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Bangladesh

Economic Performance Assessment



November 2009

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Bangladesh

Economic Performance Assessment

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Nathan Associates Inc. has developed standard methodologies for producing analytical reports providing a clear and concise evaluation of economic growth performance in designated countries receiving USAID assistance, including a special template for countries emerging from violent conflict. The reports are tailored to meet the needs of USAID missions and regional bureaus for country-specific analysis. Each report contains

- A synthesis of key data indicators from numerous sources, including the World Bank, the International Monetary Fund, the Millennium Challenge Corporation, the United Nations, other international data sets, and host-country documents and data sources;
- International benchmarking to assess a country's performance in comparison to similar countries, groups of countries, and predicted values based on international data;
- An analytic narrative that highlights areas in which a country's performance is particularly strong or weak, to assist in the identification of programming priorities; and
- A Highlights Table and a Performance Scorecard summarizing the main report findings.

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This work is sponsored by the Country Analytical Support (CAS) project of the Economic Growth office of USAID's Bureau of Economic Growth, Agriculture and Trade (EGAT) under contract no. PCE-I-00-00-00013-00, task order 004 (2004–2006) and contract no. GEG-I-00-04-00002-00, task order 004 (2006–2010).

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HIGHLIGHTS OF BANGLADESH'S PERFORMANCE

Economic Growth	Bangladesh has had impressive growth rates averaging 6.3 percent between 2004-2008, staying resilient in spite of the global downturn. It must continue to improve labor and capital efficiencies as well as increase overall investment rates.
Poverty	Growth has been broad-based. Poverty rates are estimated to fall to 31 percent in 2010, a significant decrease from 57 percent in 1991-1992. However, increasing regional disparities in poverty rates need to be addressed.
Economic Structure	Output structure has remained fairly stable, with a slight decrease of agriculture's share in GDP and a corresponding gain of industry. Agriculture's share (18.6 percent of GDP) is less significant than in the median LI-Asia country but it employs half the workforce. Data shows prevailing inefficiencies in Bangladesh's overall labor allocation, pointing to the need to stimulate job creation in industry.
Demography and Environment	Controlling population is critical given high population density and pressure on resources. The population growth rate declined from 1.6 to 1.4 percent over the last five year period, leading to lower youth dependency rates. Global warming poses a major threat to the country, making environmental conservation a priority.
Gender	Bangladesh does not suffer from a wide gender gap in health or education. While low, women's participation in the workforce is steadily increasing.
Fiscal and Monetary Policy	The macroeconomic environment is stable, with low fiscal deficits and a drop in the inflation rate in 2009 from the double digits experienced in 2008.
Business Environment	Bangladesh was cited as S. Asia's top reformer in Doing Business 2010. In most aspects of the institutional environment for doing business, Bangladesh performs reasonably well in comparison to the regional median, and selected indicators show some evidence of progress and reform.
Financial Sector	The financial sector is underdeveloped relative to comparator countries and domestic credit to the private sector has been hampered by high real interest rates. The Bank of Bangladesh (BB) has recently instituted directed credit and capped interest rates to spur investment.
External Sector	The Ready Made Garment (RMG) sector has seen tremendous growth, accounting for 80 percent of the country's exports. New efforts are needed to promote higher-value products and diversification. FDI attraction has been a small fraction of that attracted by the comparator countries. Foreign exchange inflows from remittances have risen significantly in 2008 and 2009 even with the global downturn and resulted in a record current account surplus of 2.8 percent of GDP in 2009.
Economic Infrastructure	In spite of improvements on air transport and telephone density, the quality of infrastructure in Bangladesh is poor on an absolute basis and in relation to the comparison countries. The lack of inadequate and unreliable electricity supply is often cited by the private sector as a main deterrent to increased investment. Roads and ICT usage are areas where Bangladesh also lags.
Science and Technology	Science and technology capability in Bangladesh is below the low-income country global median and well below India and Vietnam's, pointing to the need to increase capabilities.
Health	While the life expectancy continues to improve and child immunization rates have held steady at an impressive 89%, Government expenditure on health is still quite low, at 1% of GDP. This lack of funding is evident in low percent of births attended by skilled professionals, and the subsequent high rate of maternal mortality.

Education	Educational attainment at all levels needs improvement and adult literacy at 53.5 percent is a particular cause for concern.
Employment and Workforce	The unemployment rate is deceptively low at 4.2 percent. This does not capture the level of underemployment, or the large numbers of Bangladeshis traveling abroad seeking work. The labor force continues to grow rapidly, and female participation has improved, partially due to the increasing importance of the RMG industry and the emerging shrimp export industry.
Agriculture	Agriculture employs half of the labor force and accounts for major supply of rice, the main food staple. Cereal yields have increased due to higher fertilize usage. Farmers in the Southwest are cultivating shrimp and prawns for exports.

BANGLADESH: STRENGTHS AND WEAKNESSES—SELECTED INDICATORS

Selected Indicators, by Topic	Strengths	Weaknesses
Growth Performance		
Real GDP growth	X	
Growth of labor productivity	X	
Investment productivity—incremental capital-output ratio (ICOR)	X	
Poverty and Inequality		
Population Below Minimum Dietary Energy Consumption		X
Human Poverty Index		X
Demography and Environment		
Adult literacy rate		X
Population growth rate	X	
Youth dependency rate	X	
Resource Depletion, % o GNI		X
Gender		
Primary completion rates, female	X	
Labor force participation rates, female		X
Fiscal and Monetary Policy		
Government budget balance	X	
Government expense		X
Business Environment		
Cost of Starting a Business, % GNI per capita	X	
Time to Enforce a Contract		X
Time to Register Property		X
Time to Start a Business	X	
Financial Sector		
Domestic credit to the private sector		X
Interest Rate Spread		X
Credit information index	X	
External Sector		
Trade in goods and services, % GDP		X
Debt service ratio, % exports	X	
Current account balance	X	
Foreign direct investment, % GDP		X
Trade in services, % GDP		X
Remittance receipts, % GDP	X	

Selected Indicators, by Topic	Strengths	Weaknesses
Concentration of Exports		X
Net Barter Terms of Trade, Index 2000=100		X
Trade Policy Index		X
Economic Infrastructure		
Overall infrastructure quality		X
Quality of infrastructure—rail		X
Quality of infrastructure—electricity supply		X
Internet users per 100 people		X
Telephone Density, Fixed and Mobile Lines	X	
Science and Technology		
IPR Protection		X
Health		
Child immunization rate	X	
HIV prevalence	X	
Births attended by a skilled professional		X
Prevalence of child malnutrition		X
Education		
Youth literacy rate		X
Gross tertiary enrollment rate		X
Expenditure on Primary Education, Percent of GDP		X
Employment and Workforce		
Growth of labor force	X	
Unemployment Rate		X
Agriculture		
Agriculture value added	X	
Cereal yield	X	

Note: The chart identifies selective indicators for which performance is particularly strong or weak relative to benchmark standards, as explained in Appendix A. The data supplement presented in Appendix B provides full tabulation of the data and international benchmarks examined for this report, along with technical notes on data sources and definitions.

1. Introduction

This report is one of a series of economic performance assessments prepared for the EGAT Bureau to provide USAID missions and regional bureaus with a concise evaluation of key indicators covering a broad range of issues relating to economic growth performance in designated host countries. The report draws on a variety of international data sources¹ and uses international benchmarking against reference group averages, comparator countries, and statistical norms to identify major constraints, trends, and opportunities for strengthening growth and reducing poverty. This study uses India and Vietnam as direct comparators. Both have large populations, and both have undertaken economic reforms in recent years that have led to rapid economic gains that could provide useful examples for Bangladesh.

METHODOLOGY

The methodology used here is analogous to examining an automobile dashboard to see which gauges are signaling problems. Sometimes a blinking light has obvious implications—such as the need to fill the fuel tank. In other cases, it may be necessary to have a mechanic probe more deeply to assess the source of the trouble and determine the best course of action.² Similarly, the Economic Performance Assessment is based on an examination of key economic and social indicators, to see which ones are signaling problems. Some “blinking” indicators have clear implications, while others may require further study to investigate the problems more fully and identify appropriate courses for programmatic action.

The analysis is organized around two mutually supportive goals: transformational growth and poverty reduction.³ Broad-based growth is the most powerful instrument for poverty reduction. At the same time, programs to reduce poverty and lessen inequality can help to underpin rapid and sustainable growth. These interactions can create a virtuous cycle of economic transformation and human development.

¹ Sources include the World Bank, the International Monetary Fund, the Millennium Challenge Corporation, the United Nations (including the Millennium Development Goals database), the World Economic Forum, and host-country documents and data sources. This report reflects data available as of early November 2009.

² Sometimes, too, the problem is faulty wiring to the indicator—analogue here to faulty data.

³ In USAID’s white paper *U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century* (January 2004), transformational growth is a central strategic objective, both for its innate importance as a development goal and because growth is the most powerful engine for poverty reduction.

Transformational growth requires a high level of investment and rising productivity. This is achieved by establishing a strong *enabling environment for private sector development*, involving multiple elements: macroeconomic stability; a sound legal and regulatory system, including secure contract and property rights; effective control of corruption; a sound and efficient financial system; openness to trade and investment; sustainable debt management; investment in education, health, and workforce skills; infrastructure development; and sustainable use of natural resources.

In turn, the impact of growth on poverty depends on policies and programs that create opportunities and build capabilities for the poor. We call this the *pro-poor growth environment*. Here, too, many elements are involved, including effective education and health systems, policies facilitating job creation, agricultural development (in countries where the poor depend predominantly on farming), dismantling barriers to micro and small enterprise development, and progress toward gender equity.

The present evaluation must be interpreted with care. A concise analysis of selected indicators cannot provide a definitive diagnosis of economic performance problems, nor simple answers to questions about programmatic priorities. Instead, the aim of the analysis is to spot signs of serious problems affecting economic growth, subject to limits of data availability and quality. The results should provide insight about potential paths for USAID intervention, to complement on-the-ground knowledge and further in-depth studies.

The remainder of the report presents the most important results of the diagnostic analysis, in four sections: Overview of the Economy; Private Sector Enabling Environment; and Pro-Poor Growth Environment. Table 1-1 summarizes the topical coverage. Appendix A provides a brief explanation of the criteria used for selecting indicators, the benchmarking methodology, and a table showing the full set of indicators examined for this report. Appendix B provides a full tabulation of the data and international benchmarks examined for this report, along with technical notes on the data sources and definitions.

Table 1-1
Topic Coverage

Overview of the Economy	Private Sector Enabling Environment	Pro-Poor Growth Environment
<ul style="list-style-type: none"> • Growth performance • Poverty and inequality • Economic structure • Demographic and environmental conditions • Gender 	<ul style="list-style-type: none"> • Fiscal and monetary policy • Business environment • Financial sector • External sector • Economic infrastructure • Science and technology 	<ul style="list-style-type: none"> • Health • Education • Employment and Workforce • Agriculture

DATA QUALITY AND FORMAT

The analysis here reflects data available as of early November 2009. The breadth and quality of data for Bangladesh earned a score of 65 (out of 100) on the World Bank's 2009 Statistical Capacity Indicator. The score has consistently declined from 80 in 2006, and is now below the

LI-Asia median of 69.5 and India's 79. The Bank's assessment cites several statistical problems including the use of an outdated national account base year and a lack of weekly and monthly import/export price indices. Despite these problems, the report team found data availability to be excellent. Recent data were located for every indicator in the CAS data set; this is a rarity, particularly for a low income country.

2. Overview of the Economy

This section reviews basic information on Bangladesh's macroeconomic performance, poverty and inequality, economic structure, demographic and environmental conditions, and indicators of gender equity. Some of the indicators cited here are descriptive rather than analytical and are included to provide context for the performance analysis.

