulatory capacity it was 13.3 per cent, for the rule of law it was 22.2 per cent and for control of corruption it was 10.3 per cent. Bangladesh did relatively better on government effectiveness (26.4 per cent) and voice and accountability (28.6 per cent). Bangladesh's performance is poor relative to other low-income countries in political stability, regulatory quality and control of corruption, while it does better than low-income countries in voice and accountability and the rule of law. Thus, Bangladesh has rightly been considering governance as its core development agenda and has already achieved some progress. However, political confrontation, unrest, the violation of people's rights, including the rights of workers,

widespread corruption in public administration and various service deliveries, are major areas which deserve improved governance. Moreover, local government needs to be strengthened to ensure better service delivery in rural areas.

3.3 Building human and institutional capacities

3.3.1 Bangladesh's initiatives to improve human conditions and institutional capacities show a mixture of both success and failure. Rural development and education are the two major areas to receive higher amounts of ADP. A total of 24.4 per cent of ADP was spent on social services in FY05. Bangladesh has already achieved targets in reaching gender parity in schooling opportunities and universal primary education. Only in the tertiary education level, the ratio of females to males stands at 36:64, compared to the target of 50:50 by 2015. The adult literacy rate has also improved and is now very close to the target of 55.4 per cent by 2015. Success has been achieved particularly in increasing literacy among women.

3.3.2 Considerable progress has been achieved in reducing the child mortality rate. Under-five mortality (in every 1000 children) has been reduced from 151 in the base year to 88 per cent. By 2015 it is targeted to become 50 per cent. With a current immunization rate of 81 per cent, the target seems to be attainable. However, the child malnutrition rate remains very high. To achieve the target of reducing maternal mortality per 100,000 live births from the current state of 320 – 400 to 143 by 2015 will be challenging. It is observed that the proportion of births attended by skilled health personnel is still far below the target and thus contributes to the high rate of maternal mortality. Currently 12 per cent of births are attended by skilled health personnel compared to the target of 50 per cent by 2010. Moreover, maternal malnutrition is a major cause of maternal mortality and the rate of maternal malnutrition (45 per cent) is way below the target of <20 per cent by 2015. Although the rate of malnutrition in Bangladesh is the lowest among the South Asian countries, more than half of children between the ages of one and three are underweight. The total fertility rate stands at 2.6 per cent against the target of 2.2 per cent by 2010. Bangladesh's success in ensuring access to safe drinking water for 96.3 per cent of the population is also notable.

3.3.3 So far the prevalence of HIV/AIDS in Bangladesh remains low. According to official statistics HIV is found to be positive among 4 per cent of IDUs and 0.2 per cent to 0.7 per cent of female sex workers. However, Bangladesh is at serious risk of the spreading of HIV/AIDS because the rate of condom use by professional sex workers and their clients is very low. Moreover, the rate of needle sharing among IDUs is 25 per cent to 75 per cent. A

sharp rise in the prevalence of HIV in IDUs was observed between 2001 and 2003-04. During this period, the prevalence of HIV in Dhaka and surrounding areas increased sharply from 1.7 per cent to 4 per cent. There is a possibility that there will be a sudden upsurge in AIDS in Bangladesh if action is not taken. Assistance is required from international donors to increase awareness education regarding HIV/AIDS. In the case of tuberculosis, Bangladesh has almost achieved its target of curing 85 per cent of detected cases. However, the detection rate is far lower than the target.

