



International
Growth Centre

Bangladesh TEPP call for proposals

Research strategy

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1. Introduction

1.1 Economic Growth in Bangladesh

Bangladesh's economic growth of 6% 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. Since 2000, annual GDP growth averaged close to 6 percent and growth accelerated to nearly 7.4 percent per annum between FY15-FY19. The growth momentum was accompanied by steady reduction in poverty: the national poverty rate fell from nearly 49 percent to 24.5 percent between 2000 and 2016. 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% 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. 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 face considerable downside risk on export earnings.

1.2 Bangladesh and COVID-19

COVID-19 outbreak in Bangladesh started in March 2020 and community transmission remained high in the initial months. Public health records indicate that infection rate started declining towards the last quarter of 2020 and remained low till Feb 2021. However, a surge in infections and fatalities observed since March 2021 continued up to second week of August¹. As of 11 October 2021, the number of covid cases stand at 1,562,958 and the number of deaths caused by the virus is 27,699.

The economic and health challenges posed by the COVID-19 pandemic have been significant in 2020; downside risks to growth prospects in FY2021 remain high as pace of economic activity in the country is interlinked with global recovery and successful domestic outbreak containment. COVID-19 has pushed an estimated 12 million people into poverty² and threatens Bangladesh's development path through job losses, firm closures, lower tax revenues, and reduced investment and trade.

The global slump in trade combined with the various lockdowns since March 2020 to contain outbreak which resulted in economy wide supply side disruptions and depressed domestic demand. Bangladesh Bureau of statistics provisionally estimated FY2020 GDP growth to 5.2 percent compared to projected pre-pandemic trend growth of 7-8 percent.

This slowdown is mirrored in the rapid household surveys on economic impacts of COVID-19³ which reported income loss had been prevalent across all occupational categories in both rural and urban economy. Recovery till date has been fragile giving rise to 'new poor'- includes various occupational groups who make up mostly urban middle class with informal occupations' small and medium businesses, transport workers, restaurant workers, private school teachers, fixed-income salaried persons etc ⁴. An IFPRI survey reported skilled salaried workers were relatively more insulated from the immediate economic downturn compared to unskilled- semiskilled and self-employed⁵. A World

¹ [Johns Hopkins University CSSE Data](#)

² World Bank, South Asia Economic Focus, Spring 2021

³ Conducted jointly by BIGD, BRAC University and Power and Participation Research Centre (PPRC) in 2020-2021

⁴ [Livelihoods, Coping, and Support During the COVID-19 Crisis](#); BIGD, BRAC University

⁵ Ahmed, Akhter; Bakhtiar, M. Mehrab; Gilligan, Daniel; Hoddinott, John F.; Roy, Shalini; Anowar, Sadat; Ghostlaw, Julie; and Thai, Giang.

Bank report mentions that pandemic has reversed the country's steady trend of poverty reduction over the past two decades, at least temporarily. Widespread losses in employment and labor earnings caused a significant increase in poverty⁶.

In the first half of FY21, RMG export orders were being reinstated which helped pick up manufacturing output; rebound in exports earnings will be dependent on recovery of global demand, particularly for labour-intensive manufacturing industries like RMG, leather, jute products processed food etc. Reflecting this in April 2020, the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) reported that to date global apparel buyers have so far cancelled/suspended export orders worth \$3.17 billion, impacting a little over one thousand factories and 2.16 million factory workers. Although exporters are anticipated to adapt by repurposing their production lines, the likelihood of contractions in employment remains.

Service sector particularly workers in low and semi-skilled segment of service occupations have been hit hard by the pandemic. Mobility restrictions and subdued demand will continue to impact informal service sector workers, including transport and communication, hotels and restaurants, and wholesale and retail trade sectors which collectively accounted for half of service sector output in FY19. Remittance inflows from migrant labour, which provide a key source of income for many households, remained strong is thought to have cushioned labour income loss in the domestic economy.

Given the severity and protracted nature of the economic crisis, government has been quick to respond by introducing several sector-focussed stimulus packages - COVID-19 response program of US\$ 14.6 billion (4.5 percent of estimated FY20 GDP) was introduced. In addition, several existing social protection programs were scaled up to reach to poor and vulnerable. In terms of macroeconomic management, there has been overall quantitative easing and supply-side responses. However the slow implementation of the stimulus packages indicates challenges remain particularly in bringing resources to small businesses and poor households.

Although Bangladesh has a long history of dealing with natural disasters and responding to crises the scale of disruption posed by the COVID-19 pandemic is likely to be unprecedented, both risking the gains made in poverty reduction over the last two decades and the country's fragile economic and political stability. While any economic recovery will be dependent on the recovery of both domestic and

2021. Signs of recovery: Patterns of livelihoods and food security before and during COVID-19 in rural Bangladesh. Policy Note April 2021. Washington, DC: International Food Policy Research Institute (IFPRI).

⁶ [Bangladesh Development Update- Moving Forward: Connectivity and Logistics to strengthen Competitiveness](#) April 2021, The World Bank

the global economy, which is contingent on managing both the health and the economic impacts of the pandemic. Requiring policymakers can proactively respond to the crisis in a way that balances the risks presented by COVID-19 and the need to return to a path of economic growth that allows for inclusive economic growth and development.