GROWTH PERFORMANCE

Bangladesh's GDP per capita of US\$520 in 2008 placed it firmly in the ranks of low-income developing countries according to the World Bank classification and least developed countries according to the United Nations. This correlates with the general public perception of a country suffering immense poverty and one at the mercy of successive natural disasters that seem to overwhelm any development gains the country can hope to achieve.

Certainly, Bangladesh does face formidable development challenges. Its population of 160 million makes it the third largest country in terms of food insecurity, and it has a physical geography—the country's land mass is below 10 meters above sea level-- that makes it particularly vulnerable to climate change.⁴

Less well known is the fact that in the last five years Bangladesh has started on a high growth path, with the economy averaging growth in real terms of 6.3 per cent per annum from 2004 to 2008. In 2005, Goldman Sachs, having previously identified the BRIC countries (Brazil, Russia, India, and China) as powerful emerging economies, developed a list of countries that it termed the Next-11.⁵ Bangladesh and the ten other countries identified were described as having a growing consumer market and significant industrial potential to become the next BRICS. The country's successful development of an export-oriented manufacturing sector specializing in ready-made garments (RMG), incipient diversification of exports into frozen shrimp and seafood, and significant gains in reducing poverty have caught the attention of the international community. In its 2007 report, "Strategy for Sustained Growth," the World Bank indicated that Bangladesh could join the ranks of middle-income countries by 2016 if it can accelerate growth rates to 7.5 percent or more.⁶ Bangladesh has also made significant progress towards meeting the Millennium Development Goals, achieving considerable progress on social indicators.

⁴ Angus, S.D. et al, Climate change impacts and adaptation in Bangladesh: An Agent-Based Approach, July 2009, pg. 1.

⁵ http://www.euromonitor.com/The_Next_11_emerging_economies

⁶ World Bank, Bangladesh Strategy for Sustained Growth, 2007.

The comparator countries used in this report, India and Vietnam, are excellent examples of how such accelerated growth can take place.⁷ Both of these countries have experienced growth rates averaging 9 percent over the last five years, and have seen per capita incomes rise from fairly low levels in a relatively short time. (Figure 2-1).

Bangladesh's economy slowed down to 5.9 percent growth in 2009 from 6.2 percent in 2008 as a result of the global economic downturn but the country has not been as affected as other economies primarily because it is not as linked to the global economy (see External Sector section).⁸ Projections for how the economy will fare in 2010 vary--an October 2009 IMF mission to Bangladesh concluded that second round effects of the global downturn might lead to a further deceleration of growth to 5.0 percent in 2010.⁹ However, the Bangladesh government is more optimistic about the country's prospects, projecting a much higher rate of growth of at least 6.0 percent for the coming year.¹⁰ The World Bank is predicting a 5.5 percent growth rate, although it notes that it could be as high as 6.0 percent if export performance is strong and improvements are made in the energy sector.¹¹

Bangladesh has witnessed high growth rates in labor and capital productivity over the last five years, indicating that both workers and capital are gaining important efficiencies. Labor productivity growth accelerated from 1.9 percent in 2003 to 4.8 percent in 2007. While impressive, this growth is still lower than both India and Vietnam (7.6 and 5.7 percent respectively). The investment ratio (ICOR) declined from 4.5 in 2004 to 4.0 in 2008, indicating that over time, less capital investment has been needed to produce the same amount of output. These efficiencies may partly be explained by productivity gains in the garment industry that was established in the 1980s. India uses capital much more efficiently with an ICOR value of 3.4, whereas Vietnam is similar to Bangladesh with an ICOR value of 4.2.

While gains have been made in the productive use of existing labor and capital, growth of new investment has been stagnant, with gross fixed investment as a percent of GDP remaining virtually unchanged at 24 percent over the 2004-2008 period. This is significantly below the rates India and Vietnam achieved for their "take-off" growth (Figure 2-2) and below the Low Income (LI)-Asian countries median value of 28.1 percent, though higher than the median value for all LI countries of 20.9 percent. There has been a slight increase in private sector investment, primarily in construction, but public sector investment has been declining due to a lack of capacity to implement development programs. Infrastructure bottlenecks, particularly gas and power

⁷ An interesting paper comparing India and Vietnam's growth performance is "India-Vietnam: A Comparative Analysis of Economic Performance". Lee Kuan Yew School of Public Policy Working Paper Series, February 2009

⁸ 2009 in this report refers to FY2009 spanning the period June 2008-July 2009 for Bangladesh, April 1 – March 31 for India and January 1 to December 31 for Vietnam. 2009 figures for Bangladesh and India are actuals, but estimates for Vietnam. World Bank, "Bangladesh Economic Update", 2009.

⁹ IMF October 2009 Article IV consultation

¹⁰ Six pc GDP growth likely: BB Governor (get rest of citation)

¹¹ World Bank, Bangladesh Economic Update 2009

shortages, are routinely cited as one of the top constraints to increased private sector activity (see Private Sector Enabling Environment and infrastructure sections).

Bangladesh's strong growth thus far has been based primarily on remittances and the tremendous growth of the RMG industry. A continued reliance on these two factors are a serious cause for concern given the possibility of slowdown in apparel imports for major markets in the near future. Bangladesh has to implement deeper structural reforms that will attract the magnitude of investment needed to diversify the economy and accelerate growth rates to 7-8 percent. The strong success experienced by its regional neighbors, and as can be seen in the case of India and Vietnam, clearly indicate that even five years from now, Bangladeshis can experience a higher standard of living than they do at present.

POVERTY AND INEQUALITY

The strong economic growth in recent years has been broad-based, leading to notable reductions in poverty. The UNDP's Human Poverty Index (HPI) provides a broad gauge of poverty taking into account deprivation in health and education as well as income poverty.¹² In 2009 (based on data through 2007), Bangladesh received a score of 36.1, ranking it 101st among 135 countries. Bangladesh's HPI score has improved from 44.2 in 2004, but remains higher than India (28.0), Vietnam (12.4), and the expected value of 24.0 for a country with Bangladesh's characteristics.

Improvements in the HPI index are relatively in line with other poverty indicators. For example, the incidence of poverty, using the national poverty line, fell from 57 percent in 1991-1992 to 49 percent in 2000 and, was further reduced to 40 percent in 2005.¹³ This was the last year that a household survey was undertaken to determine poverty levels, but simulations by the World Bank are projecting that poverty rates will drop to 31 percent by 2010.

Many Bangladeshis remain vulnerable to food and fuel price shocks. An earlier projection of the poverty rate by the World Bank had indicated a further decline to 29 percent by 2010, but this has been revised as a result of the impact of the global crisis, indicating that 2.4 million fewer people will be able to climb out of poverty than would have otherwise.¹⁴ Income losses are related to food insecurity and malnutrition. During 2007 and 2008, the World Food Program (WFP) estimated that 65 million or 45 percent of the population lacked adequate dietary energy consumption.¹⁵ UNICEF reported that in 2007 and 2008, cyclones and floods that devastated domestic crop production, and India's restrictions on exporting rice to Bangladesh led to a doubling of rice prices, the main food staple for Bangladeshis, resulting in a "silent

¹² The HPI index is on a scale of 0 (no deprivation incidence) to 100 (high deprivation incidence). The indicators are probability at birth of not surviving to age 40; adult illiteracy rate; percent of population without an improved water source; and percent of children underweight for age.

¹³ Bangladesh Poverty Assessment for Bangladesh: Creating Opportunities and Bridging the East-West Divide. Report No. 4321-BD, World Bank, October 2008, pg. 89.

¹⁴ World Bank, "Bangladesh Economic Update", 2009.

¹⁵ World Food Programme in Bangladesh, <http://one.wfp.org/bangladesh/?NodeID=2>. The FAO defines undernourishment as the condition of people whose dietary energy consumption is continuously below the minimum dietary energy requirement for maintaining a healthy life and carrying out light physical exercise.

emergency”.¹⁶ The drop in international commodity prices and the bumper harvest Bangladesh experienced in 2009 have alleviated some of the food insecurity, but poor Bangladeshis remain vulnerable to prices changes, particularly for food.

National statistics indicate a relatively more equitable overall distribution of income as compared to India and Vietnam though the data have not been updated to take account of the higher growth in the last few years. In 2005 (latest year of data) the poorest 20 percent of households obtained 9.4 percent of total incomes, which compared favorably to India (8.1 percent) and Vietnam (7.1 percent).

Regional poverty differentials are a growing concern. Between 2000 and 2005, the poverty headcount in the eastern part of the country declined significantly — Dhaka (14.7 percentage point decline), Chittagong (11.7 percentage points), and Sylhet (8.6 percentage points). Gains in the western part of the country, however, were considerably smaller— Barisal (1.1 percentage points), Khulna (0.6 percentage point increase in poverty headcount), and Rajshahi (5.5 percentage point decline) (Figure 2-3a, 2-3b).¹⁷ Natural boundaries created by the country’s four main rivers impose strong barriers to connectivity between the north- and southwest to the country’s main growth centers in the north-central and east.¹⁸ It is important to note that according to the World Bank, eastern Bangladesh is likely to be more affected by the current global economic crisis, because of its higher concentration of industry and remittance earnings, than the western part of the country.¹⁹

Figure 2-3a, 2-3b

Poverty Headcount, percent, By District

In addition to helping the poor to weather the effects of the global downturn, the Bangladeshi government has to make significant headway in implementation of its Annual Development Plan (ADP), which determines the public development expenditures for the country.²⁰ Infrastructure investments, such as construction of the Padma Bridge (see Infrastructure section) to link poorer

¹⁶ UNICEF. “‘A silent emergency’ as Bangladesh’s poor suffer from economic downturn,” http://www.unicef.org/infobycountry/bangladesh_49247.html

¹⁷ Bangladesh Poverty Assessment for Bangladesh: Creating Opportunities and Bridging the East-West Divide. Report No. 4321-BD, World Bank, October 2008, pg. 99.

¹⁸ Bangladesh Poverty Assessment for Bangladesh: Creating Opportunities and Bridging the East-West Divide. Report No. 4321-BD, World Bank, October 2008, pg. xii; Asian Development Bank, Proposed Technical Assistance Loan People’s Republic of Bangladesh: Padma Multipurpose Bridge Design Project., November 2007.

¹⁹ World Bank, “Bangladesh Economic Update”, 2009.

²⁰ “World Bank Says ADP Best Stimulus for Bangladesh to Face Recession”, AsiaPulse, October 23, 2009

sections of the country with higher-growth areas, is a priority for Bangladesh's poverty reduction efforts. The Bangladesh Bureau of Statistics (BBS) and the World Bank, in collaboration with the World Food Program, have recently developed maps depicting varying levels of poverty at the district level in Bangladesh. These can be overlaid with other information on education, wages, and other data to enable policymakers to determine which geographical areas are most in need of specific interventions.²¹

ECONOMIC STRUCTURE

Over the five-year period under review, Bangladesh's sectoral composition has been fairly stable. As a percentage of GDP, a slight decline is observed in the percentage of output originating in agriculture, contracting from 20.1 percent in 2005 to 18.6 percent in 2009. A corresponding increase was registered in industry from 27.3 percent to 28.6 percent. Output originating in the services sector has remained practically unchanged, averaging 52.5 percent of GDP²².

Bangladesh has experienced a structural transformation in relation to the LI-Asia and global LI country medians. For those benchmark groups, the shares of GDP originating in agriculture are much higher, at 33.4 percent and 32.0 percent, respectively, with a lower share of output in services (39.6 and 44.6 percent). The significance of industry in Bangladesh is slightly higher at 28.6 percent, compared with the LI-Asia average of 27.4 percent and the global LI median of 24.7 percent. While India's industry share of GDP is similar to these levels (29.0 percent), Vietnam's 39.6 percent shows that there is scope for increasing the significance of industry in Bangladesh's economy.

