WHITE PAPER 2024
STATE OF THE BANGLADESH ECONOMY
DISSECTION OF A DEVELOPMENT NARRATIVE

DHAKA, 2024

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WHITE PAPER 2024
STATE OF THE BANGLADESH ECONOMY
DISSECTION OF A DEVELOPMENT NARRATIVE

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List of Meetings and Outreach

White Paper Committee Meetings

1. 1st Meeting of White Paper Committee on Thursday, August 29, 2024, at Bangladesh Planning Commission
2. 2nd Meeting of White Paper Committee on Tuesday, September 3, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
3. 3rd Meeting of the White Paper Committee on Wednesday, September 18, 2024, the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
4. 4th White Paper Committee Meeting to discuss first drafts of selected chapters on Thursday, October 17, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
5. 5th White Paper Committee Meeting to discuss first drafts of selected chapters on Sunday, October 20, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
6. 6th White Paper Committee Meeting to discuss first drafts of selected chapters on Sunday, October 20, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
7. 7th White Paper Committee Meeting to discuss first drafts of selected chapters on Thursday, October 24, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
8. 8th White Paper Committee Meeting to discuss first drafts of selected chapters son Sunday, October 27, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
9. 9th White Paper Committee Meeting to discuss first drafts of selected chapters on Tuesday, October 29, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
10. 10th White Paper Committee Meeting to discuss first drafts of selected chapters on Tuesday, October 29, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
11. 11th White Paper Committee Meeting to discuss revised drafts of selected chapters on Wednesday, 6 November 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission.
12. 12th White Paper Committee Meeting to discuss revised drafts of selected chapters on Thursday, 7 November 2024 at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission.
13. 13th White Paper Committee Meeting to discuss revised drafts of selected chapters on Sunday, 10 November 2024 at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission.
14. 14th White Paper Committee Meeting to discuss revised drafts of selected chapters on Monday, 11 November 2024 at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission.
15. 15th White Paper Committee Meeting to discuss revised drafts of selected chapters on Tuesday, 12 November 2024 at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission.

16. 16th White Paper Committee Meeting to discuss revised drafts of selected chapters on Thursday, 14 November 2024 at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission.
17. 17th White Paper Committee Meeting to discuss revised drafts of selected chapters on Sunday, 17 November 2024 at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission.
18. 18th White Paper Committee Meeting on Sunday, 24 November 2024 at Brac Centre Inn.

Policy Consultations

19. Consultation with the Student Coordinators on Thursday, September 5, 2024, the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
20. Consultation with Non-Resident Scholars on Thursday, September 5, 2024 (Virtual)
21. Consultation with UNDP & GED on Thursday, September 5, 2024, at Bangladesh Planning Commission
22. Consultation with Focal Points of the Government Ministries, Divisions and Agencies on Tuesday, September 17, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
23. Consultation with senior economists and experts on Wednesday, September 18, 2024, the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
24. Consultation with young economists and experts on Wednesday, September 18, 2024, the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
25. Consultation with young entrepreneurs on Sunday, September 29, 2024, the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
26. Consultation with trade unions on Monday, September 30, 2024, the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
27. Consultation with a selected group of economists and relevant experts at international development partners on Tuesday, October 1, 2024, the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
28. Consultation with Foreign Investors on Tuesday, October 1, 2024, the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
29. Consultation with civil society organisations on Monday, October 7, 2024, at the Conference Room, NEC, Bangladesh Planning Commission.
30. Consultation with Bengali Professionals at international development partners on Monday, October 7, 2024, the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
31. Consultation with the American Chamber of Commerce in Bangladesh on Tuesday, October 8, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
32. Consultation with the UNICEF Bangladesh on Monday, October 14, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
33. Consultation with Senior Journalists on Monday, October 21, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission.
34. Consultation with Economic Reporters' Forum (ERF) on Thursday, October 31, 2024, at Coordination Room, Nazia Salma Building, Bangladesh Planning Commission.
35. Consultation on ICT sector from 12.00 - 2.00 pm on Wednesday, 6 November 2024 at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission.

36. Consultation with high-level government officials on Sunday, 3 November 2024, at Conference Room, NEC, Bangladesh Planning Commission.
37. Consultation with the heads of foreign missions in Bangladesh on Monday, 4 November 2024, at Coordination Room, Nazia Salma Building, Bangladesh Planning Commission.
38. Consultation with heads of UN agencies and international financial institution in Bangladesh on Tuesday, 5 November 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
39. Consultation with the US-Bangladesh Business Council on Monday, November 18, 2024 (online)

Technical Consultations

40. Consultations with National Accounting Wing, Bangladesh Bureau of Statistics (BBS) on Tuesday, September 17, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
41. Consultation with the Implementation, Monitoring and Evaluation Division (IMED) on Thursday, September 19, 2024 at IMED Office, Bangladesh Planning Commission
42. Meeting with BBS on Monday, September 23, 2024, at the BBS.
43. Consultation on External Sector in Bangladesh on Wednesday, September 25, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
44. Consultation with Women Representatives on Thursday, September 26, 2024, a at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
45. Consultation on Institutions on Thursday, September 26, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
46. Consultation with practitioners working in the disability field on Thursday, September 26, 2024, at Meeting Room 11, Building 4, Planning Commission.
47. Consultation on Power and Energy Sector on Sunday, September 29, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
48. Consultation with SME Entrepreneurs on Monday, September 30, 2024, at SME Foundation.
49. Consultation with Gas Transmission Company Limited (GTCL) on Monday, September 30, 2024
50. Consultation on Domestic Revenue Mobilisation on Tuesday, October 1, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
51. Consultation on Public Expenditures on Sunday, 6 October 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
52. Consultation with the Bangladesh Power Development Board on Monday, October 7, 2024
53. Consultation on Agriculture and Food Security on Tuesday, October 8, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission
54. Consultation on Climate Change Issue on Thursday, October 17, 2024, at the Coordination Room, Nazia Salma Building, Bangladesh Planning Commission