3.3.4 Although the growth performance of Bangladesh is promising and its macroeconomic performance has improved, income inequality among rich and poor is very high. As a result, the pace of reduction in poverty is slow. Around 50 per cent of the population was earning below 1 \$ a day in 2000 against the target of 29.4 per cent by 2015. According to the Direct Calorie Intake (DCI) method, the head count ratio of poverty in 2004 stood at 40.9 per cent. There are 63 million poor people, which is the third largest number of poor people after China and India. Moreover, inequality is continuously rising and there are formidable disparities between regions in terms of poverty. However, there has been some success in reducing the proportion of people in extreme poverty. As against the target of 14 per cent by 2015, the proportion of people in extreme poverty stands at 20 per cent. There has been a narrowing of the gender gap in most MDG social indicators, especially in the education sector but, much remains to be done in the field of political and economic participation of women. To integrate poor people in development attempts, local government can play an important role, and the poor can be involved increasingly in rural infrastructure and development services. In this connexion, Bangladesh has successful experience of implementing programmes such as Vulnerable Group Development (VGD) and Food for Work. In the PRSP, social safety nets, especially for the poor, have received high priority. Nevertheless, an integrated approach to administering safety net programmes has yet to be established. Non-cash safety net programmes suffer from large leakages. The cash-based programmes (such as the secondary schools stipend programme) are performing better. The Government is now monetizing some of its larger programmes in the hope of curbing corruption and containing transaction costs. The Food for Education programme has been replaced by an expanded Primary Education Stipend Programme. The Food for Work programme and Food Aid are also being monetized. However, close monitoring of the cash based programme is also needed.

3.4 Building productive capacities

3.4.1 The share of agriculture in the GDP has declined in the last five years while the share of industry has increased. Although agriculture, including fisheries, contributes 21.9 per cent of GDP, the rural non-farm sector contributes around 36 per cent of GDP. Thus, the rural economy as a whole contributes 58 per cent of GDP. Agriculture and the rural economy are playing substantial roles in ensuring food security and generating employment. In Bangladesh, agriculture is owned by the private sector, and thus employment in agriculture contributes to private sector employment (mentioned in section 2.3.1). Three-quarters of the country's total population and 85 per cent of the poor live and earn their livelihood in rural areas through both formal and informal work. The share of agriculture, forestry & fishery (which is mainly in the rural areas) is 51.7 per cent of the employed labour force (above 15 years). Therefore, the Government has identified agriculture and rural development as the topmost priority sectors for rapid poverty reduction. Around 16 per cent of ADP and revenue allocation is directed to agriculture and rural development. A part of this is spent to provide support to the agriculture sector. Agriculture receives subsidies mainly for fertilizers. A total of Tk13,157 million has been allocated for agricultural subsidies for fertilizers and other assistance to the agriculture sector. In addition a 30 per cent cash incentive is being provided to agricultural exports. The Government is also implementing a programme to provide a 25 per cent subsidy on the import costs of fertilizers. The agro-processing industry is also receiving special incentives under the industrial policy. Agricultural production is still hampered by natural disasters, mainly floods, by inadequate supplies of inputs and, sometimes failure in the timely delivery of inputs. Bumper harvests of the *boro* crop (one important variety of rice), has been the main source of Bangladesh's success in achieving self-sufficiency in agriculture in recent years. Food production increased from 24.9 million metric tons in FY2000 to 26.3 metric tons in FY05. The share of the manufacturing sector in the GDP is rising continuously and, the main driving force behind this growth is the woven and knitted garment industry. Currently the Government is giving special attention to the development of small enterprises by offering them collateral-free credit. The Government, with the assistance of the World bank and the Asian Development Bank, financed through the Bangladesh Bank, a total of Tk1,237 million up to April 2005 for the rapid expansion of SMEs.

3.5.2 Improving infrastructure is a core determinant of a country's capacity to take advantage of globalization. Poor infrastructure, including poor transport and port facilities, inadequate power and telecommunications, are considered to be major obstacles for industrialization and increased exports. The road network of Bangladesh expanded from