2. TEPP Research Priorities

IGC Bangladesh and FCDO Bangladesh has launched a new initiative 'Transformative Economic Policy Programme' (TEPP) with the aim to support transformative economic policy to deliver a sustainable, inclusive, green and resilient economic recovery from COVID-19 in Bangladesh. TEPP will support the Government of Bangladesh (GoB) to deliver an effective, inclusive and environmentally sustainable response and recovery from the COVID-19 economic crisis.

TEPP intends to ultimately benefit poor people, particularly poor women, and other disadvantaged groups affected by the economic impacts of COVID-19, such as the loss of jobs, businesses, livelihoods, and assets. TEPP will influence, inform and support GoB to respond more effectively to their needs by improving the quality and impact of its economic policy for COVID-19 response and recovery through various interventions. The need for evidence-based policy making and decisions is evident and one of the main aims of TEPP is generate policy-relevant data, research and analysis to inform policy and its implementation. Accordingly, IGC will prioritise research proposals which have high policy relevance.

The themes identified thus far under TEPP are considered to be vitally important for inclusive and sustainable economic recovery for Bangladesh. The IGC has been conducting scoping activities to appraise emerging policy needs under each thematic area, identify knowledge gaps and in-depth economic assessment in terms of research needs and prioritization. Additionally, these consultations with GoB agencies have evaluated the 'political economy of research implementation' and explored feasibility issues like data availability and access, potential of research partnership, capacity building opportunities etc.

In line with the strategic priorities of GoB in its 8th Five-Year Plan⁷ (8FYP), the following four policy areas have been identified based on their importance on economic recovery, the welfare of target beneficiaries, and longer-term sustainable growth:

- i. **Greener recovery.** The aftermath of COVID-19 will provide an opportunity for Bangladesh to pursue a green recovery and green growth policies that can help entrench environmentally sustainable development pathways. The 8FYP states that “the integration of climate change and environmental management issues in growth and fiscal policy management will be another high priority issue for the Eighth Plan”. TEPP will provide evidence, advice, and advocacy to promote sustainability across the recovery, and to maximise ambition on climate action.
- ii. **Inclusive and resilient job creation.** COVID-19 is having a major impact on employment. Survey evidence⁸ found that 8% of people in employment in February 2020 were unemployed in March 2021, down from 17% in June 2020. However female unemployment was 5 times higher than for males and did not improve between June and March. Moreover, 41% of people employed in February 2020 had to change occupation, mostly to more vulnerable and less skilled occupations, and average income was below pre-COVID-19 levels in all occupations except agriculture. This has put pressure on government to take policy action to support new jobs creation. However, Bangladesh’s record on job creation has been weak in recent years⁹. The importance of job creation is recognised in the 8FYP, which identifies employment generation as being in its “centre of focus” and has the target of creating an additional 1.6 – 1.7 million domestic jobs annually between FY2021-FY2023. TEPP will focus on policies that support job creation for the poor, particularly women, as this is crucial for making the economic recovery inclusive and for sustained poverty reduction over the medium term. It will also focus on creating jobs that are green and resilient to climate change.
- iii. **Domestic resource mobilisation (DRM).** The government’s revenue to GDP ratio was 9.9% in FY2018/19, amongst the lowest in the world. Provisional tax data suggest that revenues in 2019-20 were lower than the year before because of the pandemic, the first time this has happened in

⁷ The 8th Five-Year Plan consists of high-level objectives and policy priorities, but not policy detail. The partial implementation record of past 5-year plans shows how both inadequate quality policy development and shallow political commitment prevent policy action.

⁸ [Findings from the PPRC-BIGD 3rd Round Survey: Poverty Dynamics & Household Realities](#), April 2021.

⁹ Between 2000-2010, employment grew 0.57% for every 1% growth in GDP, but this fell to 0.25% between 2010-2016/17 and 0.17% between 2013-2016/17.

Bangladesh's history. This has put pressure on the budget and on the tax authorities to find ways to increase revenues without choking off the recovery. The 8FYP has a target of increasing the revenue to GDP ratio to 12.0% by FY2022/23. Previous and ongoing donor-funded initiatives to improve revenue generation have mostly focused on reforming the tax administration. DRM reform and increasing revenues is vital for funding the recovery and for putting Bangladesh, as an emerging middle-income country, on a stronger structural footing to fund its own poverty reduction and economic and social development. Increasing the predictability and fairness of the tax system will encourage greater private investment, which is vital for jobs and growth to recover. TEPP will focus on issues where there are gaps in existing support from development partners and on revenue policy rather than administrative reform, as there is a higher chance of impact within a two-year timeframe.

- iv. **Strengthening COVID-19 economic schemes.** TEPP aims to strengthen the government's economic package to support businesses and jobs and to help the extreme poor meet their basic needs. Working with GoB on COVID-19 recovery schemes will improve the effectiveness of existing response measures and future measures to stimulate green economic recovery. There is a need for rapid data, analysis and independent evaluation on various COVID-19 economic recover programmes and their effectiveness, in order to inform adjustments and improvements in how COVID-19 economic support is being delivered.

2.1. Green Growth / Green Recovery

To set up the research agenda on green growth, the IGC conducted a scoping exercise with relevant ministries and departments of GoB to understand policy priorities and appetite for policy advice grounded on research. Based on this scoping exercise we have identified four areas of policy priority. Research projects awarded under TEPP will aim to ensure that research findings can support the current policy and reforms agenda of the government in order to bring impactful and sustainable changes. Research sub-themes are provided under each policy priority.