Public Hearings

55. Public Hearing at Sylhet on Wednesday, October 2, 2024, at Nirvana Inn, Sylhet
56. Public Hearing at Chattogram on Saturday, October 5, 2024, The Peninsula, Chittagong
57. Public Hearing at Rajshahi on Wednesday, October 9, 2024, at Grand River View Hotel, Rajshahi

Media Briefing

58. Launching Media Briefing "White Paper on State of the Bangladesh Economy" on Monday, 2 December 2024, Conference Room, NEC, Bangladesh Planning Commission

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FOREWORD

> **"TIME PRESENT AND TIME PAST ARE BOTH PERHAPS PRESENT IN TIME FUTURE, AND TIME FUTURE CONTAINED IN TIME PAST"**
>
> — T.S. Eliot, Four Quartets: Burnt Norton (1936)

The Context

The current government, which came to power through a student-citizen uprising, is confronted with an economy burdened by significant structural challenges and macroeconomic pressures. Rising inequality and a lack of distributive justice are among the most alarming features of the economy. These issues are evident in areas such as public finance management, external balance sustainability, and the human development status of disadvantaged communities. The Interim Government of Bangladesh (GoB) must address these challenges as it strives to restore macroeconomic stability and implement reforms that promote inclusive development.

Recognising the gravity of the situation, the Interim Government issued a gazette notification on 29 August 2024 to establish a committee tasked with preparing a White Paper on the state of the economy. The twelve-member committee was given three months[1] to provide an objective assessment of the economic conditions inherited by the government. This document is the result of that directive.

Design of the White Paper

The preparation of the White Paper is, at its core, a transparency initiative that offers an honest evaluation of the economy's 'ground zero'. The White Paper adopts an integrated approach, drawing on real-time empirical data and the perspectives of informed stakeholders to provide not only an account of 'what happened' but also an analysis of 'why it happened'. While such an exercise cannot be fully complete without addressing future implications, this document touches on them in a limited manner.

Although commissioned by the government, the authors of the White Paper remain solely responsible for its content. The government is free to select from the policy recommendations presented in the report.

The authors acknowledge that the scope and depth of the analyses in this report are limited, primarily due to time and resource constraints. Nonetheless, the White Paper serves as a valuable resource for the Commissions, committees, and task forces established by the government to examine specific economic reform issues.

This report is the culmination of an intense and inclusive consultative process. The process was structured around three broad pillars: (a) team mobilisation and logistical arrangements, (b) data

[1] The White Paper was completed and submitted to the Chief Adviser of the Government of Bangladesh on 1 December 2024, within the agreed timeframe.

generation, information collection, and consultations, and (c) consolidation, drafting, and validation of the report.

A total of 60 consultations were held: the White Paper Committee members convened 618 times to plan and discuss their tasks, conducted 22 policy-related consultations, 17 technical consultations and key informant interviews, and held three public hearings outside Dhaka (in Sylhet, Chattogram, and Rajshahi). A complete list of meetings is provided separately in the report.

In response to the committee's open call, more than 340 ideas, views, and inputs were received via emails, posts, and White Paper social media platforms.

The Overarching Findings

The White Paper investigates and outlines the situation in specific areas of the economy. The 23 chapters of the document are grouped into five broad categories: (i) Macroeconomic Issues, (ii) Structural Challenges, (iii) Social Dimensions, (iv) Institutional Aspects, and (v) Policy Outlook.

The review in the White Paper confirms the prevailing understanding of the economic difficulties and the hardships experienced by citizens. The investigation reveals that prolonged periods of misleading data, poor financial management, reckless macroeconomic policies, public finance mismanagement, and external sector imbalances have inflicted serious damage on the economy. The severity of these issues is deeper than generally recognised.

The previous government's economic management relied on a development narrative supported by inflated gross domestic product (GDP) growth figures. This fabricated development story could not conceal the stagnation in the tax-GDP and private investment-GDP ratios, nor the lack of resources for human development sectors, including social protection. The record on poverty alleviation turned out to be illusory. As our analysis shows, the country's data ecosystem became increasingly driven by political preferences.

The misleading economic indicators were accompanied by serious institutional flaws, particularly in the financial and energy sectors. These issues are closely linked to the initiation of overpriced mega projects and the large-scale outflow of illicit finance.

Thus, one of the world's most celebrated development stories of recent times was built on unstable foundations and deep-rooted systemic flaws. Interestingly, several international partners were enthusiastic supporters of this false narrative.

A critical question that arises is: 'Why have things turned out this way?'

The Kleptocratic Legacy

The answer lies in unchecked corruption, the abuse of public resources, and the misuse of discretionary powers over the course of a decade and a half. This misgovernance was fundamentally rooted in a pervasive lack of democratic accountability, stemming from fraudulent national elections in 2014, 2018, and 2024. These elections, along with the disempowerment of local government elections, led to the centralisation of power under an authoritarian regime. To sustain itself, this regime promoted collusion between ruling politicians, certain bureaucrats, and business elites.

This anti-development alliance not only undermined institutional integrity and democratic accountability but also stymied institutional and policy reforms to maximise personal gains. A major consequence of these collusive behaviours was the gradual erosion of the role of the three critical branches of the state: the legislature, the executive, and the judiciary. This process also paralysed non-state actors, including the media, civil society, and the private sector, through intimidation, self-censorship, and co-optation.