It is worth noting, though, that Bangladesh's economy still depends heavily on the agricultural sector, not only for directly generating 18.6 percent of GDP in 2009, but, more importantly, it provides employment for almost half of the labor force (48.0 percent)²³. As such, growth of many other consumer product industries is affected by the limited purchasing power of the population that depends on agricultural incomes.

Comparing output shares to employment shares (Figure 2-4) the data reveals that labor productivity is relatively higher in industry than in services and agriculture. Indeed, while 14.0 percent of the labor force engaged in industry produces 27.2 percent of the economy's output, 48.0 percent of the labor force engaged in agriculture produces merely 20.1 percent, while 37.6 percent engaged in services produces 52.6 percent of GDP.²⁴ This means that each job in industry produces roughly 4.6 times as much value added as does each job in agriculture, and about 1.4

²¹ The maps are available at: <<http://one.wfp.org/bangladeshSiteTest/?ModuleID=184&Key=90>>.

²² Labor force structure data for Bangladesh was sourced from World Bank World Development Indicators, and output shares as percent of GDP from the country's central bank website.

²³ According to data from 2005, latest year available

²⁴ Although data for output shares is available for Bangladesh for 2009, for consistency purpose we used 2005 data of employment and output shares in this comparison.

times as much as each job in services. The sectoral growth rates vary as well. For the five years to 2009, agriculture value-added registered an annual growth rate of 3.9 percent, while value-added in industry and services grew at a much faster rate in the same period, with annual average growth rates of 7.8 and 7.9 percent, respectively.²⁵

Figure 2-4

Comparison of Labor Force Structure and Output Structure

In sum, these figures reveal that although some structural transformation has occurred in Bangladesh's economy in relation to the median LI-Asia country, there are still inefficiencies in Bangladesh's overall labor allocation. While programs to boost productivity in agriculture will be helpful, given its significance in the economy, and will help to create the conditions of increased food security that set the stage for labor to migrate into other sectors of the economy, measures to stimulate more rapid job creation in the industrial sector will be a powerful lever for increasing aggregate labor productivity and overall economic growth.

DEMOGRAPHY AND ENVIRONMENT

With a land area of 147,570 sq km (slightly larger than the state of New York), and a population of 160 million (8 times that of New York state), Bangladesh is one of the world's most densely populated countries (1,084 people per sq km). The country's indicators, though, present evidence that a significant demographic transition has taken place in the country. Indeed, the population growth rate over the five years to 2008 has fallen from 1.6 to 1.4 percent. This is lower than the 1.6 percent observed in the median LI-Asian country, and even more so than the global low-income median of 2.6 percent, although it has not quite reached the slightly lower growth levels observed in India and Vietnam (1.3 and 1.2 percent, respectively).

Lower population growth has also led to a declining youth dependency rate. Indeed, the percentage of the population below age 15 divided by the working age population (ages 15-64) declined from 55.5 percent in 2004 to 50 percent in 2008. The latter is well below the expected value for a country like Bangladesh (58.4 percent), and significantly below the median global LI country (79.4 percent). These trends bode well for Bangladesh, since lower population growth and a lower youth dependency ratio will somewhat ease the pressures in the job market and allow the country to cope better with the demand for education and health services. Overall, containing and monitoring population growth remains a priority in Bangladesh, given its high population density, which in turn intensifies pressure on available resources.

Bangladesh's urbanization level increased slightly over the five years to 2008, and is relatively high compared to the LI-Asia median country, but comparable to other benchmarks. The percentage of the population living in urban areas gained nearly 2 percentage points, rising from

²⁵ IMF, International Financial Statistics appearing in the EIU Country Report, 2009. Figures correspond to FY ending June 30th. 2009 data is preliminary.

25.3 percent in 2004 to 27.1 percent in 2008. This level of urbanization is considerably higher than the LI-Asia median of 21.3 percent, but roughly in line with the global LI-Asia average of 30.4 percent, India's 29.5 percent, and Vietnam's 27.8 percent.

Over the five years to 2009, Bangladesh's resource depletion (a World Bank indicator measuring the aggregated depletion of mineral, energy and forest resources as a percentage of gross national income) accelerated, rising at an average rate of 10.8 percent a year, from 2.5 percent to 3.6 percent (Figure 2-5). This is nearly double the LI-Asia median of 1.9 percent, but remains slightly below India's 4.2 percent and further below Vietnam's 12.1 percent. The rise was due to increases in energy depletion²⁶. It is worth noting, though, that this indicator does not consider soil depletion.

Figure 2-5

Resource Depletion, % of GNI

In addition, according to an international Environmental Performance Index (EPI) that evaluates environmental stress and ecosystem vitality in each country, Bangladesh scored 58.0 (out of 100) in 2008, ranking 125th out of 149 countries covered by the EPI. This score is in line with the LI-Asia median of 59.6 and India's 60.3, but below Vietnam's 73.9, which according to the index has in place better policies to prevent environmental degradation. Looking at the policy categories that compose the index, a wide gap exists in policies to conserve productive natural resources (in particular, excessive resource demand, wasteful and damaging methods of exploitation in agriculture and fisheries are observed) as well as the biodiversity and habitat between Bangladesh's sub-scores and those of its geographic and income group peer averages.

Global warming poses a major threat to Bangladesh. The major climate-induced disasters such as more frequent floods, cyclones, and storm surges, as well as droughts, are causing severe loss of life and damage to property, and are seriously affecting the country's development prospects. A 1-meter rise in the sea level would inundate about 15 percent of the land area and reduce the rice crop (the major staple) by up to 30 percent, according to the World Bank, and force millions to move. As such, ensuring food and water security, protecting infrastructure, managing disaster risks and preventing overall environmental degradation, as well as "incorporating climate change adaptation in development planning" are vital strategic interests for Bangladesh.²⁷The country participates in global efforts to reduce impact of global warming, such as the upcoming Copenhagen summit in December 2009.

GENDER

Gender equity promotes economic growth by ensuring that all citizens have the opportunity to develop and apply their full productive capacities. Gender equity can be assessed in terms of

²⁶ Energy Depletion is equal to the product of unit resource rents and the physical quantities of energy extracted. It covers crude oil, natural gas, and coal.

²⁷ Asian Development Bank, Asian Development Outlook 2009, p. 193

access to education and health, economic participation, women's legal rights, and public participation and representation. In many South Asian countries, such as Bangladesh, traditional values limit opportunities for women to pursue livelihoods outside the home. This creates a large gap between men and women in labor force participation.

Bangladesh has been described by the World Bank as “the shining new example in South Asia of a poor country achieving impressive gains in gender equality.”²⁸ Two successful initiatives expressly intended to improve women's status have been the NGO-driven microcredit program (see Financial Sector, pg. X) and the Government's education policy.²⁹

In the education sector, the gross enrollment ratio at all levels of schooling in Bangladesh was 49.4 percent for females and 48.0 percent for males in 2007. Although enrollment rates for both genders are lower than all benchmarks (see Education section, pg. X), there is a gender disparity in favor of females in Bangladesh, while the disparities observed in India (59.3 percent females and 65.6 percent males) and LI-Asia (51.6 percent females and 58.5 percent males) are in favor of males. Primary school completion rates tell a similar story. There is a 4.5 percentage point differential in favor of females for primary school completion in Bangladesh, compared to 8.2 percentage point and 4.9 percentage point differentials in favor of males in LI-Asia and India, respectively.

Life expectancy at birth is a fundamental indicator of gender equity in health conditions. In Bangladesh, average life expectancy in 2008 was 67.4 years for females compared to 65.2 years for males. This gender differential of 2.2 years is wider than the median differential of 0.9 years found in LI-Asia, but much narrower than the 3.3 and 3.9 year differentials found in India and Vietnam, respectively (Figure 2-6). Furthermore, in countries with more advanced human development, women typically outlive men by 5 years or more.

Gender disparity in the labor force, although decreasing, remains a significant barrier to economic growth. In 2007, the labor force participation rates in Bangladesh were 84.5 percent for males and just 57.2 percent for females, a 27.3 point differential. Similar data for India, a neighboring South Asia country shows wider gender gap of 47.3 percentage points. Yet there is still considerable room for improvement. In Vietnam, for example, the gender differential is just 6.7 percentage points (Figure 2-7). In some sectors, such as the shrimp and garment industries, Bangladeshi women do constitute a majority of the workforce. However, most of these jobs are low paying, with the shrimp sector being known for particularly high male/female wage differentials. This is partially due to the lack of unionization by female workers, and also due to the abundant supply of women willing to work in the shrimp plants.³⁰

²⁸ *Whispers to Voices: Gender and Social Transformation in Bangladesh*. World Bank and Australian Agency for International Development (AusAID), March 2008, pg. 3.

²⁹ The focus on primary schooling in the 1980s and then the Female Secondary School Stipend Program in the 1990s led to dramatic improvements in educational attainment. *Whispers to Voices: Gender and Social Transformation in Bangladesh*. World Bank and AusAID, March 2008, pg. 19.

³⁰ *The Role of Labor-Related Issues in the Foreign Assistance Framework, Bangladesh Labor Assessment*, June 2009 Draft, pgs 29-30.

Figure 2-7*Labor Force Participation Rate*

In addition to economic factors, women's public participation and representation and the protection of legal rights for women remain uneven. On the one hand, the Constitution guarantees equal rights to all citizens, regardless of gender, religion, and other social divisions, and reserves 30 parliamentary seats for women. Several female politicians, including Prime Minister Sheikh Hasina and former Prime Minister Khaleda Zia have indeed achieved high positions in government. In contrast, according to a 2007 Demographic and Health Survey, 17.7 percent of married women respondents reported that they cannot go to a health center or hospital alone or with children.³¹

Additionally, although Bangladeshi law guarantees equal access to property, according to the Bangladesh Bureau of Statistics' agricultural census of 1996, only 3.5 percent (0.62 million) of the 17.8 million agricultural holdings were female-owned.³²

Bangladesh's efforts to close the gender gap in education and health should be commended. As women continue to enter the workforce in greater numbers the government must redouble efforts to create equitable opportunities in the labor market while respecting the traditional values of the country.

³¹ 2007 Demographic and Health Survey, March 2009, pg. 184.

³² Whispers to Voices: Gender and Social Transformation in Bangladesh. World Bank and Aus Aid, March 2008, pg. 12.

3. Private Sector Enabling Environment

This section reviews key indicators of the enabling environment for encouraging rapid and efficient growth of the private sector. Sound fiscal and monetary policies are essential for macroeconomic stability, which is a necessary though not sufficient condition for sustained growth. A dynamic market economy also depends on basic institutional foundations, including secure property rights, an effective system for enforcing contracts, and an efficient regulatory environment that does not impose undue barriers on business activities. Financial institutions play a major role in mobilizing and allocating saving, facilitating transactions, and creating instruments for risk management. Access to the global economy is another pillar of a good enabling environment because the external sector is a central source of potential markets, modern inputs, technology, and finance, as well as competitive pressure for improving efficiency and productivity. Equally important is development of the physical infrastructure to support production and trade. Finally, developing countries need to adapt and apply science and technology to attract efficient investment, improve competitiveness, and stimulate productivity.

FISCAL AND MONETARY POLICY

Bangladesh's macroeconomic environment has been fairly resilient in the face of the global downturn that has caused havoc in other neighboring countries. In 2009, the Bangladesh government budget deficit at 3.6 percent of GDP was actually slightly below the 2008 figure of 3.7 percent of GDP.³³ While it remains to be seen whether the deficit can remain under 4 percent of GDP as targeted by the government in the near short term, these figures do not raise serious concerns about fiscal instability.