Policy Priority 1: Sustainable Urbanization

Bangladesh's capital, Dhaka, is one of the most densely populated and fastest growing cities in the world and faces considerable challenges. Inadequate waste collection, water supply, and housing contribute to environmental degradation, affects human health and increases the risk of urban and

natural hazards¹⁰. Air pollution is a particularly acute threat in Dhaka and Bangladesh generally, contributing to many deaths and likely affecting economic activity too. Transportation is time-consuming and expensive whilst at the same time contributing to poor air quality, underlying the need for a more clean and efficient public transport system. Unplanned urbanization and industrialization are affecting both big and small cities. Importantly, climate change impacts are likely to increase these risks while relevant authorities suffer from lack of capacity and coordination. Some research questions in this area are listed below (please note its indicative and not an exhaustive list):

Research questions under *Sustainable Urbanization*

- What are the economic and environmental costs of Dhaka's underperforming transport system?
- What are the bottlenecks in Dhaka's existing public transport system? What is the economic cost of these bottlenecks on consumers?
- What will be the economic and welfare impact of Dhaka's upcoming mass rapid transport system (metro rail transit and bus rapid transit) on Dhaka's population?
- What can be a feasible strategy (e.g. tariff structure, location and availability of charging stations) to incentivize electric vehicle use? What other policies can reduce transport pollution (e.g. cheaper fuels, more efficient engines)?
- How does air pollution affect firm location and performance?
- How much are households and firms willing to pay for better air quality through defensive investments? How do social norms and market failures affect the willingness to pay?
- How much are households willing to pay for better solid waste management? Can they be incentivised to properly segregate waste?
- What are the incentives for policymakers to build flood-resistant infrastructure? Or to favour locations for urban expansion that are less prone to future flooding?
- What are the aggregate gains and general equilibrium effects of investments in flood-resistant infrastructure or housing in Bangladeshi cities?
- What policies incentivise the investment and adoption of more energy-efficient practices in developing Bangladeshi cities?
- What will be the effect of future climate change on cities, particularly in coastal areas? What will be the effect of future climate change on migration patterns and how well will cities cope with these changing patterns?

Policy priority 2: Transforming Energy

Fossil fuel Subsidies

There are considerable inefficiencies in the power sector and grid, including high losses, low plant efficiency, erratic supply, and blackouts, meaning that the system is often unable to meet the level of demand. Significant overcapacity in power generation with overall system utilization rate at 40% and consequent capacity charges in FY20 is exerting fiscal pressure on the government¹¹. Further, total energy subsidies in Bangladesh amounted to US\$1.4 billion or 0.4% of GDP in 2020. This included US\$1 billion in electricity subsidies and US\$0.4 billion in gas subsidies. Currently, the government

¹⁰ World Bank [Databank, population in largest city- Bangladesh](#)

¹¹ The Financial Express (2021) [Power overcapacity in Bangladesh](#)

sends a direct transfer to the Bangladesh Power Development Board (BPDB) that covers the gap between the supply cost and the tariff that BPDB sells to distribution companies. On top of the direct fiscal transfers, the price of natural gas is also set very low, leading to Bangladesh power producers paying some of the lowest levels for natural gas. Besides the commercial sector, the fuel is also used extensively as home cooking fuel amidst dwindling reserves¹². Some research questions in this area are listed below (please note its indicative and not an exhaustive list):

Research questions under *Transforming Energy: Fossil fuel Subsidies*:

- What are some viable options for removing fossil fuel subsidies? What are the environmental, economic and revenue impacts?
- What are the options for introducing a tax on fossil fuels? What are the environmental, economic and revenue impacts of such a tax? How can this best be introduced to incentivize a switch to renewable energy?
- How can households be incentivised to use alternative cooking fuels (e.g.- liquefied petroleum gas, kerosene, firewood, coal) and what are the economic effects of doing so? How do they affect air quality and health?
- What are the general equilibrium effects of providing subsidized fuel to independent power producers and captive power plants?
- How to determine an optimal level of excess capacity and minimize capacity charges? Is it feasible to design tariff rates to pass on capacity charges to energy consumers?
- How should electricity be priced in an environment of weak enforcement of payment? What is the price-theft elasticity of electricity? How do these issues affect optimal level of subsidies?

Electricity access and integration of renewable energy

Bangladesh has made impressive strides in expanding electricity access. 92.2% of the population had electricity access in 2019, a number which stood at only 57% a decade ago¹³. The country has also effectively utilized renewable technologies like solar home systems which today supplies electricity to 16% of the country's rural population¹⁴. However, there are significant concerns about the quality of electricity and reliance on fossil fuels. In 2020, Bangladesh fell short of its target of generating 10% of its electricity from renewables, largely due to a lack of renewable energy adoption into grid connections and an emphasis on fossil fuel and coal-based power generation. The Power Sector Master Plan 2016 estimates that energy consumption will need to grow by roughly 6.3% per year to 2041 alongside a 6.1% growth in GDP per capita. This underscores the importance and opportunities that developing renewable energy can have on minimizing future carbon emissions whilst delivering economic growth. There is political appetite to further integrate renewables and the GoB recently put forward a revised

¹² Asian Development Bank (2016). Natural Gas Sector Assessment Summary

¹³ World Bank. [Databank Access to electricity \(% of population\)](#)