What began as crony capitalism evolved into the rise of oligarchs who exerted control over political governance and economic management. As a result, the government lost its policy sovereignty. These oligarchs influenced key aspects of the economy to serve their own interests, concealed by an illusory development narrative sustained by inflated and misleading data.

This alliance fostered a culture that enabled corruption, stifled reform, and suppressed pluralistic voices, excluding stakeholders who could have meaningfully contributed to the nation's progress. Indeed, when faced with an upheaval from the student-led movement, the then-head of government failed to create space for political negotiation, preventing a peaceful transition.

Manifestations of Corruption

As noted previously, the economic legacy left to the current government was characterised by widespread and deeply entrenched corruption, particularly in the management of public resources. The White Paper Committee identified several prominent channels of corruption, which are outlined below.

- *Banking Loan Scams:* Fraudulent practices, including illusory bank loans and loan misappropriation.
- *Bank Takeover:* Forced acquisition of bank ownership facilitated by state machinery.
- *Illicit Financial Outflows:* Large-scale laundering of ill-gotten money abroad.
- *Politically Motivated Unviable Projects*: Resources are squandered on unfeasible projects, leading to delays and inflated costs.
- *Inflated Project Costs:* Systematic overestimation of costs to siphon funds.
- *Project Cost Escalation Post-Approval:* Artificially inflated costs after project approval to divert resources.
- *Non-Competitive Tender Processes:* Cronyism and favouritism dominate procurement, excluding qualified bidders.
- *Unnecessary or Poorly Designed Projects:* Wastage of resources due to weak feasibility studies, resulting in delays and cost overruns.
- *Nepotism in Appointments*: Political connections, rather than merit, often determine appointments, especially for project management roles.
- *Illegal Land and Asset Acquisitions:* Land and assets are acquired through illegitimate means.
- *Misappropriation of Land Acquisition Funds:* Politically vulnerable landowners are coerced into unfair deals, and funds intended for land acquisition are misused.
- *Awarding Overpriced Contracts:* Contracts are awarded to politically connected contractors at inflated prices, often without competitive bidding.
- *Abuse of Project Resources:* Misuse of vehicles, travel budgets, and other project resources for personal or political gain.
- *Bribery as a Standard Management Practice:* Bribes are routinely exchanged to expedite processes or secure favours.

- *Misallocation of Public Funds:* Funds intended for development are diverted for political or personal gain.
- *Tax Exemptions for Elites:* Tax policies disproportionately benefit powerful groups.
- *Distorted Supply Chains:* Manipulated supply chains lead to unfair pricing and market inefficiencies.
- *Sharing Insider Information:* Leaked policy decisions benefit select groups financially.
- *Collusive Corruption:* Collaboration between public officials and private actors for mutual benefit.
- *Extortion-Based Corruption:* Coercion is employed to extract bribes or enforce unfair deals.
- *Monopolistic Corruption:* Market conditions are manipulated to favour specific individuals or entities.
- *Pre-emptive Information Sharing Corruption*: Early access to critical information is exploited for undue advantage.
- *Information Concealment Corruption:* Withholding important information to mislead stakeholders.
- *Corruption by Inaction:* Deliberate delays are used to create opportunities for rent-seeking.
- *Corruption for Career Advancement:* Bribes and connections are leveraged to secure promotions or influential positions.
- *Commission-Sharing Corruption:* High-level officials demand a share of commissions in exchange for approvals.
- *Corruption for Political Favour:* Resources and decisions are manipulated to secure political loyalty.
- *Legislative Manipulation Corruption:* Laws and policies are tailored to serve vested interests.

The White Paper identifies the banking sector as the most corruption-ridden, followed by physical infrastructure, and energy and power. Information and Communication Technology (ICT), due to its operational and technological novelty, is also identified as one of the most corruption-affected sectors.

This non-exhaustive list of pervasive corrupt practices underscores the urgent need for systemic reforms and robust accountability mechanisms to restore governance integrity and economic resilience.

Magnitude of Corruption

One wonders to what extent corruption occurred because of these fraudulent practices.

The White Paper Committee has provided several estimates, which are presented below.

- Revenue Leakages and Fiscal Drainage: Systemic tax evasion, misuse of exemptions, and poorly managed public finances have deprived the state of critical resources, stalling development. Between 2009 and 2023, illicit financial outflows averaged USD 16 billion annually—more than double the combined value of net foreign aid and foreign direct investment (FDI) inflows. Furthermore, halving tax exemptions could double education funding and triple health allocations, highlighting the significant fiscal opportunities lost to corruption.

- Public Investments: Corruption in large-scale public projects has caused an average cost escalation of 70% and delays of over five years. Of the $60 billion invested in Annual Development Programme (ADP) and development projects over the past 15 years, $14–24 billion (1.61–2.80 lakh crore BDT) has been lost to political extortion, bribery, and inflated budgets. Misappropriation of funds during land acquisitions and the appointment of patronised project directors have further strained resources, undermining potential benefits from infrastructure and social investments.

- Distorted Supply Chains: Manipulated domestic production figures and understated demand for key commodities, such as rice, edible oil, and wheat, have destabilised markets. Erratic and politically influenced procurement policies have benefited powerful business groups while exacerbating consumer hardships. The absence of robust, regular stock monitoring has compounded these distortions.

- Banking and Financial Systems: Politically influenced lending practices have exacerbated the banking sector crisis, with distressed assets (as of June 2024) equivalent to the cost of constructing 14 Dhaka Metro systems or 24 Padma Bridges. Persistent loan defaults and high-profile scams have eroded financial stability and diverted capital away from productive sectors.