222,593 kilometres in 1998 to 271,401 kilometres in 2005. This progress included the expansion of village roads from 11,727 kilometres in 1998 to 271,401 kilometres in 2005. Although customs procedures have been simplified, the ports are still not functioning efficiently. The power sector suffers from poor supply capacity, huge system losses and inefficient operation. Erratic electricity supply compels many enterprises to rely on power from captive generators at 2.5 times the cost per kilowatt-hour of current from the grid. According to the economic review (2005) of Bangladesh, in FY05 there was a maximum demand of 3751 MW for generated power. The demand for power is growing at about 8 per cent a year but, increases in generation capacity have been largely held up for several years amid a series of controversial decisions to qualify or disqualify particular bidders. The resulting shortfall in generating capacity has led to frequent, widespread blackouts (load shedding), particularly in rural areas. Since 2002, Bangladesh has improved operating efficiency and system loss. System losses fell from 28 per cent in FY2002 to 24.7 per cent in FY2004. Collection efficiency also improved marginally, as a result of which collection has increased from 70 per cent of generation to 75 per cent. Arrears from major power utilities companies have been reduced from an equivalent of eight months in FY03 to four months in FY05. To minimize the losses of the Bangladesh Power Development Board (BPDB) more lines were transferred to the better managed Rural Electrification Board (REB). To supervise the energy sector as a whole, including oil, gas, power and coal, progress is being made in operationalizing the Energy Regulatory Commission (ERC). However, institutional disintegration has restrained development of an overall energy strategy. Such a strategy could attract more investment into the energy sector, as both foreign and domestic investors wish to take advantage not only of Bangladesh's gas but also its coal resources.

3.5.3 Bangladesh has achieved notable progress in information and communication technology (ICT). The national ICT policy has been approved and contains an integrated approach to help this sector to flourish. With the aim of making internet facilities available to the poor at low cost, the Government has taken some special measures. The Voice Over Internet Protocol (VOIP) has been made accessible to the private sector to facilitate internet expansion at a low cost. To expand internet facilities in the rural areas, fibre-optic links have already been established in most cities (50 out of 64 cities). Deregulation of the Very Small Aperture Terminal (VSAT) policy in 2000 has stimulated an increase in the number of ISPs with individual bandwidths ranging from 128 kilobytes per second to eight megabytes per second. They are offering broadband internet services through DSL/HDSL modems. All 64 districts have been brought under internet coverage through dial-up connexions. In the course curricula at different education levels ICT is receiving special importance. A course

curriculum for secondary and higher secondary levels has been prepared. The Government has also taken initiatives to distribute computers under various programmes. Bangladesh has already started to export software. Some ministries and Government departments are providing on-line information and statistics on their activities and programmes. This is serving the objective of people - centred growth and, also facilitating better analysis of the economy by various stakeholders.

3.6 Enhancing the role of trade in development

3.6.1 Bangladesh's export performance has been robust during the last one and a half decades. It has undergone massive liberalization which has increased the openness of the economy. Customs procedures have also been simplified to a large extent during the last two years. The major challenge facing Bangladesh is to continue with a double-digit growth of exports in the post -MFA era. In the period covered by the MTMF, there is a possibility that the current export growth trend will continue, as safeguard measures against China, the main trade threat to Bangladesh, will continue until 2008. Beyond that, the trade performance of the country will depend on the successful diversification of the export basket, improvement of transport and port infrastructure, improvement of power and telecommunication services, compliance with labour and environmental standards, reductions in the cost of doing business, induced by corruption and stringent regulations and, an improvement in the overall law and order situation in the country. The high cost of borrowing is another major constraint in diversifying exports. The real interest rate in Bangladesh is declining compared to the situation in 2003 and earlier. Reforms in the financial sector during the period 2002-2004 have been helpful in driving down lending rates. Bank lending rates to industry by private banks were 12-13.5 per cent in late 2004 and 10-12.5 per cent by NCBs, compared to an average of 16-17 per cent in 2003 and earlier.²⁰ In order to gain from the WTO negotiations Bangladesh needs to improve its negotiation skills. The setting up of the WTO-cell within the Ministry of Commerce was a desirable decision. This has strengthened the Ministry's capacity to deal with WTO related issues. Bangladesh is also successfully initiating various regional and bilateral free trade arrangements. In this connexion the implementation of the South Asian Free Trade Area (SAFTA)²¹ and ongoing negotiations under the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC)²² are opening up good trade prospects. Bangladesh has achieved notable success

²⁰ Economic trends, Bangladesh Bank.

²¹ Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka

²² Bangladesh, India, Sri Lanka, Thailand, Nepal, Myanmar and Bhutan

in trade performance. It is now required that this success is maintained and efficiency improved.