¹⁴ World Bank (2021). [Bangladesh Solar Home Systems Provide Clean Energy for 20 million people](#)

target of generating 40% of total electricity from renewable sources¹⁵ by 2041 from a current share of mere 3.3%¹⁶. Bangladesh has effectively utilized solar capacity in rural areas and the GoB foresee more solar power opportunities (e.g., solar park, rooftop solar, solar irrigation pumps), as well as imported hydropower¹⁷. Some research questions in this area are listed below (please note its indicative and not an exhaustive list):

Research questions under *electricity access and integration of renewable energy*:

- What are the direct gains of energy access to households and firms? What kind of supplementary conditions can maximize the benefits of electricity access?
- How will land scarcity and price issues affect investors' decision to fund renewable energy in Bangladesh?
- What kind of policies (e.g.- credit support, feed-in-tariffs¹⁸, emissions trading, mandatory renewable portfolio standards) are attractive to renewable energy investors?
- What kind of policies can increase consumers' (both residential and commercial) willingness to pay for renewable electricity? Relevant policies include net metering, peer pressure, certification, etc.
- What is the politics of power purchase agreements in Bangladesh? Can this incentivize or demotivate renewable energy investment?
- How does willingness to pay for access depend on scale, reliability and quality of supply? Specifically, is there a difference in willingness to pay between access to renewable electricity (such as solar home systems) and grid connectivity?
- What are the effects on household and firm welfare from the adoption of solar technology in agriculture? How can investment and adoption be incentivised?

Policy Priority 3: Rural Resilience

In 2019, over 60% of Bangladesh's population resided in rural areas¹⁹. Agriculture remains a large source of employment and economic activity across Bangladesh, contributing to lowering rural poverty and improving food security. Natural disasters and climate change are inflicting a heavy burden on rural households, through the cost of disaster management, forced displacement and the impact on agricultural yields. Adaptation is a strong policy priority of the GoB and will become increasingly more so with climate change and extreme weather events expected to become more frequent and severe. This may range across changing agricultural practices, better protection against hazards, early-warning systems, and better social protection and insurance²⁰. Some research questions in this area are listed below (please note its indicative and not an exhaustive list):

¹⁵ Solar Quarter (2021) [Bangladesh plans to generate 40% of its power from renewable energy by 2041](#)

¹⁶ Staff calculation based on SREDA (2021) [National Database of Renewable Energy](#)

¹⁷ The Financial Express (2021) [Power overcapacity in Bangladesh The Bangladesh Power Development Boards](#)

¹⁸ Feed-in-tariffs refer to agreements which ensure renewable electricity producers will get guaranteed and above-market prices

¹⁹ World Bank [DataBank, Rural population \(% of total population\)- Bangladesh](#)

²⁰ General Economics Division, GoB (2018) Bangladesh Delta Plan 2100

Research questions under *Rural Resilience*:

- How will future climate change affect economic outcomes and migration decisions of rural households?
- What kind of skills can make communities most affected by climate change more resilient to the volatility it may have on income?
- How does climate information (e.g. early warning systems, forecasts) affect economic outcomes of agricultural firms and rural households?
- What is the role for media and education in alerting and preparing people for climate change and natural disasters? Does this help households anticipate and minimize risk?
- How can technology be used to motivate short and long run household disaster response behaviour?
- What are the barriers to agricultural adaptation and how can they be overcome?
- How to incentivize diversified, nutritious and less water-intensive agricultural products through market systems development?
- What is the role for insurance and social protection in protecting agricultural firms and rural households from climate change and variability? What is the appropriate product design and cost to incentivise take-up?

Policy priority 4: Decarbonizing Structural Transformation

The movement of workers from low-productivity agriculture to higher productivity sectors is the most effective way to improve livelihoods and deliver prosperity. In many countries, in particular in East Asia, this transition has happened mostly through a manufacturing-led and an export-led growth path. However, such structural transformation is usually accompanied by large increases in carbon emissions from industrial production. In Bangladesh, rapid economic growth and structural change has led to large increases in prosperity but there is a need to diversify to meet the challenges of climate change, automation, and poverty reduction. Whilst emissions will undoubtedly increase to meet the needs of economic growth, it is important that environmental externalities from production are minimized whilst encouraging growth in less carbon-intensive sectors where possible. In order to deliver green job creation, the GoB will need to utilize industrial policy and skills development. Some research questions in this area are listed below (please note its indicative and not an exhaustive list):

Research questions under *Decarbonizing Structural Transformation*:

- What are the trade-offs between the generation of carbon emissions and job growth across different sectors? What sectors can offer high-growth and employment potential alongside a relatively lower carbon-intensity?
- What are the main supply and demand constraints of employment in less carbon-intensive sectors? How should education and skills development be developed with these in mind?
- What are the economic effects of energy-efficient and green production measures in the RMG sector? How can adoption and investment into such measures be incentivised?
- How can the financial sector and financial products best be designed to support the adoption of green technology and growth of less carbon-intensive sectors?
- What is the role of industrial policy and special economic zones (SEZs) in promoting low-carbon and low-pollution production?
- How is firm productivity affected by energy costs and supply? How will this change with increased adoption of renewable sources?