- Labour Migration: Over the past decade, BDT 13.4 lakh crore (BDT 1.34 trillion) has been funnelled through hundi transactions by recruitment agencies for visa purchases—an amount four times the cost of constructing Dhaka MRT 06 (Uttara-Motijheel). Syndicates and exploitative recruitment practices have deprived migrant workers of equitable access to employment and diminished remittance contributions to the economy.

- Social Safety Nets (SSNs): Misallocations within social protection programmes have left millions vulnerable. As of 2022, 73% of SSN beneficiaries were classified as non-poor, up from 66% in 2016. Over 20 million individuals remain just two days of lost work away from falling into poverty, highlighting the systemic inequities exacerbated by corruption.

- Environmental Mismanagement: Corruption within climate adaptation funding has exacerbated environmental degradation. Politically patronised mismanagement of climate resources has derailed sustainability initiatives, threatening long-term resilience against climate-induced risks.

Closure

This White Paper is the collective work of the Committee. I express my deep gratitude to the esteemed members of the White Paper Committee and all colleagues who have provided invaluable input and support. Their dedication to a better future for Bangladesh is truly commendable.

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A. MACROECONOMY



Chapter I. Development Promise in Flux*

Key takeaways

- *The interim government inherited an economy marked by low growth, high inflation, dwindling reserves, financial distress, and increasing debt. These dire conditions, partly driven by external factors, were largely the result of policy decisions.*
- *Manipulated statistics, which were tailored to fit the political narrative of the previous regime, blinded policymakers to the worsening economic situation and led development partners to invest in ineffective initiatives.*
- *Dynastic and oligarchic control over politics, business, and state agencies turned key public institutions, such as the administration and judiciary, into tools of autocratic dominance.*

The interim government assumed office on August 8, 2024, inheriting an economy in deep crisis. This crisis resulted from stagnant structural reforms, reversals of previous reforms, institutional decay, global challenges, and macroeconomic recklessness. A widening gap between the reality on the ground and policymakers' perceptions led the economy into a low middle-income growth trap, characterised by slowing GDP growth and structural stagnation in international trade, private investment, public finance, service delivery, and financial markets.

This chapter reviews the state of Bangladesh's economy, beginning with an overview of the development discourse. Initially, the discourse framed Bangladesh as a 'test case' in the 1970s, later shifting to a 'development paradox' driven by the country's progress towards the Millennium Development Goals in the early 2000s. Over the past decade and a half, this paradox evolved into a narrative of Bangladesh as the 'fastest-growing' economy. This chapter argues that, unlike the earlier paradox, the 'fastest-growing' narrative is misleading. The growth figures are distorted by biased measurement, and the overconfidence it fostered has misled policymakers,and the public, media, allies.

While there was indeed growth, it was not as substantial as portrayed in the previous regime's 'Unnoyon' narrative. Growth had been slowing even before the pandemic. Bangladesh has already entered the middle-income growth trap, which is not merely a looming threat but a present reality. A combination of policy-induced economic stress, institutional decay, and a power structure held together by transactional alliances among politics, business, bureaucracy, law enforcement, media, development partners, and certain segments of civil society has sustained the status quo. As democratic accountability shifted from the electorate to political and business elites, growth stagnated, and development regressed in economic, social, and political spheres. The chapter concludes by highlighting the opportunity presented by the historic change on August 5, 2024, to reform institutions and escape the low middle-income growth trap.

1.1 State of Our Development Discourse

Bangladesh's economic development is characterised by two paradoxes: one rooted in reality and the other in statistics. The real paradox involves Bangladesh's observed human development, which exceeds expectations based on its per capita income. This observation remains robust under various statistical tests. In contrast, the 'fastest-growing' paradox, which celebrates Bangladesh as one of the world's fastest-growing economies, fails to explain the underlying causes of this growth. The so-called growth paradox is, in fact, an artefact of statistical manipulation.

* The chapter was prepared by Dr. Zahid Hussain, former Lead Economist at the World Bank Bangladesh.

Bangladesh's early development achievements are well documented by proponents and critics.[2] Since the early 1990s, the country has transformed from 'a laggard to a clear leader in health, education and demographic outcomes.[3] Dreze and Sen (2013) highlighted the country's advancements in health, education, and demographic metrics.[4] Their study is based on data ranging from the early 1990s to the early 2010s. Similarly, Dercon (2022) offers insights on the Bangladesh success story encompassing the Bangladesh development trajectory from the 1990s through the 2020s.[5]

Private enterprise performed spectacularly in garments capitalizing on duty and quota free market access in the European Union and public policy support. Bangladesh's rice production outpaced the population growth rate proving the Malthusian fears of recurring famines harbored amidst the pessimism of the 1970s completely wrong. Improved transportation and communication networks facilitated access to markets in rural locations. Diversification into manufacturing, services and trade blurred the traditional lines between rural and urban locations. Overseas employment of Bangladeshi unskilled labor grew quickly, particularly during the oil boom in the Middle East. About 8 to 10 million works in over 100 countries, predominantly in the Middle East and Malaysia and send remittances, which are a significant source of foreign income for Bangladesh.

This development trajectory, which characterised Bangladesh's first four decades, did not fit the conventional 'income-mediated' or 'support-led' models.[6] Bangladesh outperformed countries such as India, Pakistan, Cambodia, Laos, and Ethiopia in development discourse. e observed transformation was coined as the 'Bangladesh surprise' by Professor Wahiduddin Mahmud. Beoynd leveraging a large, low-cost labor force to drive industrial growth, Bangladesh's development trajectory has unique features that set it apart from these comparators.

