

## Executive Summary: Bangladesh Country Strategy Note

### 1. Country Context

Bangladesh's economic growth of 6 percent in the last decade has been coupled with a satisfactory decline of poverty while income inequality has remained broadly stable. The country has experienced a steady improvement in a number of human development and social indicators, comparing favourably to similar low-income countries. This feat of striking a sound balance between equity and growth is commendable. As the country primes to graduate to middle-income status in the near future, economic growth of 7-8 percent will be necessary, as well as ensuring that growth remains inclusive and sustainable.

In the last decade, the broad development strategy pursued by the government rested on two areas of structural change and economic transformation. Firstly, on the production side, policies were undertaken to steadily strengthen the economic transformation from a low-value agrarian economy towards broadening the base of manufacturing and modern service sectors. Concurrently, to ensure that growth is pro-poor, policies were undertaken to raise attainments in education and health. Safety net programs were introduced in an attempt to narrow the rural-urban divide in income and welfare.

At the same time, built-in resiliency and strong macro-fiscal fundamentals have helped the economy to successfully navigate through a series of exogenous shocks. As a result, growth for the economy is expected to be buoyant, driven by exports and strong domestic demand, supported by prudent macroeconomic policies, continued improvements in infrastructure provision, and ongoing structural reforms.

In the near term, growth prospects hinge on political stability in the run-up to the general elections scheduled for late 2018. Political turbulence is costly not only in terms of lost output but also in terms of human casualties as unrest often escalates to violence. In the medium term, further growth hinges on Bangladesh's ability to increase the level of investment, particularly in energy and transport infrastructure, and to enhance the state's effectiveness in public finance. Based on the outlook of weak external demand and increased protectionism, Bangladesh faces considerable downside risk on export earnings.

### 2. IGC Bangladesh Country Programme

Bangladesh is one of IGC's oldest programmes, having first opened its in-country office in 2009. Since its inception, IGC Bangladesh has based its activities upon dialogue with the government, research institutions, and the private sector to assess the most urgent constraints to economic growth in Bangladesh. The country programme has collaborated with key policymakers and senior government officials in the Prime Minister's Office, the National Board of Revenue (NBR), the Ministry of Commerce, and the Bangladesh Bureau of Statistics (BBS), and has established partnerships with civil society organisations, such as BRAC, and universities. IGC Bangladesh is currently hosted at the BRAC Institute of Governance and Development (BIGD). The country team includes two full-time country economists in addition to a part-time country director and two lead academics.

### 3. Thematic Areas

Against the backdrop of the near term economic and political outlook, the programme has

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identified four main thematic areas where research can facilitate Bangladesh's growth ambitions in the medium term. The thematic focus areas encompass the strengths of IGC's research network and the key drivers of growth in Bangladesh.

### (a) State

This theme will investigate ways to improve the capacity of the public sector to effectively deliver public goods and services that drive economic growth. The programme will support research that explores ways to enhance overall effectiveness and efficiency of the public sector by looking into issues including public sector management, public finance and taxation, governance, and political economy. In particular work in this area will focus on:

*Improving public service delivery:* E-governance has emerged as a promising tool to effectively manage data and information to enhance public service delivery. IGC's recent work in this area includes projects on Electronic Filing (e-filing) systems and e-procurement. The programme envisages further growth of this research cluster as there is clear demand from the government and interest amongst researchers.

*Taxation:* Strengthening revenue mobilization is critical for growth in the medium and long term. The National Board of Revenue (NBR) has an ongoing agenda of reforms in the areas of taxation, systems modernization and change management. The implementation of the new VAT law was one such reform. IGC Bangladesh maintains close contact with the NBR and will aim to seek opportunities for research as well as to guide the government with perspectives from other comparable economies to help design reforms.

*Collective action and participatory development:* In the absence of an effective state, communities need to take collective action to provide public goods and services. Community participation is viewed as an effective way to incorporate local knowledge into planning and interventions, thus making Community-Driven-Development (CDD) interventions more effective. IGC Bangladesh has an active set of projects on these issues. Further expansion of this research cluster look into the impacts of such interventions on exclusion, the empowerment of marginalized groups, the capacity for collective action, the risk of elite capture, and the ability for community participation projects to be sustainably scaled up.

### (b) Firms

Firms form the core of economic activity. Developing economies can only grow if opportunities for their businesses and entrepreneurs expand as well. This theme aims to produce knowledge related to firm capabilities and job creation. Productivity growth is probably the single most important indicator of an economy's health: it drives real incomes, inflation, interest rates, profits and share prices. This work covers all types of firms: large, small and medium sized enterprises (SMEs) in both formal and informal sectors, with a particular focus on the readymade garments (RMG) sector.