2.2. Inclusive and Resilient Jobs

Strong growth in job creation was a key driver for poverty reduction in Bangladesh. There has been a slowdown, however, in job growth in recent years, and the COVID-19 pandemic has further exacerbated pre-existing concerns about stalling poverty reduction. To set up the research agenda on inclusive and resilient job creation, the IGC has commissioned the white paper, 'Resilient jobs to support Bangladesh's economic development and equity,' which analyses recent trends in Bangladesh's labour market and proposes direction for research to address knowledge gaps in the context of employment generation in Bangladesh. The paper was complemented by scoping activities, which included consultation with key stakeholders and review of various policy documents to understand emerging policy priorities in this area. Please refer to the white paper for detailed discussion on the research directions.

Research projects awarded under TEPP will aim to ensure that research findings can support the current policy and reforms agenda of the government to bring impactful and sustainable changes. Based on our scoping activities, there appears to be three broad policy priorities of the GoB to generate inclusive and resilient employment in the post-pandemic recovery period; research sub-themes have been identified under each policy priority below.

Policy priority 1: Accelerate the pace of job creation & upgrade job quality

The fundamentals: Improve the business environment and infrastructure:

Bangladesh performed poorly on nearly all measures of the business regulatory environment. Overall, it ranks 168 out of 190 on the World Bank's Doing Business indicators, and in areas such as enforcing

contracts, registering a property, getting electricity, trading across borders, resolving insolvency. Additionally, underinvestment and lack of maintenance of physical infrastructure also reduces Bangladesh's economic opportunities and contributes to insufficient internal connectivity, decreases access to markets and increases trade costs. Having a poor business environment makes it difficult for firms to conduct many different types of transactions and distorts their production decisions. This means that there are fewer firms and that the firms that do exist grow less than they otherwise would; these factors suppress labour demand. Some research questions in this area are listed below (please note its indicative and not an exhaustive list):

Research questions under *The fundamentals: Improve the business environment and infrastructure:*

- How does increasing the judiciary's capacity, particularly in areas such as strengthening contract enforcement, affect businesses' establishment, access to finance, growth, employment, product mixes etc.?
- How do improvements in the land/property registration processes impact businesses' establishment, growth, employment, and other outcomes?
- Do infrastructure investments translate into jobs and firm growth? What role would improvement in connectivity, access to market, access to utilities (including reliable power) play in firm growth and international trade?
- What is the potential for place-based policies and infrastructure to spur the growth of Bangladesh's secondary cities? What are the aggregate effects of such policies on trade and employment?

Facilitate trade and proceed with caution to develop Special Economic Zones (SEZs):

Reducing trade barriers in Bangladesh has the potential to create high quality jobs and raise wages for Bangladesh's workers, but it depends on Bangladesh's existing labour market policies and dynamics; this is an important direction for research.

The GOB has prioritised the development of SEZs to spur the country's economic growth, create jobs and reduce economic disparities across regions; they are currently working towards establishing 100 SEZ across the country by 2030. Research conducted could examine the direct and indirect effects of SEZs on local and regional labour markets. Some research questions in this area are listed below (please note its indicative and not an exhaustive list):

Research questions under *Facilitate trade and proceed with caution to develop Special Economic Zones (SEZs)*:

- Does increasing participation in exporting lead to high-capacity firms to upgrade their product quality, which in turn increases their demand for skilled labour?
- What are the effects of reducing barriers to participation in global trade on the labour market, in particular understanding how liberalization, especially levelling the playing field across sectors, affects distortions in the labour market?
- How does trade liberalization affect workers in the informal sector?
- Does international trade have differential impact on working conditions and compliance with labour regulations?
- What are the direct and indirect effects of SEZs on local and regional labour markets?
- How SEZ policy can be crafted to maximize positive spill overs on job availability and quality?
- What are the effects of special SEZs developed for small and medium enterprises (SMEs) on SMEs' outcomes (both participating and non-participating SMEs in the locality)? What are the characteristics of SMEs that benefit most from special SEZs for SMEs?
- What policy support is needed to mitigate any impact of Bangladesh's upcoming LDC graduation on international trade?

Support high potential micro and small enterprises:

Most Bangladesh's firms operate informally, and GoB expresses a strong interest in formalizing firms to increase their productivity, to bring them under tax and regulatory regimes, and to ensure they can be reached by government support programmes during times of crisis (like COVID-19). Most experimental studies, however, find limited impacts of formalization on firms' profits, and the evidence suggests that informality is often not a binding constraint to small firms. However recent studies suggest that re-designed loan and training programmes that raise business efficiency can improve effectiveness as can focusing interventions on those MSME's with the potential to grow. Some research questions in this area are listed below (please note its indicative and not an exhaustive list):

Research questions under *Support high potential micro and small enterprises*:

- What are the underlying reasons for microcredit products' failure to deliver transformative growth for most MSMEs? How to design loan products for MSMEs to deliver greater growth?
- What is the efficacy of the GoB and other key stakeholders' current microcredit and training programmes for MSMEs in Bangladesh? How can innovations in programs' design and/or their delivery (e.g., through group-based approaches) improve these interventions' benefit-cost ratios and increase their beneficial effects on MSMEs' growth?
- What approaches can be used to identify MSMEs that have the potential to grow, but that are constrained?
- What approaches can be used to identify SMEs that may benefit from formalization? How can research provide guidance to develop firm formalization mechanism?
- Diagnostic study on MSME sector to understand the employment trends.