3.7 Reducing vulnerability and protecting the environment

3.7.1 With some exceptions, minimal attention has been given to environmental issues in Bangladesh. Thus, not enough attention is given to the long run impacts of various environmental concerns, especially impacts on common property and on the poor people using it. Main environmental concerns include arsenic contamination of shallow aquifers, air pollution in urban areas and, river water pollution near industrial estates and by municipal waste-water. Solid waste disposal, the degradation of agricultural soil as a result of inappropriate use of fertilizers, soil erosion, the salinity of soil in coastal areas and deforestation are also major concerns. Bangladesh is also vulnerable to natural disasters caused by floods, cyclones and droughts. However, in recent years the number of lives lost during natural calamities has declined significantly. This was possible through improved warning systems and the building of more cyclone and flood shelters. As against the MDG target of 85.5 per cent, currently 56 per cent of the urban population has access to safe drinking water. The Government has ratified 18 International Conventions, Treaties and Protocols on the sustainable management of the environment. In 2001 it approved the National Land Use Policy and, in 2004 the National Water Management Plan. There are also a good number of laws and regulations to control air pollution. In 2002 the Government issued a notification banning hill deforestation. In 2002 it banned the production and use of polythene bags. Various policies and measures have also been taken to preserve bio diversity and, waste management, including hospital/ clinical waste management, etc. Proper implementation of the existing rules and regulations can go a long way to reduce the environmental vulnerability of Bangladesh. However, well-coordinated actions are still not observed.

3.8 Mobilizing financial resources

3.8.1 Domestic Resource Mobilization. In recent years, Bangladesh has achieved notable progress in mobilizing domestic resources. In terms of savings, investment, public expenditure financing, social services and development works, the share of domestic resources has increased. Domestic resource mobilization is centred around the revenue efforts of the Government. As has been noted above, 71 per cent of public expenditure (both current and development) is financed by revenue collected from domestic tax and non-tax sources. Almost half of ADP is also financed from domestic sources. Still, Bangladesh's tax-GDP ratio is one of the lowest in the world. The ratio stood at 5.9 per cent in 1990-91 and

rose to 7.1 per cent in 1999-00. These figures were way below the South Asian average of 12.4 per cent and 17.5 per cent recorded for the LDCs for the comparable period. In FY05, the tax-GDP ratio increased to 10.3 per cent. Two factors with negative impacts on domestic resource mobilization are the losses incurred by the State Owned Enterprises (SOEs) and an increase in the level of non-performing loans of the Nationalized Commercial Banks (NCBs). The total loss of the loss-making public undertakings as a percentage of GDP, increased from 0.78 per cent in FY91 to 1.1 per cent in FY05. The increase in non-performing loans of the NCBs was 9.6 per cent of GDP in 2000 and 5.6 per cent in 2004. Foreign financing of the deficit was 2.7 per cent of GDP in FY2000. In FY05, it came down to 1.5 per cent. Consequently, domestic financing of the deficit registered a significant increase. In FY05, 56 per cent of the total deficit was financed from domestic sources. Borrowings from banks (both scheduled banks and the central bank) constitute a large part of this. However, private sector investment has not suffered from a crowding out effect as Government prefers concessional foreign borrowing to costly domestic borrowing in financing the deficit. The private sector is playing a dominant role in industry, business, banking, education, health services, rural development and trade. As has been noted earlier, both private investment and private savings increased considerably between FY01 and FY05. There is still a gap between savings and investment, which means a better investment climate could increase the existing investment level. In this connexion, a developed capital market would go a long way to creating investment opportunities. NGOs are playing a vital role in mobilizing domestic resources. Micro – credit programmes have a long history in Bangladesh and, the success in this area is exemplary in the international context. The success story of the *Grameen Bank* is considered to be a model for development through credit, in many countries of the world. Starting in 1976, the *Grameen Bank* had expanded its activities to 4.8 million people by June 2005. Currently, a large number of NGOs are operating micro credit programmes in Bangladesh. The Government is also pursuing micro credit programmes directly through public banks or departments and, through small NGOs. For example, the Bangladesh Rural Development Board and the Palli Karma-Shahayak Foundation, two publicly owned entities, are engaged in poverty alleviation through micro credit programmes. According to the Credit and Development Foundation (CDF) statistics, up to December 2004, as many as 721 NGOs were operating micro credit programmes in Bangladesh. Starting in the late 1970s, the total number of beneficiaries was 16.2 million by December 2004. During this period, the cumulative disbursement of micro credit among members was Tk338.6 billion with the rate of recovery being 98.8 per cent. Out of the total amount disbursed, 40.6 per cent was invested in small business, 10.3 per cent in crops, 14.1 per cent in livestock and 3.6 per cent in