Bangladesh's fiscal situation is much better than the comparator countries; Vietnam's budget deficit is expected to rise to nearly 10 percent of GDP in 2009, a significant jump from 4.7 percent in 2008.³⁴ India is also expected to reach a fiscal deficit of 11.4 percent in 2009, from 5.7 percent in the previous fiscal year.³⁵ (Figure 3-1). Both countries implemented fiscal stimulus packages to offset the global economic downturn. In addition, India's government increased spending in anticipation of the general elections that were held in May 2009.

³³ <http://imf.org/external/np/ms/2009/102909.htm>

³⁴ <http://www.forbes.com/feeds/afx/2009/05/20/afx6444342.html>

³⁵ <http://www.allbusiness.com/trade-development/trade-development-finance/12080614-1.html>

The Bangladeshi government has consistently prepared annual budgets with projected deficits that, if realized, would have necessitated higher borrowing and raised concerns about fiscal stability. However, weak implementation capacity, particularly at the local level, has meant that planned expenditures typically fall short of their targets, and even with lackluster revenue collection, the actual budget deficits have been much lower than anticipated.

Government expenditures as percent of GDP were 14.8 percent in 2009, compared to 16.6 percent for India and almost 30 percent in Vietnam. A “stimulus package” entailed government spending for power, fertilizer, and export subsidies as well as an expansion of safety net programs. Unfortunately, the Annual Development Plan (ADP), which budgets the government’s development-related expenditures for the country, has seen spending steadily decline from 5.4 percent in 2002 to 3.2 in 2009. This is particularly alarming given that *planned* ADP targets have been steadily increasing, resulting in a higher gap between targets and actuals. The under-implementation of ADP targets was identified during the IMF’s October 2009 consultation with the government as an area needing significant attention.

Hand in hand with lower than planned expenditures has been low revenue collection. At an average of 11 percent of GDP in recent years, Bangladesh’s revenue collection is one of the lowest in the world (Figure 3-2), certainly much lower than India’s or Vietnam’s at 23.1 percent and 27.7 percent of GDP respectively for 2009. The revenue-to-GDP ratio for Bangladesh is projected to be 11.5 percent for 2010, slightly higher than in the past, and the government has committed to raising revenue by measures that include expansion of tax coverage, rationalization of the tax system, decentralization of tax operations, and institutional reforms separating tax policy from tax administration. These much needed reforms would greatly enhance the government’s ability to increase revenues and thus spur development. However, with the possibility of lower overall growth in the near short term, this may prove to be a challenge for the government.

Bangladesh’s inflation rate averaged 7.0 percent during 2005-2007 and then jumped to nearly 10 percent in 2008 as a result of high international prices for food (primarily rice) and fuel causing tremendous hardship for large segments of the population. This was higher than the LI-Asia median inflation rate of 8 percent and nearly at par with the LI median rate of 10.6 percent. The inflation rate for Vietnam was significantly higher, at 25.6 percent for 2008, while India’s inflation rate was 10.7 percent. (Figure 3-3)

Fortunately, a drop in international prices and a bumper harvest domestically in 2009 resulted in inflation falling to 6.7 percent.³⁶ BB has followed an accommodating monetary policy and the money supply grew by 19 percent in 2009. Price controls have been imposed on some commodities since 2008, thereby the growth in the money supply has not been wholly translated into corresponding price increases. It is anticipated that BB will continue to set growth targets for the money supply that will be in line with the Bangladeshi central government’s goal to further provide stimulus to the economy in the face of the global downturn in 2010. There is fear that inflation will again rise in the near future as a result of the excess liquidity in the banking system

³⁶ World Bank Bangladesh Economic Update 2009

due to large remittance inflows (see external sector). According to BB, the excess liquidity has tended to be invested in real estate and other speculative type investments instead of the real sector, creating price bubbles in these asset markets. The Central Bank has held auctions of 30 day bills in order to reduce the liquidity in the system, but has only done this to a limited extent since this will put upward pressure on interest rates and dampen the already low investment.³⁷

BUSINESS ENVIRONMENT

Institutional barriers to doing business, including corruption in government, are critical determinants of private sector development and prospects for sustainable growth. The World Bank's composite Ease of Doing Business index ranks Bangladesh at an unsatisfactory 119th out of 183 countries in its 2010 edition. However, this is exactly the rank expected for a country with Bangladesh's characteristics and outperforms both the LI-Asia median of 132.5 and India's 133rd. Nevertheless, these comparators are not best practice standards if Bangladesh aspires to a business environment that is more conducive to business and investment growth. While Vietnam is also not among the top scorers, with a rank of 93rd it performs consistently better in business environment indicators, suggesting that there is ample scope for improvement and reforms.

There is reason for optimism in Bangladesh. With three significant reforms enacted recently, Bangladesh earned the spot of top reformer in South Asia in the 2010 Doing Business report. A noteworthy improvement for Bangladesh has been simplification of business start-up procedures, through the introduction of electronic business registration.³⁸ Fiscal and trade facilitation policies are the other two areas in which Bangladesh enacted reforms. The corporate income tax rate was reduced from 40 to 37.5 percent, though the capital gains tax rate was increased from 5 to 15 percent. The introduction of customs clearance automation systems at the Chittagong port has reduced border clearance times.³⁹

In addition to these policy measures, other indicators have also improved. For instance, the cost of starting a new business, expressed as a percentage of Gross National Income (GNI) per capita, declined from 56.1 percent in 2006 to 36.2 percent in 2010, comparing favorably relative to higher costs in the LI-Asia median country (47.1 percent) and even more so to India's 66.1 percent. Nevertheless, the cost in Vietnam – 13.3 percent – is indeed much lower. Regarding the time required to start a business, Bangladesh's score fluctuated between 50 and 74 days previously, but fell to 44 in the 2010 report. Bangladesh also outperforms all benchmarks with regard to the number of procedures required to start a business (7 in 2010), compared with 13 and 10 in India and Vietnam, respectively.

³⁷ Macroeconomic Challenges of Large Remittance Inflows, Istanbul, Turkey, October 2009. Keynote speech by Bangladesh Bank Governor Dr. Atiur Rahman.

³⁸ Doing Business 2010 Bangladesh, World Bank, p. 52

³⁹ Doing Business 2010 Bangladesh, World Bank, p. 52

On the other hand, Bangladesh's business environment is relatively much tougher for businesses looking to register property or enforce a contract. The World Bank's prototype business requires a staggering 1,442 days to enforce a contract in Bangladesh, nearly three times the time required in the median LI-Asia country and much more so compared to Vietnam's 295 days. Likewise, it takes 245 days to register property in Bangladesh, which is nearly triple the 97.7 observed in the LI-Asia median country and exceedingly high compared to India's and Vietnam's 30 and 50 days, respectively.

Bangladesh scores on World Bank's governance indices for control of corruption, government effectiveness, regulatory quality, and rule of law show some slight improvement over the five-year period, placing Bangladesh on par or slightly better than the LI-Asia median country, but below both India's and Vietnam's scores. Perhaps more importantly, all of Bangladesh's scores with regard to these governance indices are below global means.⁴⁰

Larger gaps are observed between Bangladesh and comparator countries with regard to the Control of Corruption and Government Effectiveness indices. With regard to the former, Bangladesh improved its score from -1.42 in 2004 to -1.10 in 2008, on par with the regional benchmark of -1.15 but worse than the global median for LI countries (-0.78) and in comparison to India's -0.37 and Vietnam's -0.76. (Figure 3-4) Beyond this index, 54.9 percent of firms participating in the World Bank Enterprise Survey administered in Bangladesh in 2007 identified corruption as a major constraint and a staggering 85 percent of them expected to make an informal payment to public officials to get things done. Further, executives surveyed by the World Economic Forum for the Global Competitiveness Report for 2009-10 ranked corruption in Bangladesh as the 2nd most problematic factor in doing business there, after inadequate supply of infrastructure, followed by inefficient government bureaucracy.⁴¹

Figure 3-4

Control of Corruption Index

FINANCIAL SECTOR

According to a recent Fitch assessment (February, 2009) the formal banking system in Bangladesh is lagging compared to that of the rest of emerging Asia, marked by weak asset quality, inadequate provisions for loan losses, poor capitalization, and low returns on assets.⁴² The four state-owned commercial banks (SOCBs), which account for about 30 percent of the market, are particularly deficient in these areas. While the share of non-performing loans (NPL) to total loans has been declining for the banking sector as a whole, from approximately 14 percent of total loans in 2005 to 10.8 percent at the end of 2008, the NPL ratio for SOCBs was an

⁴⁰ These indices range in value from -2.5 (for poor) to 2.5 (for excellent), with 0 indicating the global mean.

⁴¹ World Economic Forum, Global Competitiveness Report 2009-10

⁴² TEXT-Fitch: Bangladesh Banking System Remains Weak & Vulnerable, feb. 6, 2009

alarming 29.3 percent.⁴³ These high NPL ratios point to the inability of the banking sector, particularly the SOCBs, to appropriately assess credit risk and allocate capital efficiently. Banking sector inefficiencies can also be seen from the spread between deposit rates and lending rates. This spread was close to 7 percent in 2008, much higher than the 3.5 to 4.0 percent for India and 3 percent for Vietnam.

The Bangladesh government has outlined plans to reform the banking sector, and the October 2009 IMF mission to Bangladesh was particularly pleased with measures that included preparation for the introduction of Basel II regulations effective January 1, 2010 that will raise the quality of banks' capital and create risk management units at all banks.⁴⁴

While attempts have been made to restructure the SOCBs into Limited Liability Companies and appoint new managers to senior positions, they are still hampered by directed lending practices and weak technical expertise. Fortunately, the SOCBs have lost considerable market share in the last ten years, with their share of the banking system assets falling from 68 percent of the market in 1997 to about 33 percent at present.⁴⁵ Thirty private commercial banks, 9 foreign commercial banks, and 5 development banks are increasing their dominance in the Bangladesh market. Driven by the fact that 90 percent of Bangladeshis are Muslim, Islamic banking has also become more widespread.

Despite growth in private, foreign, and development banks, the banking sector remains underdeveloped, as evidenced by the ratio of M2 (currency plus bank deposits) to GDP. While this has increased in the last five years and is higher than the regional comparisons at 48 percent in 2009, it is still significantly below the rate of monetization of the economy in India and Vietnam (89.4 percent and 109.8 percent, respectively).

Another primary indicator of financial development is bank credit to the private sector as a percentage of GDP (Figure 3-5). In Bangladesh this ratio has only grown one percentage point annually in the last five years, from 30 percent in 2005 to over 35 percent in 2009. This is well below the ratio for India and Vietnam (54 percent and 90 percent respectively), though above regional medians for LI and LI-Asian economies. This slow growth is largely a result of high lending rates. Nominal lending rates have averaged 11.5 percent during 2004-2008, with real interest rates averaging 5.5 percent during that period. In addition, since October 2008 a "go-slow" policy has been adopted by businesses to avoid financial risk in the face of global economic recession.⁴⁶ In order to increase the flow of credit to the private sector, the Bank of Bangladesh (BB) announced in June, 2009 a controversial policy to cap interest rates on lending and directed credit to some priority sectors to counter the adverse effects of the global downturn and stimulate investment.⁴⁷

⁴³ Banking Sector At Risk From Economic Outlook, South Asia-May 2009, www.asia-monitor.com

⁴⁴ IMF RED, 2009

⁴⁵ TEXT-Fitch: Bangladesh Banking System Remains Weak & Vulnerable, feb. 6, 2009

⁴⁶ Bangladesh's Private Sector Credit Falls in September, All Headline News, November 2009

⁴⁷ Bangladesh Bank Caps Interest at 13% for Bank Lending to NBFIs

Non-bank instruments for financial intermediation are at a nascent stage of development. The Bangladesh stock market has been growing, its capitalization rate increasing from a low base of 5 percent of GDP in 2005 to 16 percent in 2009. The number of firms listed on the exchange is extremely small, with 303 companies currently trading publically.