Upgrade labour productivity and job quality:

To increase workers' productivity in the long-term, the government can encourage firms to adopt improved management practices, particularly in relation to human resources and social compliance. Modern management practices can improve medium and large firms' productivity and can also improve workers' job quality. A recent field experiment in Bangladesh shows that Bangladeshi producers exhibit low demand for high-quality management training, though, even when it is free.

Skills training for employed workers and promoting women are also important areas for producers in low-skill manufacturing sectors that primarily employ young women. Finally, a growing body of literature show that establishing exporting or trading relationships with foreign firms who operate locally can contribute to increasing workers' wages and improve social compliance of local firms. Finally, there may be frictions in Bangladesh's labour market that contribute to keeping working conditions and job quality inefficiently low. Some research questions in this area are listed below (please note its indicative and not an exhaustive list):

Research questions under *Upgrade labour productivity and job quality*

- What are the reasons underlying firms' low demand for management training and other productivity-enhancing technologies? Research that investigates the following might be valuable:
 - Systematic measurement of adoption of various modern management practices by firms (both MSMEs and large firms).
 - Systematic measurement of firms' perceptions of the returns to adoption of various modern management practices and of employee skills training programmes.
 - Systematic measurement of employee skills training programmes in terms of perceived and actual impacts on employees' productivity and retention.
- What policies can assist in improving perception of actual impact and adoption of high-quality training, including management and employee training?
- To what extent are labour standards impacted by buyer-driven initiatives, equilibrium market structures, prices, and mark-ups?
- How do frictions in the labour market affect equilibrium wages and working conditions? How can alleviating any such frictions impact employment and job quality?

Policy priority 2: Facilitate labour market participation & employment for all Bangladeshis

Promote women and other vulnerable groups' labour force participation (LFP):

Increasing women's LFP can increase their empowerment and promote equitable growth, especially when women's LFP is relatively underutilised, as is the case in Bangladesh. On the supply side, gender norms appear to be a key barrier to women participation in the labour market. On the demand side, there may be cost concerns about hiring women among employers due to the need of accommodate both men and women in the workplace (the RMG sector has at least partially overcome these barriers and has seen a rise in women LFP).

Turning to entrepreneurship, for policies to support entrepreneurship among women to be effective, they need to be designed with women's specific constraints in mind; this would require partnerships between government and researchers to test different approaches. Some research questions in this area are listed below (please note its indicative and not an exhaustive list):

Research questions under *Promote women's labour force participation (LFP)*:

- What are the effects of gender-based violence (GBV), intimate partner violence (IPV), and sexual harassment on women's FLP in Bangladesh?
- What are the effects of policies that aim to address these issues on women's LFP, well-being, and broader outcomes?
- How to encourage changes in gender norms, girls' educational attainment, and women's LFP, mobility, and job quality? How to develop policies that can support such changes at scale?
- What are the barriers to gender integration of workplaces in Bangladesh? Do misperceptions about gender norms hinder women's LFP (from both demand and supply side)?
- What are the effects policies that aim to address these issues on women's employment? how can the impact of such policies on women's LFP be improved?
- What barriers to entrepreneurship are specific to women in Bangladesh? What are the effects of policies that aim to address these women-specific barriers on establishment and growth of women-owned businesses?
- What policies can result in jobs for people with disabilities?
- How to increase labour force participation of people from marginalised groups?

Test approaches to facilitate school-to-employment transitions among youth:

Active labour market policies (ALMP) have been a common policy response in many developing countries experiencing high level of youth unemployment. These policies include skills improvement training programmes, wage subsidies, and job search and matching assistance. Most rigorous research on the effectiveness of ALMPs suggests modest impacts, so Bangladeshi policymakers should proceed with caution when considering ALMPs to spur school-to-employment transitions.

More optimistically, recent academic evidence shows that providing vocational training (VT) that includes skills certification and subsidising the cost for firms to hire apprentices both improve youths' skills and labour market outcomes, but VT has larger effects on their labour market outcomes. In the academic literature on job search and matching, evidence shows that the financial cost of job search is not the main constraint on youths' job quality in the long run. Other recent evidence highlights the importance of assessing employers' labour demand and youths' expectations before intervening in order to understand the possible impacts of providing information about job vacancies and/or job search assistance. Some research questions in this area are listed below (please note its indicative and not an exhaustive list):

Research questions under *Test approaches to facilitate school-to-employment transitions among youth*:

- What are the long-term effects of vocational training programmes that provide skill certifications in sectors with high labour demand? What impacts do vocational training programmes have on programmes participants? What are their general equilibrium effects or spill over effects on non-participants?
- What are the underlying factors behind high unemployment among highly educated urban youth? Do overoptimistic expectations about job prospects among this group contribute to their high rates of unemployment? What policies can promote employment among this demographic? What are the underlying factors behind high unemployment among highly educated urban and rural young women? Is there evidence to suggest gender norms restrict women's mobility and occupational choices, especially among this group? Do expectations about marriage limit job search activity among young women? How does it differ among rural and urban setting?
- Can internet technology (IT)-based vocational training and possibly other ALMP policies be used to increase competitiveness of Bangladesh's IT sector and other related sectors?

Policy Priority 3: Generate resiliency in jobs that remain vulnerable to shocks

Increase resilience to climate change through jobs:

As described above, Bangladesh is especially vulnerable to the impacts of global warming in terms of its exposure to sea level rise, salinisation intrusion, higher temperatures, and more extreme climate events. Much of this damage will, therefore, need to be adapted to through out-migration from vulnerable areas, namely within-country or within-region rural to urban migration. It will also need to be addressed through transitions from agricultural to non-agricultural livelihood generation and other adaptation measures. Crafting jobs-related policies in ways that help to facilitate spatial and structural transformation that increases Bangladesh's resilience to climate change will be crucial.