*Improving firm productivity:* Research on education and training and other initiatives geared towards skills development in the RMG industry will continue to remain a research priority for the country programme. The RMG sector boasts the highest rates of absorption of industrial employment in Bangladesh where women comprise more than 80 percent of the total labour force. Research in the RMG sector can potentially have a transformational impact on the fate of a large section of working women in Bangladesh. Within the broader export sector, similar research can

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be undertaken in the future.

*Occupational compliance and labour issues:* Compliance on occupational safety has emerged as a critical issue that has implications for RMG factory owners, workers and government. Research will pay off not only in the creation of knowledge and insight but also have strong potential for informing policy as lack of compliance bears high direct and indirect costs. The programme has one ongoing study in this area and aims to expand in the future.

*Access to finance and financial inclusion:* There is substantial evidence that small firms face greater constraints to access formal sources of finance, potentially explaining the lack of SMEs' contribution to growth. IGC can carve out a niche by focusing on the research of provisions and facilities (e.g. tax holidays, credit schemes, etc.) that potentially alleviate growth constraints and increase access to finance and thus levels the playing field between firms of different sizes. The programme can consider commissioning work on specific financing tools such as leasing and factoring that facilitate wider access to finance in the absence of well-developed institutions, as well as systems of rating and credit information sharing. Lastly, IGC Bangladesh sees potential in the expansion of financial inclusion through digital financial services (DFS) in the country.

### (c) Energy

This theme focuses on the significant role that access to reliable energy plays in shaping the growth paths of Bangladesh. Research topics include improving access to and quality of energy services for households and firms, rural electrification, energy efficiency, and the effects of energy consumption on health and the environment.

*Reliability of electricity:* Keeping pace with the global trend, Bangladesh has attributed due importance to development of renewable energy. Research on renewable sources of energy both as a supplement to mainstream transmission from the grid and expanded coverage of rural electrification will be in IGC's agenda for Bangladesh. One such area is on evaluating the plans for introducing a feed-in-tariff (FIT).

IGC Bangladesh has funded projects that have studied household usage patterns and the reliability of electrification. In future, support can be broadened to look into environmental compliance, to the extent to which actors comply to or breach laws, codes and regulations.

### (d) Cities

Bangladesh experienced faster urbanization than South Asia as a whole between 2000 and 2010, where 34.3% live in urban areas in 2017 compared to 23.6% in 2000. IGC Bangladesh aims to explore how cities can contribute to growth as effective centres of economic prosperity. The research agenda will span from the economics of agglomeration, improving infrastructure and service provision, building affordable housing markets, and managing internal migration. There is a critical gap between policy analysis and urban economic knowledge, and IGC's role here would be to aid policymakers in managing the increasing complexity of larger cities like Dhaka and Chittagong more effectively.

*Land-use, housing and infrastructure:* A focus on adequate housing and sustainable human settlements will have the potential to feed policy choices as the number of people living in urban slums of Bangladesh also continues to grow. As policy evaluation requires estimating counterfactuals, IGC's support can be dedicated to building analytical and quantitative models of

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cities (and systems of cities). Future work can measure and analyse the city economy as well as policies and tools available to attract investment and finance that improve growth and competitiveness.

*Traffic:* IGC has funded work like ‘Impact of Traffic Infrastructure on Urban Land Use in Dhaka’ in the past. With the entrance of players like Uber, the urban transportation scene is gradually undergoing change. IGC Bangladesh is keen to fund work that involves empirics of multimodal traffic networks and systematic assessments of cities transport routes.

## 4. Engagement Strategy and Collaborations

Historically, Bangladesh has had a good track record in the gestation of innovative research ideas and taking them to scale. For example, in the past IGC projects on seasonal migration, sanitation, and ultra-poor programmes have spurred deliberation, replication, and informed policies on development and growth at the national and global levels. In the future the programme aims to pursue and sponsor research on innovative ideas and generate knowledge and solutions for local and global audience.

The Bangladesh country programme has established relationships with a wide range of stakeholders – government, NGOs, academia, local research institutions, DFID local office, private sector as well as civil society groups. In addition, to facilitate media outreach IGC Bangladesh has maintained contacts with leading local English and Bengali newspapers.

Theme	Relevant Stakeholders and Partners
<b>State</b>	Ministry of Finance (Bangladesh Bank; National Board of Revenue; Economic Relations Division), Ministry of Planning (Planning Commission; Bangladesh Bureau of Statistics; Implementation Monitoring & Evaluation Department), Prime Minister’s Office (Access to Information)
<b>Firms</b>	Ministry of Commerce (Bangladesh Foreign Trade Institute), Ministry of Industries
<b>Energy</b>	Ministry of Energy and Mineral Resources (Power Division)
<b>Cities</b>	Dhaka City Corporation