While Bangladesh's formal financial system is fairly underdeveloped and beset with problems, the groundbreaking microcredit system that was developed by Muhammed Yunus' Grameen Bank in the 1970's has met with a great deal of success. In 2007, 28 microfinance institutions (MFI) operated in Bangladesh with a total gross loan portfolio of \$1.7 billion.⁴⁸

The three largest and most prominent MFIs are the first three founded in Bangladesh. Both ASA and BRAC took after the Grameen model, focusing on lending to women and emphasizing the need for social development to work hand in hand with microfinance. As of 2007, 98.9 percent of all active MFI borrowers in Bangladesh were women, evidence that the Grameen model of focusing on the poorest women because "their urge for survival has a far greater bearing on the development of the family"⁴⁹ has continued to be a focus of microfinance institutions throughout Bangladesh.⁵⁰ In 2007 there were 21.7 million microfinance borrowers in Bangladesh, (13.6 percent of the total population), which is significantly larger than the 9.9 million borrowers in India (0.9 percent of the total population) and 5.8 million borrowers in Vietnam (6.73 percent of the total population).

While the microfinance sector was launched by not-for-profit institutions offering limited services, it now includes for-profit banks and non-banking financial intermediaries offering a wide range of microfinance-related services. In 2007, MFIs in Bangladesh held \$374 million in deposits, compared to just \$126 million in deposits in Vietnam and \$31 million in India.⁵¹

While the effectiveness of microfinance in terms of its ability to alleviate poverty has been debated, Grameen reports that while only 20 percent of Grameen Bank members live below the poverty line, that percentage rises to 56 for comparable non-bank members.⁵² It is clear that while microfinance is already an important part of the financial framework of developing countries like Bangladesh, there is still room to grow. Although the Asian microfinance market serves a disproportionate number of borrowers in the world (the top 10 Asian MFIs accounted for 70 percent of MFI borrowers worldwide in 2007), countries with the best penetration rates (like Bangladesh) still only reach 35 percent of their potential clients.⁵³

⁴⁸ Asia Microfinance Analysis and Benchmarking Report 2008; MIX Market.

⁴⁹ Grameen Bank website. http://www.grameen-info.org/index.php?option=com_content&task=view&id=24&Itemid=127

⁵⁰ Asia Microfinance Analysis and Benchmarking Report 2008; MIX Market.

⁵¹ Asia Microfinance Analysis and Benchmarking Report 2008; MIX Market.

⁵² http://www.grameen-info.org/index.php?option=com_content&task=view&id=25&Itemid=128

⁵³ Asia Microfinance Analysis and Benchmarking Report 2008; MIX Market.

EXTERNAL SECTOR

Fundamental changes in international commerce and finance, including reduced transport costs, advances in telecommunications technology, and lower policy barriers, have fueled a rapid increase in global integration in the past 25 years. International flows of goods and services, capital, technology, ideas, and people offer great opportunities for Bangladesh to boost growth and reduce poverty by stimulating productivity and efficiency, providing access to new markets and ideas, and expanding the range of consumer choice. At the same time, globalization creates new challenges, including the need for reforms to take full advantage of international markets, and cost-effective approaches to cope with the resulting adjustment costs and regional imbalances.

International Trade and Current Account Balance

The importance of total trade in Bangladesh (exports plus imports of goods and services) has slowly risen from 36.3 percent in 2004 to 47.0 percent of GDP in 2008. This ratio is below all benchmarks and significantly underperforms relative to its expected value, indicating that Bangladesh's economy is still relatively closed and not taking full advantage of the opportunities available from integration to the global trade system (Figure 3-6). By comparison, the shares of trade as a percentage of GDP in the median LI-Asia and global LI country are 84.8 and 70.5 percent, respectively. India's ratio also falls below these benchmarks, but at 54.3 percent India is still more integrated, according to this measure, to the world economy. Vietnam's ratio is significantly higher, with trade equivalent to 167 percent of GDP. Similarly, Bangladesh has enjoyed a small increase in the ratio of trade in services to GDP over the five years to 2008, reaching 6.6 percent in 2008, but this is below the regional and global LI country medians of 10.6 percent and 16.4 percent.

Figure 3-6

Trade, % of GDP

Bangladesh's low level of overall trade can be partially attributed to restrictive trade policies. The country's score on the Trade Freedom Index (TFI) compiled by the Heritage Foundation, which gauges the degree of freedom from quantitative (tariffs) and non-quantitative (non-tariff barriers) trade restrictions, was 40.2 in 2009 (on a scale of 0 to 100, with 100 representing a complete absence of tariff and non-tariff barriers). This score is both low on an absolute basis, and in comparison with data from benchmark countries, which also do not score particularly well in this indicator (TFI scores in 2009 are 51.0 for India and 63.4 for Vietnam). According to the Heritage Foundation, a high weighted-average tariff rate of 19.9 percent, import duties serving as a principal source of revenue for the government, numerous border fees and taxes, restrictive labeling requirements, burdensome import licensing rules, export subsidies, state trading boards, and inefficient and corrupt customs administration contributed to such a low score.⁵⁴

⁵⁴ Heritage Foundation, Index of Economic Freedom 2009.

Bangladesh suffers from a chronically weak foreign trade account because of its dependence on imports of most essential goods, particularly petroleum. However, over the most recent five years, exports of goods and services have grown by an annual average of 15.1 percent. Export growth, though, slowed considerably in the second half of FY 2009, as total exports (year-on-year) grew by only 2.6 percent, down from 20 percent on the first half.⁵⁵ The RMG industry has become a top foreign exchange earner, accounting for about 80 percent of total export earnings in FY 2009. With over 5,000 garment manufacturing and exporting firms, the industry employs about three million workers, of whom 90 percent are women. In addition, this industry supports the indirect employment of another 10 to 15 million workers, or roughly 10 percent of the population. The US and EU are the major markets for Bangladesh's garment exports, but the country is exploring new markets, especially in Japan, due to reduced demand in these countries as a result of the global downturn. In 2008 Bangladesh supplied to the US 6.3 percent of all apparel imports, measured by volume, ranking it third (after China and Vietnam), and 4.8 percent of all apparel imports, measured by value, ranking it fifth (after China, Vietnam, Indonesia, and Mexico). As of August 2009, Bangladesh was one of only three countries (the other two being Egypt and Haiti) to record *increased* value of garments supply to the US in 2009.⁵⁶

Worryingly, most of these exports are of lower valued garments, and the heavy dependence on them, coupled with increased competition in global markets following the expiry of the global Agreement on Textiles and Clothing at the end of 2004, have resulted in a steep decline in Bangladesh's terms of trade. In 2007, Bangladesh's net barter terms of trade was 30 percent lower than in 2000. This indicates that Bangladesh's trade balance faces enormous pressure from a declining value of its exports relative to the prices of its imports. The clear implication is an urgent need to move into higher value-added segments within garments, and to diversify overall exports. Bangladesh is now among the world's top ten suppliers to the US of frozen shrimp, for instance.⁵⁷ Overall, however, efforts to move into other agro-processing and services exports have registered more limited success.⁵⁸

In addition to the merchandise trade deficit, Bangladesh also runs a large deficit on its services account, "primarily arising out of the costs of freight and insurance on imports and expenses relating to technical and financial services for development projects".⁵⁹

Crucially for Bangladesh, these structural deficits are balanced by current account transfers, which for the most part are comprised of expatriate workers' inward remittances. The number of Bangladeshis working abroad and the amount of remittances that they send home have been increasing since the mid-1980s. Whereas only 70,000 Bangladeshis obtained employment abroad in 1985/86, 563,000 were working abroad in 2006/07. Remittances receipts, expressed as a

⁵⁵ "Bangladesh Economic Update: September 2009", World Bank, p. 1

⁵⁶ All US apparel import data from Office of Textiles and Apparel, Department of Commerce, monthly Major Shippers Reports.

⁵⁷ Solidarity Center, *The True Cost of Shrimp*, 2008, p. 9.

⁵⁸ Economist Intelligence Unit Country Profile, Bangladesh, July 2008, p. 18

⁵⁹ Economist Intelligence Unit Country Profile, Bangladesh, July 2008, p. 26

percentage of exports, have risen substantially from the already high 44.5 percent in 2004 to 62.3 percent in 2009 (Figure 3-7). By comparison, remittances represent only 10.6 percent of exports in the median LI-Asia country, 17.8 percent in India, and 10.4 in Vietnam.

Figure 3-7

Remittance Receipts (percentage of Exports of Goods and Services)

In FY2009 Bangladesh's current account balance has benefitted from a substantial improvement in the trade deficit, owing to falling commodity prices, weak imports, and a continued increase in remittances, achieving an impressive surplus of \$2.5 billion, equivalent to 2.8 percent of GDP.⁶⁰ By comparison, in 2009 India and Vietnam recorded current account deficits of 1.5 and 0.7 percent of GDP. The nominal exchange rate was kept stable through interventions by Bangladesh Bank to absorb the large influx of dollars from remittances. The declining inflation rate in the US has meant that the real effective exchange rate (REER) has appreciated in relation to its mid-2008 level⁶¹, putting additional pressure on exports. As such, the nominal exchange rate may require some adjustment for the latter to maintain their growth and competitiveness.

The global economic crisis has raised concerns, though, that remittances to Bangladesh might slow "as the number of Bangladeshis taking up new jobs overseas fell by a staggering 50% year on year to 327,359 in the first eight months of 2009. As there are no reliable data on returnees, it is impossible to know how many of the 6 million or so Bangladeshis working abroad have lost their jobs since the downturn in the global economy began."⁶² About 30 percent of all remittances come from Bangladeshi workers in Saudi Arabia.

The importance of remittance inflows to the economy is likely to be far greater than reflected in official data, as large sums of money are thought to enter the country through unofficial channels. The Central Bank has "taken steps to boost remittances through formal banking channels rather than through the illegal *Hundi* system, an informal value transfer system that is operated by a network of money brokers."⁶³ Beyond these measures, the growth effects of remittances could be enhanced if programs concentrated not only on capturing remittances in the formal banking system, but on reducing the costs associated with their transfer and channeling a larger portion of remittance income into productive investment.

⁶⁰ Asian Development Outlook, September 2009, p. 121

⁶¹ "Bangladesh Economic Update: September 2009", World Bank, p. 9

⁶² EIU Country Report, Bangladesh, September 2009, p. 13

⁶³ EIU Country Report, Bangladesh, September 2009, p. 13

Foreign Investment, External Assistance, and International Reserves

Inward capital flows into Bangladesh are primarily bi- and multilateral development loans made at concessional terms, with long maturities, which lightens the country's debt obligations.⁶⁴ Further, the impact of debt service has been reduced from 5.0 percent in 2004 to 3.2 percent of exports in 2008. At these levels, Bangladesh's debt service burden is well below the threshold of 20 percent often considered to be the sustainable maximum. Further, the debt service burden is even lower when compared to levels in India and Vietnam (5.4 and 6.5 percent, respectively). Likewise, the present value of debt obligations in 2007 stood at 22.4 percent of GNI, which is below the LI-Asia median of 28.6 percent and Vietnam's 34.8 percent. India's figure is more favorable (20.2 percent).