Policymakers can also explore pathways for less carbon intensive structural transformation that also deliver high quality job opportunities, such as developing the country's IT and light manufacturing sectors. Some research questions in this area are listed below (please note its indicative and not an exhaustive list):

Research questions under *Increase resilience to global warming through jobs*

- What are the trade-offs involved in crafting job-related policies to achieve the dual goals of increasing resilience to climate change and improving employment and job quality? Which types of jobs-related policies are most effective at facilitating adaptation?
- What are the implications of strategies to de-carbonize Bangladesh's structural transformation for labour demand?
- What opportunities exist for job creation through less carbon intensive manufacturing/service sectors?
- What are the effects of largescale internal (seasonal) migration on labour markets in destination cities?
- What are the longer term and intergenerational impacts of migration on migrant workers and on their families for both internal and international migration?
- What policy support is needed to facilitate internal and international migration as an adaptation strategy for communities that are vulnerable to climate change?

2.3. Domestic Resource Mobilization (DRM)

Bangladesh's impressive economic growth in recent times is not reflected in its capacity to mobilize domestic resources. With tax-to-GDP ratio standing at 8%, Bangladesh lags behind both its regional peers and countries at a similar stage of development²¹. DRM in Bangladesh today is characterized by heavy dependence on an inefficient Value Added tax (VAT) system and trade taxes, which are known to introduce distortions in the economy. Collection of income and corporate taxes is very low as only a small number of people and corporations comply with tax rules in a highly informal economy. A non-digitalized tax administration severely hampers the enforcement capacity of authorities.

While compliance and enforcement are long-term issues and needs serious investment, there are also areas which may provide a relatively quick upturn in revenues. Property tax is a relatively small source but can play a significant role as a source of income for local governments. Similarly, non-tax revenues can also become an important avenue to mobilize resources. On a policy level, tax incentive schemes need to be analyzed to find out if perceived benefits outweigh the foregone revenues. And last but not the least, green taxes provide a policy option to mobilize resources and give the market a tool to curb environmental degradation.

²¹ Our world in data. <https://ourworldindata.org/grapher/total-tax-revenues-gdp>)

In the following section we draw out IGC research priorities in the DRM space. Please note that IGC research will not strictly be limited to these priority areas. We look forward to receiving any proposals with strong policy relevance and significant potential to improve the DRM environment in Bangladesh.

Policy priority 1: Property Tax

Local Government Institutions (LGIs) in Bangladesh are financially constrained and dependent on resource transfer from the central government. Modernizing property tax system can go a long way to provide fiscal autonomy to these LGIs. The government recognizes this in the 8th Five-Year Plan (8FYP) and wants to design a system following those found in upper-middle income countries. At an initial stage, the government has pointed out lack of political will, property valuation and tax administration as significant challenges. The IGC is interested in research proposals which motivate innovations in solving these challenges. Some research questions in this area are listed below (please note its indicative and not an exhaustive list):

Research questions under Property Tax:

- What would be the revenue impact of proper valuation of property?
- Do increased tax rates due to proper valuation of property lead to further tax evasion? Can behavioural nudges (e.g.- communication strategies, positive incentives) decrease evasion?
- Does better service from LGIs lead to acceptance of increased property tax rates?
- Does providing incentives to tax officials lead to increased property tax revenue?
- Should tax increments impact residential and commercial users differently? What kind of differentiation may lead to less political opposition?

Policy priority 2: Non-tax revenue

Non-tax revenue sources are less highlighted in research than tax revenues. However, these sources still represent an important revenue tool for developing countries. Examples of non-tax revenue are income from publicly owned entities, penalties and fines, social contributions, dividends, interest, royalties, regulatory charges, or licenses. Traditional non-tax revenue sources like State-owned Enterprises (SoEs) have been a fiscal drain for Bangladesh. In FY 2020-21, the government provided grant/subsidies amounting US\$175.87 million²² to SoEs. However, government has decided to reform

²² [Chapter 9](#), Bangladesh Economic Review, Ministry of Finance, 2021

SoEs including public banks to eliminate dependency on budget transfers. The 8FYP has set a target of earning an additional 1% of GDP from SoEs by FY2024-25.

Cost recovery for services is another source of non-tax revenue which has long been neglected in Bangladesh. Certain services are often regarded as rights rather than something for which citizens have to pay for. However, besides financial strain on the government, this also leads to non-accountability and poor quality of service. According to 8FYP, cost recovery will play a dominant role for services such as water supply and waste management, especially in urban areas. The IGC is interested in exploring the role of non-tax revenue in domestic revenue mobilization and measures that are most efficient. Some research questions in this area are listed below (please note its indicative and not an exhaustive list):

Research questions under Non Tax Revenue:

- What is the potential role of non-tax revenues in increasing government receipts from domestic sources?
- Which sources of non-tax revenue are most efficient in terms of implementation and revenue generation?
- How does the price increments affect public perception and demand for government services?
- Does price increment for services by local institutes significantly diminish public support for LGI authorities?
- Are non-tax receipts more volatile than tax revenue? How does the volatility affect government entities dependent on such sources?