These notably include the contributions of non-state actors like BRAC and Grameen Bank, informal institutions, macroeconomic stability, and structural reforms. Bangladesh produced low-cost solutions in agriculture, public health, education, and infrastructure, supported by widespread social mobilisation. This period coincided with the reinstatement of democratic rule.Long-term benefits from structural reforms gradually materialised. Microfinance and investments in female education empowered women.Bangladesh effectively leveraged external aid and development cooperation and actively engaged in global trade and development initiatives.

Delving into Bangladesh's journey in these decades, Dercon posits the existence of a "development bargain" in which Bangladesh's elites continued to prioritize national development over personal or group interests. The bargain is reflected in the collaboration between political, business, and social elites to drive key sectors like the garment industry, microfinance, and rural development. This implicit understanding has enabled the country to achieve remarkable progress in poverty reduction, education, and healthcare. The elites maintained a focus on adaptability and pragmatism which fostered growth despite increasing inequality, persistent governance weaknesses, and unfettered political polarization. The development discourse in the past decade and a half evolved into a growth-oriented narrative, especially as the establishment embraced the 'developmental state' model of governance. Reported GDP growth positioned Bangladesh among the fastest-growing economies

[2] See Rounaq Jahan & Rehman Sobhan (Eds.), *Fifty Years of Bangladesh*, Routledge, 2024.
[3] Wahiduddin Mahmud, Markets, Morals and Development, Routledge Focus, South Asia Edition, 2022, Chapter 5. Also see S. R. Osmani et al., The Macroeconomics of Poverty Reduction: The Case Study of Bangladesh, UNDP, 2003.
[4] Jean Dreze and Amartya Sen, An Uncertain Glory: India and its Contradictions, Penguin Books Limited, 2013.
[5] Stefan Dercon, Gambling on Development: Why Some Countries Win and Others Lose, Hurst Publishers, 2022.
[6] Wahiduddin Mahmud, *Social Development: Pathways, Surprises, and Challenges, Indian Journal of Human Development, 2(1), 2008.*

in recent years, even as structural changes slowed after the mid-2000s. The goal of achieving Upper Middle-Income status by 2031 and Higher Income status by 2041 became central to establishment aspirations, endorsed by both domestic and international supporters. The focus on capital-intensive industries, such as Fast Moving Consumer Goods and heavy industries like steel and cement, overshadowed investment in small and medium enterprises (SMEs), agriculture, and the development of urban areas to improve liveability. More broadly, it diverted attention from the Sustainable Development Goals (SDGs) and caved to the temptation of quick and easy take-and-grab opportunities.

The legitimacy of the 'developmental state' model relied on this growth narrative, with the 'Kuznets Curve' used to justify rising inequality.[7] The inverse-U curve relationship between income inequality and income per capita was presented as an immutable law, suggesting that short-term inequalities would eventually lead to long-term inclusion. An inward-looking, state-driven development strategy, in partnership with both domestic and foreign actors, claimed to replicate the development model in Bangladesh. The argument was that increased inequality would eventually reverse if political and market 'robber barons' were given free rein, shaping institutions to serve their interest. The glorification of 'Unnoyon' (development), through well-conceived projects such as the Padma Bridge and the Dhaka Metro provided a partial coverto widespread corruption and other failings.

All assessments of the stylized facts characterizing the continuation of the Bangladesh's growth story in the past decade and a half (2010-2024) take for granted the premise that there are no material changes in systematic biases in the economic data produced by the national statistical agency in this nearly decade and a half Vis-à-vis the preceding 30 years of Bangladesh's development. As we demonstrate in the next chapter, the actual pace of growth was much slower than official figures suggested, and the trajectory of growth in the past decade was far from the one depicted in official data. While the economy did grow, the quality of this growth was severely undermined by rising inequalities in income, wealth, and opportunities.

1.2 Foggy Visibility

The reliability of data concerning key economic and social indicators—such as inflation, poverty, inequality, education, health, food security, energy, and financial, fiscal, and monetary developments—reported by various institutions under the auspices of the autocratic regime remains questionable. How well do we understand what we think we know about these areas? What are the sources and extent of noise in the data? The data ecosystem in Bangladesh is unclear and misleading, creating risks for the unwary. This 'fog' in the data arises from both errors of omission in data collection and computation methods, and errors of commission, where the ruling elites manipulate data to serve political agendas.

There is widespread mistrust regarding key indicators, including GDP growth, inflation, exports, public investment, agricultural production, bank balance sheets, revenue collection, and public expenditures (see Annexe-I). Consultations held from August to November 2024 revealed

[7]An inverse U-shaped relationship was observed by Kuznets in his seminal 1955 paper, which showed that income inequality initially increases as countries develop before declining. The 2024 Nobel laureates in economics, Daron Acemoglu and James A. Robinson, argued in their paper *The Political Economy of the Kuznets Curve* (*Review of Development Economics,* 2002) that 'development may be associated with two types of nondemocratic paths: an autocratic disaster, with high inequality and low output, and an East Asian Miracle, with low inequality and high output'. Piketty highlights various country-specific institutions (including education, labour markets, corporate governance, and social norms) that play a crucial role in shaping the relationship between development and inequality.

a consensus among various stakeholders and observers: all these data should be treated with caution. Evidence suggests that GDP growth has been consistently overstated across political regimes, with the exaggeration becoming more pronounced in the past decade. Public perception, supported by corroborative evidence, indicates that inflation rates are often understated. Other macroeconomic indicators, which are relatively straightforward to record, report, and reconcile, also contain significant inaccuracies, generally favouring a positive portrayal of the economy.