The problematic business environment and inadequate infrastructure mentioned in other sections of the report have continued to result in disappointing levels of FDI inflows into Bangladesh. Even during the last five years of fairly high growth, Bangladesh has not enjoyed a significant upward trend in FDI into the country such as occurred in both Vietnam and India (Figure 3-8a, 3-8b). Relative to the overall economy, FDI averaged only 1.0 percent of GDP in Bangladesh, which is only about one-fourth of the amount attracted by the average LI-Asia country median (3.7 percent) and less than a third of the median of LI countries (3.2 percent).

Figure 3-8a, 3-8b

Foreign Direct Investment

In April 2008 Bangladesh's rising value of imports became a reason for concern. This prompted the IMF to approve a US\$218 million emergency loan to support the country's international reserve position.⁶⁵ Over the five years to 2008, Bangladesh's gross international reserves have fluctuated between 3 and 4 months of import requirements, just at the level considered a prudent minimum to hedge against trade shocks. However, in FY 2009 the official foreign exchange reserves reached a record high of nearly US\$7.5 billion.⁶⁶

To summarize, the recent trends in the external sector bring out clearly the need to improve Bangladesh's insertion in the global economy. Efforts are needed to address the challenge of improving the competitiveness of the country's exports through the promotion of higher-value garments and diversification into other exportable production. This would likely require sizable investments in workforce development, as well as improvements to the country's business environment, including the supply of infrastructure (see below), to improve FDI attraction. The rising importance and possible precariousness of remittances also point to the benefits of improving efforts to reduce their cost of transmission and increase their developmental impact.

⁶⁴ Economist Intelligence Unit Country Profile, Bangladesh, July 2008, p. 27

⁶⁵ Economist Intelligence Unit Country Profile, Bangladesh, July 2008, p. 25

⁶⁶ "Bangladesh Economic Update: September 2009", World Bank, p. 1

ECONOMIC INFRASTRUCTURE

Reliable physical infrastructure—for transportation, communications, power, and information technology—is the backbone for improving competitiveness and expanding productive capacity. Bangladesh’s scores on most infrastructure quality indicators are on par or better than the global LI country median (two important exceptions being Internet users and electricity supply), but consistently below those from India and Vietnam.

In the most recent World Economic Forum’s (WEF) Executive Opinion Survey, the country’s Overall Infrastructure Quality scored 2.5 on a scale of 1 (poor) to 7 (excellent). This score is identical to the median of all LI countries. However, both India and Vietnam outperform with scores of 3.2 and 2.8, respectively. Bangladesh’s scores from the same survey regarding port and rail infrastructure have remained fairly stable in recent years, at 3.0 and 2.3 in 2009, respectively, which exceed the global LI country median, but are below India’s (3.5 and 4.5) and Vietnam’s (5.7 and 4.8).

The government is investing in road infrastructure with the support of multilateral organizations, but challenges remain.⁶⁷ In addition to roads, in 2010 the government will begin construction of the Padma Multipurpose Bridge to replace unreliable and dangerous ferry service and connect the southwest region of the country, encompassing Bangladesh’s second largest port (Mongla) and its third largest city (Khulna), to Dhaka. This will be the longest bridge in the country and it is hoped that it will increase economic growth for the depressed regions of the southwest.⁶⁸

In addition to transport constraints, Bangladesh’s availability of electricity has been a major bottleneck to the private sector, and the WEF score in this area has been consistently low at 1.8 percent and lagging all benchmarks, including the global LI median (2.6) and higher scores for India (3.2) and Vietnam (3.3). (Figure 3-9).

Figure 3-9

Electricity Supply Index

Electricity generation per head in Bangladesh is among the lowest in the world, its supply is highly erratic and vulnerable to interruption due to natural disasters, resulting in huge unmet demand for energy that is compensated for at the firm-level through private and expensive generation, while around 60 percent of households are completely unconnected to the grid.⁶⁹ The lack of reliable sources of electricity undoubtedly deters foreign investment and holds back economic growth. On the World Bank Enterprise Survey administered to Bangladesh in 2007, firms reported 101 power outages per month, in comparison with 42 on average in the region and only 9 on average for all countries. According to the Economist Intelligence Unit, “decades of

⁶⁷ Economist Intelligence Unit Country Profile, Bangladesh, July 2008, p. 15

⁶⁸ Padma Bridge Cost may hit \$2.0 b-The largest infrastructure project to be made of Steel, August 29, 2009.

⁶⁹ Economist Intelligence Unit Country Profile, Bangladesh, July 2008, pp. 14-16

underinvestment and rapidly rising demand mean that crippling power shortages will continue for years.”⁷⁰

Although doubling over the most recent five years, Bangladesh’s use of information and communication technology is low and falls behind all benchmarks. The number of Internet users per 1,000 people jumped from 1.6 in 2004 to 4.0 people in 2008, well below its expected value of 34.1, and at this level it is only half of the users in the median LI-Asia country (7.8). By comparison, the extent of information technology usage in India and Vietnam is far superior: 69.5 users per thousand in India and 239.0 in Vietnam.

On a positive note, over the five-year period under review Bangladesh has made good progress with respect to telephone density and air transport. Although it still lags behind India and Vietnam (33.8 and 61.4 fixed and mobile line subscribers per 1000 people, respectively), Bangladesh’s telephone density has greatly improved from a mere 2.4 lines in 2004 to 28.7 lines per 1000 people in 2009, surpassing the LI-Asia and global LI medians in the process (12.8 and 13.9 per thousand).

Likewise, “international air links to Dhaka have improved dramatically in recent years, partly as a result of the growing number of Bangladeshis working overseas. Domestic flights are often the only relatively reliable and time-efficient way of traveling within Bangladesh, but they are expensive. Most flights are very short, serving as a reminder of how poor the road network is.”⁷¹ Consistent with those improvements, Bangladesh’s score in the WEF Air Transport infrastructure index rose from 2.7 in 2006 to 3.4 on a scale of 1 (poor) to 7 (excellent) in 2009. Notwithstanding the improvement, the WEF’s survey scored India and Vietnam higher in this area (4.7 and 4.1, respectively).

The picture that emerges is quite clear: in spite of improvements in road and air transport networks and telephone density, the quality of economic infrastructure in Bangladesh remains poor on an absolute basis and in relation to the comparison countries. Beyond the individual scores on infrastructure quality presented above, executives surveyed by the World Economic Forum for the Global Competitiveness Report for 2009-10 ranked inadequate supply of infrastructure as the most problematic factor for doing business.⁷² Investments in infrastructure need to be made in order to foster expansion of productive capacity and economic growth. Electricity supply, roads, and information and communication technology usage emerge as areas in which Bangladesh lags the most.

SCIENCE AND TECHNOLOGY

Science and technology are vital to a dynamic business environment and a driving force behind increased productivity and competitiveness. Even for low-income countries such as Bangladesh, transformational development depends on acquiring and adapting technology from the global

⁷⁰ Ibid, p. 16.

⁷¹ Economist Intelligence Unit Country Profile, Bangladesh, July 2008, p. 15.

⁷² World Economic Forum, Global Competitiveness Report 2009-2010.

economy. Lack of capacity to access and use technology prevents an economy from leveraging the benefits of globalization. Unfortunately, very few international indicators are available to judge performance in this area for low- and lower-middle-income countries. From the limited information that is available, though, it appears that science and technology capability in Bangladesh is not even on par with the median global LI country, and well below the scores of India and Vietnam in most cases. This indicates the need to develop increased science and technology capabilities in the country to ensure sustainable development.

Indicators of local science and engineering capacity in Bangladesh are comparable to those of Vietnam, but both lag India in this area. Indeed, the number of scientific and technology journal articles per million articles published in Bangladesh every year averaged 181.6 over the five years to 2005. This is just slightly below our expected value for a country like Bangladesh (224.4) and Vietnam's 221 articles per million. India's capacity in this area, though, is superior by far with a publication rate of 14,608 articles per million. Likewise, on the World Economic Forum Index of the availability of scientists and engineers, Bangladesh's score of 4.1 in 2009 (on a scale of 1 (poor) to 7 (excellent)) is on par with Vietnam's 4.2 but below India's superior 5.6.

On the World Economic Forum's (WEF) FDI Technology Transfer Index, survey respondents Bangladesh a score of 4.2 on a scale of 1 (poor) to 7 (excellent) in 2009. While in absolute terms this is a positive score, it is below all available benchmarks: 4.5 for the median global LI country, 5.0 for Vietnam, 5.4 for India. Additionally, our expected value for a country of Bangladesh's characteristics is 4.8. Worryingly, Bangladesh's score has declined every year from 4.5 in 2006 to its actual level of 4.2, indicating that executives have decreasing confidence that the little FDI coming into Bangladesh is bringing new technology. The broader concern, of course, is to increase FDI overall, as discussed in the External Sector section.

Finally, in regard to intellectual property rights (IPR) protection, Bangladesh received a score of 2.4 out of 7, which is low on an absolute basis and below the median global LI country (2.9). Intellectual property protection is also low in India and Vietnam, with scores of 3.2 and 3.3, respectively, indicating that in all of these countries IPR are poorly enforced.

4. Pro-Poor Growth Environment

Rapid growth is the most powerful and dependable instrument for poverty reduction, but the link from growth to poverty reduction is not mechanical. In some circumstances, income growth for poor households exceeds the overall rise in per capita income, in others the poor are left far behind. A pro-poor growth environment stems from policies and institutions that improve opportunities and capabilities for the poor while reducing their vulnerabilities. Pro-poor growth is associated with investment in primary health and education, the creation of jobs and income opportunities, the development of skills, the availability of microfinance, agricultural development, and gender equality. This section focuses on four of these issues: health, education, employment and the workforce, and agricultural development.

HEALTH

The provision of basic health service is a major form of human capital investment and a significant determinant of growth and poverty reduction. Although health programs do not fall under the EGAT bureau, an understanding of health conditions can influence the design of economic growth interventions. A government's commitment to improving health policy is essential to a country's development. While the government of Bangladesh has had great success in several areas of health policy there are many more that deserve its attention.

Overall the health of the population of Bangladesh has been steadily improving. This is evidenced in a new high life expectancy of 66.3 years in 2008, exceeding both India (64.7) and the LI-Asia median (64.3), although below Vietnam's 74.2 years. This improvement in health is also obvious in the swiftly decreasing rate of child mortality. According to the Millennium Development Goal Indicators Bangladesh has already reduced the under-five mortality rate by 60 percent from 151 deaths per 1,000 live births in 1990 to 61 deaths in 2007.⁷³ This puts Bangladesh well on the way to reaching the MDG goal of a two thirds reduction by 2015.

The continued improvement in the life expectancy is partly due to government programs that worked hard to stop the spread of AIDS. In many developing countries the AIDS epidemic can drag down life expectancy as more and more young people die. In 2007 less than one-tenth of one percent of Bangladeshis were infected. Recently, however, the rates of infection among male

⁷³ MDG Database 2009 Update: <http://mdgs.un.org/unsd/mdg/Data.aspx>

injection drug users have increased from 1 percent in 1999 to 7 percent in 2006, raising concerns about a larger potential problem in the future.⁷⁴

Along with the increased AIDS awareness Bangladesh has made a considerable effort to improve awareness and use of contraceptives and family planning to control the growth of the population. This has led to a significant decline in fertility rates, from 3.4 children per women in 1994 to 2.7 in 2007, and again exhibited the effectiveness of government involvement in health policy. The government has also seen considerable success with the national immunization program. The child immunization rate has held steady at 89 percent from 2006 to 2007, above the LI-Asia median of 81.0 percent, and even outdoing Vietnam's 87.5 percent (Figure 4-1). Even in rural Bangladesh the immunization rate is 81 percent.⁷⁵ Much of this success is due to good organization and adequate funding. While this success is admirable, Bangladesh has not committed sufficient resources to tackle many other pressing health problems.