fisheries. In Bangladesh, various NGOs are not only providing micro credit facilities but, also providing various social services, especially in the areas of education, health and skill development. In addition to its regular micro credit programme, *Grameen Bank*, the leading NGO in Bangladesh, provides collateral and interest free loans through its “struggling members programme”, to the poorest segment of society regarded as beggars. Until the end of December 2004, 5,257 students had received loans at a rate of interest of 5 per cent for pursuing their studies. The *Shakti Foundation*, another leading NGO, has provided health loans to 4,701 project members, primary health treatment to 24,743 persons and, health education (under its health programme) to 95,102 members. Moreover, 114,701 members have received gender training. *Swanirvar Bangladesh*, another large NGO, is providing self-employment loans to its members.

3.8.2 International resource mobilization.As mentioned above, Bangladesh has improved the regulatory system to attract more foreign funds including FDI. The flow of FDI has increased steadily and during the last two year, the registration of investment projects has increased substantially. Bangladesh has also decreased its dependence on foreign assistance. It is notable that in recent years more foreign assistance is coming for implementing projects rather than for food aid. This has contributed to the improvement of various social indicators. For a sustained increase in GDP growth and employment, it is crucial to attract more investment, implement already initiated rules and regulations and, above all, improve the law and order situation.

4. Conclusions and policy lessons

4.1 Concluding remarks:

4.1.1 During the period FY01 to FY05, Bangladesh achieved encouraging progress in various macroeconomic and social indicators. This has resulted in the reduction of poverty by one percentage point every year. Despite the devastating flood of 2004, various political confrontations, weak institutional capacity poor governance and, weather vulnerability, Bangladesh was successful in achieving a 5.4 per cent annual compound growth rate during this period. The GDP growth rate was as high as 6.3 per cent in FY04. At the same time, the dependence of the economy on foreign assistance has declined in recent years. This indicates that national priority setting processes and domestic efforts to attain them has enabled Bangladesh to design development projects and policies with relatively less conditionality from outside.

4.1.2 Bangladesh's recent success in promoting female education has to be continued to promote women's participation in economic activities. This is expected to empower females and will also influence the health and education situation of poor households as a whole. Bangladesh's opportunity to develop a large ICT industry has to be exploited fully. In this connexion, human resource development is required. The ICT policy (initiated in 2002) is rightly addressing the importance of the development of ICT to capture a share in the multi-billion dollar software export market, to ensure good governance and, to develop world class ICT professionals and institutions. The ICT policy has also highlighted the importance of developing ICT infrastructure, hardware industries, e-commerce, e-governance, legal issues related to ICT, the application of ICT in health care, and agriculture, to exploit the potential for the development of the rural economy and agro business. Although ICT is being used in Bangladesh on a limited and pilot basis for distant medical advice, distant education and agricultural activities (advising farmers about how to solve farming problems on a needs basis, informing them about the prices of agricultural products in different parts of the country etc.). The Government has exempted ICT related equipment from VAT and import taxes, provided tax holidays to ICT related ventures and, created an equity fund for financing investment in this sector.

4.1.3 For Bangladesh, the challenge ahead is to sustain the achieved growth and improve upon existing performance, so that the quality of life of nearly 140 million people, 63 million of whom are classified as poor, can be improved. A development environment to achieve such goals presupposes sustained availability of cheap labour; raw materials; a strong infrastructure base with regards to electricity, gas, transport, communications and ICT; freedom from labour unrest; fast processing of documents; the speedy resolution of disputes; a well developed banking system; tax-excite-VAT incentives; a corruption-free environment or a low level of corruption; a good law and order situation; good governance and transparency; political stability; guarantees to secure uninterrupted and adequate profits and, scope to repatriate such profits. The recently approved PRSP of Bangladesh should go beyond the Poverty Reduction Strategy Papers. There must be more coherence between national strategies and global processes. Therefore, to attain progress on meeting goals and targets mentioned in the Programme of Action and, thus to achieve progress in attaining the MDGs for Bangladesh, the following issues should receive paramount attention.