Balance of payments (BoPs) data, typically seen as free from systemic bias, was called into question following revisions to export data. Discrepancies in foreign exchange reserve reporting surfaced in an International Monetary Fund (IMF) report in 2020.[8] Data on financial sector balance sheets also became increasingly problematic, with departures from standard accounting practices, as indicated in recent Financial Stability Reports from Bangladesh Bank (BB). While data on public debt is less controversial, it is not entirely free from issues, particularly concerning non-negligible contingent liabilities. Tax revenue data is often overestimated by the National Board of Revenue (NBR), allegedly at times deliberately, with long and variable reporting lags from the Comptroller and Auditor General's (CAG's) office.

Mismatches between survey data from the Bangladesh Bureau of Statistics (BBS) and administrative data measuring the same social outcomes highlight significant discrepancies in social indicators. Survey data on public health, education, vulnerability, and the environment often fail to align with official statistics, suggesting that the latter may be inflated. Revisions to poverty estimation and data collection methodologies have resulted in an increased magnitude of poverty reduction between 2010 and 2022, compared to earlier estimates.[9] However, these revisions do not extend to estimates from before the 2010s, leaving the poverty reduction data from 37.1% in 2010 to 18.7% in 2022 without comparable data for earlier periods.

Political interference in data generation and reporting reached unprecedented levels under the past regime. Existing weaknesses in data quality, stemming from skills and infrastructure deficiencies, were exacerbated by the politicisation of the BBS. The density of data inaccuracies in the last decade differs fundamentally from earlier periods in Bangladesh's development.

When data is unreliable, standard statistical methods are less effective. However, economists must work with the data available. Data is almost always incomplete, and, like all scientists, economists must make estimates. The key is to pay close attention to the accounting and economic consistency of the data. Macroeconomic data has a unique advantage over microeconomic data in this respect, with several indicators serving as checks on one another. For example, GDP data can be cross-referenced with indicators such as nightlight intensity, trade, and credit, while data on national savings and domestic investment can be compared with BoPs data. Fiscal data can also be validated against the monetary survey.

These corrections and consistency checks reveal a different story about the development outcomes under the so-called developmental state in the past 15 years. The differences go beyond simple nuances. Growth was slower than reported, poverty levels were higher and more persistent than acknowledged, inequalities were deeper and more damaging than the Kuznets curve suggested, education outcomes were poorer and more uneven than reflected in metrics and exam results, public health services were less accessible than promoted through initiatives like community clinics (CCs), and macroeconomic management was messier than portrayed in the flagship reports of international partners.

[8] International Monetary Fund (IMF), *Safeguards Assessment Aide Memoire,* 2020. A popular English daily obtained a copy of this internal document from undisclosed sources.

[9] While the revisions may be technically sound, their noncomparability with the poverty estimates prior to the 2010s was insufficiently addressed, even by partners such as the World Bank, IMF, and ADB, who provided technical and financial support.

1.3 Middle-income Trap

Most reports on Bangladesh's development in the past 15 years begin by highlighting recent accomplishments. A typical opening statement in 2022 might read:

> *Economic growth during the last couple of decades has been pulled by the expansion of manufacturing and services, both in terms of composition of output and of labour share, while on the demand-side consumption and gross capital formation have been the main drivers of growth. The process of capital deepening has been accompanied by rapid sectoral labour reallocation, away from agriculture and into manufacturing and services, as well as a significant rise in agricultural productivity, resulting in so-called growth-enhancing structural change.*[10]

These reports overlook the slowdown in growth that began to emerge in the mid-2010s, the declining share of industry in total employment, and the absence of data on labour share in national income. Adjustments based on careful scrutiny of the international context reveal a growth trajectory that is, in fact, declining, as official statistics began to show slower growth in the post-pandemic era.

Structural transformation from low-productivity agriculture to high-productivity industry and services has stalled. Low-productivity sectors, such as agriculture and informal services, continue to dominate. Between 2016 and 2022, the decline in the share of agriculture in employment was reversed. Domestic demand for labour has struggled to keep pace with the growing supply, particularly among low-skilled youth. Labour productivity growth and real wages have both declined in the past decade. While the share of industry in production has increased, the share of agriculture has secularly declined. The advantages of low-cost labour and the imitation of foreign technology have failed to achieve scale, except in textiles, garments, and pharmaceuticals. Digitalisation and the gig economy contributed temporarily to growth until political elites intervened in these sectors.[11]

These signs point to Bangladesh sleepwalking into a middle-income trap.[12] Indicators such as international trade (merchandise and services exports and imports), investment, credit, energy supplies, and informality all suggest a creeping economic slowdown before the pandemic.[13] The factor accumulation that drove growth since the 1990s has lost momentum, as alternative sources of growth have not materialised. Bangladesh has become increasingly dependent on garments, remittances, and conventional services, unable to compete with low-wage African countries in mature industries or with upper-middle and high-income countries in innovative, high-technology industries. This appears to be a textbook case of a low-quality middle-income growth trap.

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[10] United Nations Conference on Trade and Development (UNCTAD), *Vulnerability Profile, Bangladesh,* Geneva, 2022. The quote is from the first paragraph of the Executive Summary.

[11] A *Bonik Barta* lead story on September 20, 2024, details how ministers and powerful individuals amassed wealth from government projects without delivering any output under the banner of 'digital' and 'smart' Bangladesh.

[12] The concept of a middle-income trap was first coined by Indermit Gill and Homi Kharas of the World Bank. They compared a general phenomenon observed in Latin America and the Middle East to the potential slowdowns in East Asia's emerging economies. Their account explained how cheap labour, basic technology catch-up, and the reallocation of labour and capital from low-productivity agriculture to export-driven, high-productivity manufacturing are often followed by slower growth. See Greg Larson, Norman Loayza, & Michael Woolcock, *The Middle-Income Trap: Myth or Reality?* Research & Policy Briefs from the World Bank Malaysia Hub.