Figure 4-1

(Chart of immunization rates)

Public health expenditures have remained at about 1 percent of GDP between 2002 and 2007. This is below the LI-Asia median of 1.7 percent and half the LI median of 2.0 percent. This lack of funding is most apparent in the recent decline in the percent of births attended by a skilled professional. The rate had improved from 14 percent in 2003 to 20.1 percent in 2006, only to fall back to 18 percent in 2007. The vast majority of births (85 percent) happen in the home, and of the few that do happen at a health facility the greatest increase has been in private or NGO facilities.⁷⁶ Not surprisingly the maternal mortality rate is higher in Bangladesh (570 deaths per 10,000 live births) than in India (450) or Vietnam (150), although it is equal to the LI-Asia median. Malnutrition rates for children under the age of five in Bangladesh, taken from the World Bank's World Development Indicators, fell to 39.2 percent in 2005. As there were no subsequent data from that source, Demographic and Health Survey data were used for 2007. These indicate that the malnutrition rate fell to 41 percent from 43 percent in 2004. The fall in the malnutrition rate is encouraging, but remains high for a country that has seen so much economic growth. Moreover, the rate is still slightly above the LI-Asian median (40.8 percent) and nearly double the rate in Vietnam (20.2 percent).

Data on access to improved water sources and improved sanitation are also a bit sparse, but long range data show a steady improvement. Access to improved sanitation increased from 28 percent of the population in 1995 to 36 percent in 2006, which is equal to progress made in LI-Asia. The percent of the population with access to improved water sources also increased from 78 to 80 percent over the same period. However, this slow improvement has not been enough to keep up

⁷⁴ 2007 Demographic and Health Survey, March 2009

⁷⁵ *ibid.*

⁷⁶ *ibid.*

with the LI-Asia median of 84 percent and is significantly behind shares in India (89 percent) and Vietnam (92 percent). Together these show a continued need for further investment in health services. The Bangladesh government has already shown that with sufficient funding and proper planning it can improve child immunization rates, decrease the fertility rate, and prevent the spread of AIDS, which are impressive accomplishments, but there is clearly room for further improvement.

EDUCATION

Along with health, education is a fundamental human capital investment and a vital input for achieving pro-poor growth. In recent years, government and international donor efforts have made substantial progress toward meeting the Millennium Development Goal (MDG) of achieving universal primary school education, particularly among girls, in Bangladesh. However, primary completion rates, secondary school enrollment rates, and indicators of educational quality reveal a far grimmer picture of the education sector in Bangladesh.

The net primary enrollment rate has increased to from 76.3 percent in 1991 to 86.5 percent in 2006. These gains have brought Bangladesh in line with the LI-Asia median value of 83.3 percent and India's 88.7 percent. Vietnam's primary school enrollment rate of 93.4 percent serves as a credible aspiration. Similar enrollment gains have been achieved at the tertiary level. Gross tertiary enrollment increased from 6.0 percent in 2003 to 7.2 percent in 2007. Bangladesh outperforms the LI group median 2.3 percent and the LI-Asia median of 5.1 percent, but still lags behind India's gross tertiary enrollment rate of 11.8 percent.

Data on the net secondary school enrollment rate, however, indicate a decline from 44.2 percent in 2003 to 40.7 percent in 2007. Bangladesh still outperforms the global LI group median of 28.5 percent and the LI-Asia median of 35.5 percent, but widens its gap with Vietnam, which obtained a secondary school enrollment rate of 62 percent in 2001 (latest year of data). Moreover although Bangladesh's primary completion rate of 56.3 percent (2006) is on par with the global LI median of 56.5 percent, it remains very low relative to international benchmarks, including the LI-Asia median of 72.2 percent and India's 85.7 percent.

In 2007, youth literacy stood at just 72.1 percent in Bangladesh, compared to the global LI group median of 77.8 percent and India's 82.1 percent. This is particularly troubling given that the net primary enrollment rate among LI countries is just 57.7 percent, over 25 percentage points lower than in Bangladesh. The adult literacy rate of only 53.5 percent (2007) is also of great concern. Adult literacy in Bangladesh is not only well below benchmarks, but low on an absolute basis (Figure 4-2). By comparison, the global LI country median and the expected value for a country with Bangladesh's characteristics are 65 and 69.1 percent, respectively. India posted an adult literacy rate of 66 percent in 2007. The gap is even wider when compared to Vietnam, which registered a rate of 90.3 percent in the same year.

Figure 4-2

Adult literacy rate

Although it is difficult to gauge quality using international statistics, one crude but common proxy is the pupil—teacher ratio, with fewer students per teacher being preferable. In 2007, there were 45 students per teacher in Bangladesh. This is double Vietnam’s 20:1 ratio but is on par with the LI group median of 41 students per teacher and slightly above India’s 2004 figure of 40:1 (latest year of data). Another rough indicator of quality is the share of government expenditure on education. Between 2002 and 2006, Bangladesh’s expenditure on primary education has remained stagnant at just 1.0 percent of GDP, while over this same period the real GDP grew by over 6 percent per year.

Bangladesh’s poor performance on educational indicators such as the primary completion rate and youth and adult literacy rates reflects a cumulative lack of educational attainment in Bangladesh. Adult literacy programs with broad outreach could help to close the gap, while broader attention to improving the quality of education will help to ensure that youth who enter the workforce arrive better prepared to pursue skilled employment opportunities.

EMPLOYMENT AND WORKFORCE

In recent years, the government has made concerted efforts to facilitate employment growth to compensate for Bangladesh’s labor surplus. The size of the labor force continues to increase, growing by 2.3 percent in 2008 to 76 million people (Figure 4-3). This growth in new entrants to the workforce is higher than both India (1.7 percent) and Vietnam (2.1 percent) and has outpaced the employment growth rate, which averaged 1.6 percent since the 1990s, leading to a labor surplus in Bangladesh.⁷⁷ Although the official unemployment rate was just 4.2 percent in 2006 this figure does not accurately reflect the market for labor. The unemployment rate is defined as those without jobs who are actively seeking work, thus those who are underemployed or who do not register as actively seeking work are not counted. While underemployment can be measured many ways, in Bangladesh it is defined as working less than 35 hours per week. In 2006 the underemployment rate was 24.5 percent, which was a marked improvement from 35 percent in 2003.⁷⁸

Figure 4-3

(Labor Force)

Similarly, the unemployment rate does not account for the nearly 1 million Bangladeshis who traveled abroad seeking employment in the 2008 fiscal year.⁷⁹ The labor surplus has led many to travel abroad, principally to the Middle East, to seek work. This has helped relieve the domestic labor market from the stress of the growing labor force, and helps to explain steady or declining

⁷⁷ Recent Employment Situation and Labor Market Developments in Bangladesh, Bangladesh Bank

⁷⁸ Role of Labor-Related Issues in the Foreign Assistance Framework, Bangladesh Labor Assessment, June 2009 Draft, pg 24. Recent Employment Situation and Labor Market Developments in Bangladesh, Bangladesh Bank, pg 4.

⁷⁹ Economic Trends October 2009, Bangladesh Bank

labor force participation rate. As jobs become scarce in Bangladesh, more and more workers take advantage of the various government services facilitating worker migration. Unfortunately, the global recession has slowed this exportation of excess labor. Recently the number of Bangladeshis traveling abroad for work has dropped 34 percent year on year, from the peak of 981,102 workers in 2008 to 650,059 workers in 2009 (Figure 4-4).⁸⁰

Figure 4-4

(Bangladeshis traveling abroad – data from Bangladesh Bank)

Like most developing countries Bangladesh is undergoing significant urbanization. While 48 percent of the labor force was employed in agriculture in 2006, between 2000 and 2006 the urban labor force grew by 30 percent.⁸¹ One of the primary drivers of this urbanization has been expansion of the RMG industry.⁸²

Although women still lag far behind men in labor force participation rates (57.2 percent versus 84.5 percent in 2007), the female presence in the labor market has been steadily increasing. While in 2000 women accounted for only 20 percent of the total employed labor force (in both formal and informal sectors), that share grew to 24 percent in 2006.⁸³ Much of this increase has been due to the RMG industry where women make up nearly 90 percent of the labor force.⁸⁴ Although the majority of employment in Bangladesh is found in the informal sector and labor unions are quite weak, the firing costs of Bangladesh are unusually high at 104 weeks versus 88.5 for LI-Asia, 56 for India, and 87 for Vietnam. At the same time the rigidity of employment index (28) is not out of line with the LI-Asia median of 24 and is between indices found in India (30) and Vietnam (21).

AGRICULTURE

The agriculture sector continues to play a critical role in the overall economy. The sector is dominated by small scale farming, with about 75 percent of agricultural land devoted to the production of rice, the main food staple for Bangladeshis. Bad weather conditions due to drought and cyclones cause shortfalls in the domestic food supply, leading to spiraling prices in the economy.

⁸⁰ Economic Trends October 2009, Bangladesh Bank

⁸¹ Employment Promoting Growth in Bangladesh: Monetary and Financial Sector Issues, Bangladesh Bank

⁸² The Role of Labor-Related Issues in the Foreign Assistance Framework, Bangladesh Labor Assessment, June 2009 Draft, pg 24.

⁸³ Recent Employment Situation and Labor Market Developments in Bangladesh, Bangladesh Bank

⁸⁴ Employment Promoting Growth in Bangladesh: Monetary and Financial Sector Issues, Bangladesh Bank

Increased use of fertilizer and availability of irrigation have increased cereal yields. Cereal yields increased by 10 percent between 2003-2007. At 3,828 kg per hectare, yields were higher than the 2528 kg per hectare for India as well as above the LI-Asian median and significantly above the median for LI global of 1,316 kg per hectare (Figure 4-5). Fertilizer grew by 4.8 percent during the 2001-2005 period, and is one of the largest in Asia, at close to 200 kilograms per hectare.⁸⁵ This compares to the median value for fertilizer use of 67 kilograms per hectare in LI Asia and the even lower median value of 6 kilograms per hectare for LI (Figure 4-6). Vietnam is the other leading user of fertilizer, averaging 300 kilograms per hectare. Vietnam, matching its fertilizer consumption, has high cereal yields of 4,715 kg per hectare. Crop production was 11 percent higher for Bangladesh in 2005 as compared to 1999-2001 while it increased for Vietnam by almost 24 percent during that same period.

Irrigation is used, particularly for cultivating the high yielding boro rice. Irrigation is done using privately owned shallow tube wells and powered pumps run by diesel, which makes the price of rice very sensitive to the diesel price. According to IRRI, A major factor behind the high unit cost of production of the HYV rice in Bangladesh is the cost of irrigation compared to the other countries in the region. Bangladeshi farmers have to spend about 51 US dollars in irrigating one hectare land whereas the irrigation cost are about 32 dollars in Punjab, India and 18 dollars in Thailand and 26 dollars in Vietnam.⁸⁶

In Bangladesh, some coastal areas in the Southwestern Districts of Satkhira, Khulna, Bagerhat and Patuakhali part of the country have been flooded to produce shrimp and prawn for export—contributing up to 40 percent of income in some cases (prawn post-harvest fishing).

⁸⁷Indiscriminate fishing has effect on biodiversity in coastal ecosystems and the government has had to restrict postlarvae collection. Global climate changes are particularly worrisome for Bangladesh due to lowlying lands that can wash out agricultural production.

The agriculture sector faces multifaceted challenges, ranging from interventions needed to decrease the cost of irrigation to environmental conservation measures for protecting the natural resource base. Given the magnitude of the problems and the limited resources that Bangladesh has to deal with these, the international donor community will have to be heavily involved in supporting improved prospects in this sector.