4.2 Policy actions at national level

- In order to achieve and sustain a 6 to 7 per cent growth rate, Bangladesh has to maintain macro stability and sustain existing or, attain even higher saving and

investment rates. This also calls for continuing with the current pace of economic reforms.

- Governance is the topmost challenge for Bangladesh and therefore improvement of rules, regulations, monitoring systems and law and order, have to be ensured in all spheres of life. In this connexion, the Anti-Corruption Commission should become fully operational as soon as possible.
- The tax system needs further reform with a view to modernizing the system, simplifying the assessment and payment of taxes and, bringing more transparency and accountability to tax administration, in line with the recommendations of the *Revenue Commission*. According to the suggestion of the Revenue Commission, effective measures will have to be undertaken to rationalize public expenditure and reduce wastage and pilferage.
- In meeting the revenue challenges posed by increased liberalization, taxes will have to depend less on import duties and more on income tax and domestic value added tax (VAT).
- In recent years, private sector development has proved to be the engine of growth. Therefore, to realize the potential for higher growth, Bangladesh will need to improve infrastructure (power, telecommunication, ports and roads), develop technology and skills, enhance public-private partnerships, support an effervescent SME sector, streamline policies and bureaucratic red-tape and, improve governance, particularly in relation to law and order and corruption.
- The capital market should be more functional to ensure private sector growth and domestic resource mobilization.
- The quality of public expenditure is a major obstacle in the path of Bangladesh's development. ADP implementation will have to undergo major improvements to ensure the timeliness, efficiency and cost effectiveness of development expenditure.
- To receive foreign development assistance, Bangladesh needs to improve the implementation of those projects funded by foreign assistance.
- To encourage more FDI, the overall law and order situation has to be improved and good governance has to be ensured. Moreover, the lengthy bureaucratic procedures of implementing FDI projects should be further reduced.
- The losses of SOEs are constraining public savings generation. Therefore, the pace of privatizing these enterprises has to be expedited.
- The agriculture sector should get continuous support not only for fertilizer but also for irrigation. Extension services should be timely and adequate.

- Non-farm activities in rural areas should receive easy access to credit.
- To meet the challenge of a higher growth rate, export growth has to be robust. In the post-MFA era this requires the expansion of market access, diversification of the export basket and, reductions in the cost of doing business.
- Modernization of customs procedures is necessary to improve the efficiency of the export sector.
- The regional cumulation facility granted by the EU should be realized by implementing SAFATA in a meaningful way. This may go a long way to solve the ROO problem in exporting RMG to the EU.
- Monitoring the public services is necessary to ensure the improvement of the lives of the poor. The quality of education and health services has to be ensured to bring real changes in the quality of life.
- Spatial inequality in MDG indicators induces spatial differences in the poverty situation. This spatial inequality has to be removed otherwise, there may be improvement in MDG indicators at the aggregate level, while a sizeable proportion of people living in different regions will be unable to benefit.
- Maternal health awareness has to be increased to reduce maternal mortality.
- Awareness of HIV/AIDS and other such diseases has to be strengthened.
- Awareness of environmental issues should be raised to sustain economic growth and to minimize vulnerability.

4.3 International Support Measures

- Although aid dependency has decreased, Bangladesh still needs foreign assistance to implement various development projects and to ensure food security, especially, during natural disasters.
- The growing non-grant component of ODA (84 per cent in 2005) is raising the external debt of Bangladesh to a level that could become unsustainable in the near future. Developed country partners of Bangladesh should provide ODA on a grant basis and not at commercial rates.
- With an absolute value of US\$18.7 billion in 2005, debt service as a percentage of export earnings declined from 34.13 per cent in 1991 to 13.72 per cent in 2004, while outstanding debt as a percentage of GDP largely increased from 34.23 per cent in 1991 to 43.3 per cent in 2004. This makes the debt stock (or burden) of Bangladesh sustainable, so much so, that for the time being Bangladesh is not one of the HIPC's. However, this may not be the case as debt continues to rise. Bangladesh should be

included in debt reduction schemes, as this is essential for poverty reduction in the country.