[13] Trade expanded after the pandemic, followed by a contraction. Data on electricity shows a similar trajectory. Gas supply has tightened, and electricity growth has recently turned negative.

1.4 Plethora of Divides

A large portion of the population has been receiving a smaller share of prosperity even before growth began to slow. The growing inequality in Bangladesh represents a story of rapid prosperity for the top 10% and the stagnation of income for the bottom 50%.[14] On average, seven out of 10 individuals earn far less than the national income per capita.[15] The lower middle class has been squeezed, while the top 10% has benefited significantly over the past decade.

The concentration of high-paying jobs in the upper class, combined with stagnating real wage growth and a shift from a high-productivity industry to low-productivity agriculture, has contributed to this disparity. Income inequality would likely have been even wider had it not been for the opportunity for unskilled labour from lower-middle-income families to access overseas markets, where wages are 2.5 to 3 times higher than they would earn in Bangladesh doing the same work.[16]

The concentration of wealth in the top 10% is 1.5 times greater than the concentration of income.[17] The return on capital is exceptionally high, which is unsurprising in an economy with a wealth ratio 40-50% lower than the global average of 5-6 years of national income. Typically, in open economies, returns on capital converge as capital flows from capital-abundant to capital-scarce countries. However, this has not occurred in Bangladesh due to protections for domestic capital and regulatory bottlenecks. On the contrary, illicit capital flows have been more pronounced. The push factor has dominated the pull factor in shaping the direction of capital flows.

Rising divides in education and healthcare have exacerbated income and wealth inequality. Overcrowded classrooms and underqualified instructors have led to high dropout rates at primary and secondary levels, leaving many youths ill-prepared for the labour market in terms of literacy and numeracy.[18] Health inequities, particularly between rural and urban areas, in terms of availability and quality of care, are widespread.[19] The high out-of-pocket costs for healthcare have further worsened the vulnerability of the low and middle classes to health-related financial shocks.

Inequality of opportunity is also glaring. According to Bangladesh Sample Vital Statistics (2023), only 37.1% of the rural population has access to the internet, compared with 53.7% in urban areas. Similarly, 47.6% of men use the internet, compared to 34.6% of women. The disparities are even more severe for those who rely on government schools and public hospitals or find themselves entangled in the justice system. They live in a system very different from that of the country's elites, whether in urban or rural areas. Limited, mismanaged, and politicised social protection budgets have made public interventions ineffective in promoting human development.

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[14] See White Paper, Chapter 12.

[15] The income Gini coefficient, a synthetic measure of inequality, increased by 3.5% from 0.482 in 2016 to 0.499 in 2022. An overwhelming 90% of the population lost a share in the total income pie. The income shares of the bottom 50% declined by 0.56 percentage points, while the middle 40% lost 2.21 percentage points between 2016 and 2022. This decline included a 0.33 percentage point gain by the bottom 20%, which coincided with a decline in poverty from 26.4% in 2016 to 18.7% in 2022. This coincidence has not always been observed; for instance, the income share of the bottom 20% fell from 5.22% in 2010 to 3.85% in 2016, while poverty declined by about 7 percentage points.

[16] World Bank, *Bangladesh: Towards Accelerated, Inclusive and Sustainable Growth*, 2012.

[17] World Inequality Database, 2023.

[18] Teach The World Foundation 2024, Google Scholar.

[19] Angeles, G., Ahsan, K. Z., Streatfield, P. K., El Arifeen, S., & Jamil, K. (2019). Reducing inequity in urban health: Have the intra-urban differentials in reproductive health service utilization and child nutritional outcomes narrowed in Bangladesh? *Journal of Urban Health*, 96(2), 193-207. https://doi.org/10.1007/S11524-0180307-X

Policy hypocrisy regarding environmental issues has also compounded intergenerational inequality. Climate change has overshadowed other environmental concerns, as policy rhetoric has followed the money. Issues such as the depletion of soil nutrients, biodiversity loss, coastal and riverbank erosion, water depletion, air pollution, land grabbing, and environmentally induced migration have been sidelined, though they are frequently acknowledged in political discourse. The August 2024 floods in eastern Bangladesh highlighted the ongoing issue of waterlogging caused by illegal canal fillings and chaotic urbanisation. We risk leaving future generations in a precarious situation. Major rivers have experienced severe water quality deterioration due to industrial discharge and unmanaged waste, including plastics and untreated sewage.[20]

1.5 Toxic Combination of Stress

Bangladesh has been living dangerously since the pandemic. Macroeconomic stability was a central concern after the deep imbalances of the 1980s. This stability was maintained in a global environment characterised by near-zero interest rates, low commodity prices, and a stable US dollar following the global financial crisis of 2008-09. However, this stability has deteriorated since the pandemic in 2020.

Persistent inflation has become a major issue. Official data shows a clear upward trend in inflation. Increased import prices for key commodities, pent-up demand following the pandemic, and the Ukraine war triggered this inflationary surge. Inflation remained high even as international prices for many commodities eased. Depreciation of the exchange rate, foreign exchange shortages, and import controls have exacerbated the impact of international price increases. Domestic price hikes for gas, electricity, and petroleum products further increased supply costs. Price gouging and extortion at various stages of the supply chain, particularly for essential food items, have pushed inflation higher. Expansionary monetary and fiscal policies have intensified the problem, causing further hardship for poor and low-income families.