⁸⁵ Forces Shaping Food Security: Factors Affecting Production, Food Security Assessment GF-16 Economic Research Service, USDA

⁸⁶ Liberalization of the Crop Sector: Can Bangladesh Withstand Regional Competition? Center for Policy Dialogue, Dhaka Bangladesh, September 2003

⁸⁷ Population and food: Global trends and future prospects. Dyson, Tim.

Appendix A. CAS Methodology

CRITERIA FOR SELECTING INDICATORS

The economic performance evaluation in this report balances the need for broad coverage and diagnostic value with the requirement of brevity and clarity. The analysis covers 15 economic growth-related topics, and just over 100 variables. For the sake of brevity, the write-up in the text highlights issues for which the “dashboard lights” appear to be signaling problems, which suggest possible priorities for USAID intervention. The accompanying table provides a full list of indicators examined for this report. The data supplement in Appendix B contains the complete data set for Bangladesh including data for the benchmark comparisons, and technical notes for every indicator.

For each topic, the analysis begins with a screening of *primary performance indicators*. These Level I indicators are selected to answer the question: Is the country performing well or not in this area? The set of primary indicators also includes descriptive variables such as per capita income, the poverty head count, and the age dependency rate.

When Level I indicators suggest weak performance, we review a limited set of *diagnostic supporting indicators*. These Level II indicators provide additional details, or shed light on *why* the primary indicators may be weak. For example, if economic growth is poor, one can examine data on investment and productivity as diagnostic indicators. If a country performs poorly on educational achievement, as measured by the youth literacy rate, one can examine determinants such as expenditure on primary education, and the pupil–teacher ratio.¹

Indicators have been selected on the basis of the following criteria. Each must be accessible through USAID’s Economic and Social Database or convenient public sources, particularly on the Internet. They should be available for a large number of countries, including most USAID client states, to support the benchmarking analysis. The data should be sufficiently timely to support an assessment of country performance that is suitable for strategic planning purposes. Data quality is another consideration. For example, subjective survey responses are used only when actual measurements are not available. Aside from a few descriptive variables, the indicators must also be useful for diagnostic purposes. Preference is given to measures that are widely used, such as Millennium Development Goal indicators, or evaluation data used by the Millennium Challenge Corporation. Finally, an effort has been made to minimize redundancy. If two indicators provide similar information, preference is given to one that is simplest to understand, or most widely used. For example, both the Gini coefficient and the share of income

¹ Deeper analysis of the topic using more detailed data (Level III) is beyond the scope of this series.

accruing to the poorest 20 percent of households can be used to gauge income inequality. We use the income share because it is simpler and more sensitive to changes.

BENCHMARKING METHODOLOGY

Comparative benchmarking is the main tool used to evaluate each indicator. The analysis draws on several criteria, rather than a single mechanical rule. The starting point is a comparison of performance in Bangladesh relative to the average for countries in the same income group and region—in this case, low income countries in Asia.² For added perspective, three other comparisons are examined: (1) the global average for this income group; (2) respective values for two comparator countries approved by the Bangladesh mission and (3) the average for the five best- and five worst-performing countries globally. Most comparisons are framed in terms of values for the latest year of data from available sources. Five-year trends are also taken into account when this information sheds light on the performance assessment.³

For selected variables, a second source of benchmark values uses statistical regression analysis to establish an expected value for the indicator, controlling for income and regional effects.⁴ This approach has three advantages. First, the benchmark is customized to Bangladesh's specific level of income. Second, the comparison does not depend on the exact choice of reference group. Third, the methodology allows the quantification of the margin of error and establishment of a "normal band" for a country with Bangladesh's characteristics. An observed value falling outside this band on the side of poor performance signals a serious problem.⁵

Finally, where relevant, Bangladesh's performance is weighed against absolute standards. For example, a corruption perception index below 3.0 is a sign of serious economic governance problems, regardless of the regional comparisons or regression result.

² Income groups as defined by the World Bank for 2008. In this report, the average is defined in terms of the median so that values are not distorted by outliers.

³ The five-year trends are computed by fitting a log-linear regression line through the data points. The alternative of computing average growth from the end points produces aberrant results when one or both of those points diverges from the underlying trend.

⁴ This is a cross-sectional OLS regression using data for all developing countries. For any indicator, Y, the regression equation takes the form: Y (or $\ln Y$, as relevant) = $a + b * \ln \text{PCI} + c * \text{Region} + \text{error}$ — where PCI is per capita income in PPP\$, and Region is a set of 0-1 dummy variables indicating the region in which each country is located. When estimates are obtained for the parameters a, b, and c, the predicted value for the Bangladesh is computed by plugging in Bangladesh specific values for PCI and Region. Where applicable, the regression also controls for population size and petroleum exports (as a percentage of GDP).

⁵ This report uses a margin of error of 0.68 times the standard error of estimate (adjusted for heteroskedasticity, where appropriate). With this value, 25 percent of the observations should fall outside the normal range on the side of poor performance (and 25 percent on the side of good performance). Some regressions produce a very large standard error, giving a "normal band" that is too wide to provide a discerning test of good or bad performance.

STANDARD CAS INDICATORS

Indicator	Level	MDG, MCA, or EcGov ^a
Statistical Capacity Indicator	I	EcGov
Growth Performance		
Per capita GDP, in purchasing power parity Dollars	I	
Per capita GDP, in current US Dollars	I	
Real GDP Growth	I	
Growth of labor productivity	II	
Investment Productivity, incremental capital-output ratio (ICOR)	II	
Gross fixed investment, % GDP	II	
Gross fixed private investment, % GDP	II	
Poverty and Inequality		
Human poverty index (0 for excellent to 100 for poor)	I	
Income-share, poorest 20%	I	
Population living on less than \$1.25 PPP per day	I	MDG
Poverty Headcount, by national poverty line	I	MDG
PRSP Status	I	EcGov
Population below minimum dietary energy consumption	II	MDG
Economic Structure		
Employment or labor force structure	I	
Output structure	I	
Demography and Environment		
Adult literacy rate	I	
Youth dependency rate/ Elderly dependency rate	I	
Environmental performance index (0 for poor to 100 for excellent)	I	
Population size and growth	I	
Percent of population living in urban areas	I	
Resource depletion, % GNI	I	
Gender		
Primary completion rate, male, female	I	MCA
Gross enrollment rate, all levels, male, female	I	MDG
Life expectancy at birth, male, female	I	
Labor force participation rate, male, female	I	
Fiscal and Monetary Policy		
Govt. expense, % GDP	I	EcGov
Govt. revenue, excluding grants, % GDP	I	EcGov
Growth in the broad money supply	I	EcGov
Inflation rate	I	MCA
Overall govt. budget balance, including grants, % GDP	I	MCA, EcGov
Composition of govt. expense	II	
Composition of govt. revenue	II	
Composition of money supply growth	II	

Indicator	Level	MDG, MCA, or EcGov ^a
Business Environment		
Control of Corruption Index (-2.5 for poor to 2.5 for excellent)	I	EcGov
Ease of doing business ranking	I	EcGov
Rule of law index (-2.5 for poor to 2.5 for excellent)	I	MCA, EcGov
Regulatory quality index (-2.5 for poor to 2.5 for excellent)	I	MCA, EcGov
Government effectiveness index (-2.5 for poor to 2.5 for excellent)	I	MCA, EcGov
Cost of starting a business	II	MCA, EcGov
Procedures to enforce a contract	II	EcGov
Procedures to register property	II	EcGov
Procedures to start a business	II	EcGov
Time to enforce a contract	II	EcGov
Time to register property	II	EcGov
Time to start a business	II	MCA, EcGov
Total tax payable by business	II	EcGov
Business costs of crime, violence, terrorism index (1 for poor to 7 for excellent)	II	
Senior manager time spent dealing with government regulations	II	EcGov
Financial Sector		
Domestic credit to private sector, % GDP	I	
Interest rate spread	I	
Money supply, % GDP	I	
Stock market capitalization rate, % of GDP	I	
Credit information index (0 for poor to 6 for excellent)	I	
Legal rights of borrowers and lenders index (0 for poor to 10 for excellent)	II	
Real Interest rate	II	
Number of Active Microfinance Borrowers	II	
External Sector		
Aid , % GNI	I	
Current account balance, % GDP	I	
Debt service ratio, % exports	I	MDG
Export growth of goods and services	I	
Foreign direct investment, % GDP	I	
Gross international reserves, months of imports	I	EcGov
Gross Private capital inflows, % GDP	I	
Present value of debt, % GNI	I	
Remittance receipts, % exports	I	
Trade, % GDP	I	
Trade in services, % GDP	I	
Concentration of exports	II	
Inward FDI potential index	II	
Net barter terms of trade	II	
Real effective exchange rate (REER)	II	EcGov

Indicator	Level	MDG, MCA, or EcGov ^a
Structure of merchandise exports	II	
Trade freedom index (0 for poor to 100 for excellent)	II	MCA, EcGov
Ease of trading across borders ranking	II	EcGov
Economic Infrastructure		
Internet users per 100 people	I	MDG
Logistics performance index, infrastructure	I	
Telephone density, fixed line and mobile	I	MDG
Overall infrastructure quality index (1 for poor to 7 for excellent)	I	EcGov
Quality of infrastructure—railroads, ports, air transport, and electricity	II	
Roads paved, % total roads	II	
Science and Technology		
FDI and technology transfer index (1 for poor to 7 for excellent)	I	
Availability of scientists and engineers index (1 for poor to 7 for excellent)	I	
Science & technology journal articles per million people	I	
IPR protection index (1 for poor to 7 for excellent)	I	
Health		
HIV prevalence	I	
Life expectancy at birth	I	
Maternal mortality rate	I	MDG
Access to improved sanitation	II	MDG
Access to improved water source	II	MDG
Births attended by skilled health personnel	II	MDG
Child immunization rate	II	MCA
Prevalence of child malnutrition (weight for age)	II	
Public health expenditure, % GDP	II	MCA, EcGov
Education		
Net primary enrollment rate, male, female, total	I	MDG
Primary completion rate, total	I	
Youth literacy rate, male, female, total	I	
Net secondary enrollment rate	I	
Gross tertiary enrollment rate	I	
Education expenditure, primary, % GDP	II	MCA, EcGov
Expenditure per student, % GDP per capita—primary, secondary, and tertiary	II	EcGov
Pupil-teacher ratio, primary school	II	
Employment and Workforce		
Labor force participation rate, total	I	
Rigidity of employment index (0 for minimum rigidity to 100 for maximum)	I	EcGov
Size and growth of the labor force	I	
Unemployment rate	I	
Economically active children, % children ages 7-14	I	

Comment [MEJ1]: Index name has changed need to see if this still applies (MJ)

Indicator	Level	MDG, MCA, or EcGov ^a
Firing costs, weeks of wages	II	EcGov
Agriculture		
Agriculture value added per worker	I	
Cereal yield	I	
Growth in agricultural value-added	I	
Fertilizer consumption (100 grams per hectare of arable land)	II	
Agricultural policy costs index (1 for poor to 7 for excellent)	II	EcGov
Crop production index	II	
Livestock production index	II	

^a Level I = primary performance indicators, Level II = supporting diagnostic indicators

^b MDG—Millennium Development Goal indicator
MCA—Millennium Challenge Account indicator

EcGov—Major indicators of economic governance, which is defined in USAID's Strategic Management Interim Guidance to include "microeconomic and macroeconomic policy and institutional frameworks and operations for economic stability, efficiency, and growth." The term therefore encompasses indicators of fiscal and monetary management, trade and exchange rate policy, legal and regulatory systems affecting the business environment, infrastructure quality, and budget allocations.

Appendix B. Data Supplement

This supplement presents a full tabulation of the data and international benchmarks examined for this report, along with technical notes on the data sources and definitions.