Policy priority 3: Tax incentives

Tax incentives in Bangladesh are generous. The country offers some of the most liberal tax incentives in South Asia as part of its industrial policy and export-oriented growth strategy²³. Some of the most generous incentives offer tax holidays of between 5 to 7 years. Bangladesh Economic Zones Authority (BEZA) provides multiple tax incentives to developers and manufacturing unit investors who chose to locate in Special Economic Zones (SEZs). Tax Incentives for the RMG sector, Bangladesh's highest export earner, have rendered income from the sector effectively tax exempt²⁴. Other sectors, such as power generation, also enjoy tax holiday lasting 15 years since the sector is deemed important for national development. Such generous incentives are a contributing factor to why the country's revenue

²³ Bangladesh Bank, Central Bank of Bangladesh, <https://www.bb.org.bd/investfacility/invesfac.php>

²⁴ Mansur AH., (2020). Bangladesh: Impediments to Enhanced Revenue Mobilization and Equitable and Efficient Spending. Centre for Global Development. Policy Paper 167 Washington

receipt has failed to grow in parallel to its impressive GDP growth. However, little empirical research has been done to investigate if these incentives are generating the intended effect in terms of export growth, employment, upstream supply-chain development, etc. The IGC is interested in research that would study the opportunity cost of such incentives and what economic benefit they provide to the country. Some research questions in this area are listed below (please note its indicative and not an exhaustive list):

Research questions under Tax Incentives:

- What is the amount of foregone tax revenue due to the tax incentives provided to various sectors?
- Under what conditions are tax incentives efficient? Do discretionary tax incentives create sizable distortions?
- How effective are tax incentives in attracting additional business investment and creating additional jobs?
- How can tax incentive and tariff reform improve export diversification? Similarly, under what conditions may tax incentives lead to development of local industries in the upstream value-chain?

Policy priority 4: Green Taxes

Environmental taxes, or green taxes are seen as important instruments to fight against climate change and environmental degradation. These are important issues for Bangladesh given the country's high vulnerability to sea-level increase and endemic pollution. The government is cognizant of these issues and thus proposes to adopt a green growth strategy²⁵. As a starting point, the government wants to impose taxes on fossil fuel use and emissions from industrial units. However, adopting such measures would be difficult given Bangladesh's long history of fossil fuel subsidies and weak enforcement capacity. The IGC is interested in studies that explore the feasibility of environmental taxes in Bangladesh, including their environmental impact and potential revenue yield, and popular perceptions of such measures. Some research questions in this area are listed below (please note its indicative and not an exhaustive list):

²⁵ Chapter 12, Perspective Plan 2041, General Economics Division, 2020

Research questions under Green Taxes:

- What role can fiscal instruments play in mitigating risks to the environment, such as pollution, carbon emissions, and congestion, including both taxes and subsidies?
- What is the potential revenue yield or cost of different measures?
- Which environmental taxes should be prioritized in Bangladesh?
- What political economy and implementation issues need to be considered?
- What are the trade-offs in implementing green taxes? How will the public respond?
- How can taxation of vehicles be used to encourage the use of fuel-efficient transportation?

2.4. COVID-19 Economic Responses

As highlighted in section 1.2, COVID-19 has severe implications on the economic growth and poverty reduction in Bangladesh. As such, COVID-19 is a priority area for TEPP. Rather than a separate issue, research on COVID-19 economic responses is judged to be a cross-cutting theme across all three research priorities.

The aftermath of COVID-19 will provide an opportunity for Bangladesh to pursue a green recovery and green growth policies that can help entrench environmentally sustainable development pathways. The 8th FYP states that *“the integration of climate change and environmental management issues in growth and fiscal policy management will be another high priority issue for the Eighth Plan.”* Keeping in line with this, IGC seeks to commission research which provide evidence promoting sustainability across the recovery and maximise ambition on climate action.

COVID-19 also has implications for inclusive job creation. Employment, in particular employment for the vulnerable, has been hit particularly hard by COVID-19. Survey evidence²⁶ found that 8% of people in employment in February 2020 were unemployed in March 2021, down from 17% in June 2020. However, female unemployment was 5 times higher than for males and did not improve between June 2020 and March 2021. Moreover, 41% of people employed in February 2020 had to change occupation, mostly to more vulnerable and less skilled occupations. The importance of job creation is recognised in 8th FYP and has a target of creating an additional 1.6-1.7 million domestic jobs annually. In this backdrop, IGC now prioritises research that focuses on job creation in post-

²⁶ [Findings from the PPRC-BIGD 3rd Round Survey: Poverty Dynamics & Household Realities](#), April 2021.

pandemic economy, especially focusing on jobs for poor and vulnerable groups. COVID-19 has also made it clear that both the central and local government institutions need to increase their capacity to respond to emergencies. Strengthening domestic resource mobilization is quite relevant to this pursuit.

Another relevant strand of research is on strengthening COVID-19 economic schemes. For example, most of GoB's US\$10 billion economic stimulus package is in the form of subsidised bank loans where government subsidises interest payments. However, the credit risk stays with the bank which is a major hindrance in credit disbursement. Policymakers of Bangladesh can be benefitted by evidence explaining what type of changes will make the economic schemes more effective.

For the purpose of this call, this theme can be considered as a cross cutting theme across the other three themes, however research focused only on this theme is also welcome.