- Multilateral debt has the highest share in total debt (e.g. 97 per cent in FY04). Borrowing from the International Monetary Fund (IMF) is the second highest component in outstanding debt. Therefore, multilateral creditor institutions are encouraged to take comprehensive debt relief measures so as to enable Bangladesh to attain the goals of the Programme of Action and, those contained in the MDGs.
- All exports from Bangladesh should be granted duty-free entry by the United States, the EU, Canada and Norway.
- Duty-free and quota free market access should be granted to all products of export interest to Bangladesh and, the granting of " GSP Plus" should be extended to Bangladesh without additional non-economic-non-trade conditionality (such as the application of international conventions on human rights, labour standards, environmental protection and governance principles).
- Compensatory trade or financial mechanisms should be put in place to mitigate the adverse effects on the growth and development prospects of Bangladesh, of further trade liberalization, including those resulting from the expiration of the ATC in 2005 and, safeguards against high performing countries like China in 2008.
- Improvement in supply capacities is necessary to make trade work more effectively for poverty reduction. Consequently, more development aid should be allocated to productive sectors.
- Compliance with environmental and labour standards is a growing concern for the export products of Bangladesh. To ensure international competitiveness, these standards have to be maintained. Bangladesh should try to receive external assistance to improve the technical capacity to maintain environmental standards of export goods.
- The developing country trading partners of Bangladesh should provide non-reciprocal trade preferences for all export products of Bangladesh in the context of south-south cooperation.
- As remittances from Bangladeshis living and working abroad account for the larger share of official external resource flows to the country (about 8.8 per cent of GDP in 2005), urgent liberalization of trade in services especially mode 4 –the movement of natural persons- is of utmost importance for Bangladesh.

List of Acronyms

ACC	Anti-Corruption Commission
ADB	Asian Development Bank
ADP	Annual Development Programme
AIDS	Acquired Immune Deficiency Syndrome
ATC	Agreement on Textile and Clothing
BOI	Board of Investment
BPC	Bangladesh Petroleum Corporation
BPDB	Bangladesh Power Development Board
BIMSTEC	Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation
CDF	Credit and Development Foundation
CIU	Central Intelligence Unit
CPI	Consumer Price Index
DCI	Direct Calorie Intake
DFID	Department for International Development
EBA	Everything but Arms
ERC	Energy Regulatory Commission
FDI	Foreign Direct Investment
FEI	Food Energy Intake
FY	Fiscal Year
GDP	Gross Domestic Product
GDI	Gender Development Index
GED	General Economics Division
GNI	Gross National Income
HIPCs	Heavily Indebted Poor Countries
HIV	Human Immunodeficiency Syndrome
HNP	Health Nutrition Population
HPI	Human Poverty Index
ICT	Information and Communication Technology
IDA	International Development Association
IDUs	Injection Drug Users
IMF	International Monetary Fund
LTU	Large Taxpayers Unit
MIS	Management Information System
MTMF	Medium Term Macroeconomic Framework
MDG	Millennium Development Goals
MFA	Multi-Fibre Arrangement
NBFI	Non-Bank Financial Institution
NBR	National Board of Revenue
NCB	Nationalized Commercial Bank
NGO	Non-government organizations
NTRCA	National Teachers Registration and Certification Authority
OECD	Organization for Economic Cooperation and Development
OECD/DAC	OECD Development Assistance Committee
PRSP	Poverty Reduction Strategy Paper
PPR	Public Procurement Regulation
REB	Rural Electrification Board
RMG	Ready-made garments
ROO	Rules of Origin
SME	Small and Medium Enterprises

SAFTA	South Asian Free Trade Agreement
SOE	State Owned Enterprises
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Emergency Fund
VAT	Value Added Tax
VGD	Vulnerable Group Development
VOIP	Voice Over Internet Protocol
VSAT	Very Small Aperture Terminal
WIR	World Investment Report
WTO	World Trade Organization