The financial sector has also suffered distress. The extent of financial strain, already growing before the pandemic, has worsened significantly. Non-performing loans (NPLs) have increased nearly ten-fold since 2010, reaching Tk 2,84,977 crores by September 2024, equivalent to 10 Padma bridges. The figure is even higher when international best practices for NPL recognition are applied and when rescheduled, restructured, unrecovered written-off loans, and loans under litigation are considered. The disclosed capital in the banking system relative to risk-weighted assets is close to the minimum of 10%, with liquidity drying up.[21]

Depleted foreign exchange reserves. Foreign exchange reserves have depleted to dangerously low levels, regardless of how reserve adequacy is measured. Both the BB and the domestic commercial banking system have lost reserves. BB's erratic approach to exchange rate policy, particularly the introduction of a multiple fixed exchange rate system in September 2022, discouraged the repatriation of export proceeds and remittances through formal channels while encouraging capital flight. Diminishing policy credibility has eroded international confidence, leading to downgrades in the country's economic outlook and sovereign credit ratings.

[20] Environmental pollution is severely impacting children. Lead poisoning causes irreversible damage to brain development, resulting in an estimated annual loss of nearly 20 million IQ points in Bangladesh. Emissions from cooking with solid fuels also severely affect women and children. World Bank, *Bangladesh Country Environmental Analysis*, 2023.

[21] See the White Paper, Chapter 10.

Public debt has been rising. The debt-to-GDP ratio surpassed 40% in FY24. While the World Bank and IMF continue to assess the risk of debt distress as low, alternative metrics, which better capture the dollar and taka liquidity constraint, suggest that the comfort indicated by GDP-based metrics could be misleading.[22] Reports of widespread corruption in public investment expenditures, a sharp reduction in fiscal space due to stagnant revenue mobilisation, the growing share of interest in the total budget, and mounting pressures on domestic and foreign currency liquidity have exposed serious rollover and liquidity risks.

The previous government largely blamed global adversities for the situation. Indeed, Bangladesh has faced significant spillovers from cascading global crises. High inflation, tight financial conditions, a stronger US dollar, and weak activity in large economies amid heightened geopolitical tensions have characterised the post-pandemic global landscape.[23] The Russian invasion of Ukraine in February 2022 reignited geopolitical instability and deepened geoeconomic fragmentation. Commodity prices have remained elevated since 2022, and financing costs have been high for an extended period. The issue is not whether these global factors have affected Bangladesh's macroeconomic stability; the real question is why Bangladesh, unlike many of its peers in South and East Asia, has fared so poorly in responding to these challenges.

1.6 Policy Mediated Fragility

The decline in resilience is largely attributable to policy failures. A lack of progress in structural reforms, deal-based protectionism, cronyism in service delivery, financial market repression, multiple exchange rates, deficit monetisation, and often nepotistic regulatory leniency, not to mention endemic corruption, explains the behaviour of the economy in ways that external factors cannot.[24] Policies have disproportionately benefited cronies at the expense of creating chaos and uncertainty in credit, foreign exchange, and goods markets.

It is difficult to characterise the set of policies in place, as they are both mutually incompatible and opaque. The BB signalled monetary tightening by raising policy rates and selling dollars, thus withdrawing taka liquidity from the system. However, BB also financed the government deficit, provided disguised support to liquidity-short banks, and opened forex swap lines allowing banks to deposit surplus foreign exchange in exchange for Taka at a very low interest rate. Regulatory leniency and liquidity support, both in dollars and taka, were directed towards banks controlled by boards with questionable integrity.

Despite rhetoric on austerity, the government increased the primary fiscal deficit. The Finance Division imposed restrictions on travel, vehicle purchases, entertainment, stationery expenses, and new public buildings, with funds allocated for the ADP focusing disproportionately on buildings, vehicles, and travel, rather than on outputs or effectiveness. The government's actions did not match its public pronouncements.

The negative consequences of policy errors were dismissed as either fabrications or the result of external factors. External factors and conspiracy theories were frequently cited in defence of indefensible policies. The policy instruments in use were not aligned with the stresses they were designed to address. Was this due to ignorance? Perhaps in part, but largely by design, not by default.

[22] See the White Paper, Chapter 5.
[23] Both advanced economies and emerging market and developing economies (EMDEs) are expected to grow at a slower pace between 2024 and 2026 compared to the decade preceding the pandemic.
[24] The global factors that contributed to growth began to fade from mid-2022. International prices declined, the dollar stabilised, and interest rates remained elevated. World trade volume stabilised as well.

1.7 Institutional Decay

A captured democracy took hold in Bangladesh. The country drifted from its minimal democratic practices, such as free and fair elections, rule of law, freedom of speech, and both horizontal and vertical accountability.[25] The era of political democracy, which followed a people's movement that toppled 15 years of military rule in December 1990, ended acrimoniously in 2014. Political resistance was suppressed, and the progress made since 1990—marked by regular elections, peaceful transfers of power, fundamental freedoms, and civilian control over policy and institutions—came to a halt.[26] A key turning point was the removal of the constitutional provision for a Caretaker Government, which marked the beginning of a decline, alongside the rise of a kleptocratic, clientelist, and crony-capitalist system.[27]

Corruption flourished within public institutions. Bureaucracy became increasingly centralised under the Prime Minister's Office (PMO), with the application of rules becoming both irrational and elitist, leading to low trust in institutions. The reward system became entirely contingent upon political affiliation, with a politicised bureaucracy gaining power in weakened national and political institutions. Senior bureaucrats shifted their loyalties towards powerful stakeholders in business and politics. Despite numerous recommendations for accountability reforms in bureaucratic mechanisms from the private sector and multilateral and bilateral partners, the redirection of accountability remained immune to reform efforts.

The spread of both petty and major corruption eroded trust in almost all public institutions. Politicisation and criminalisation reduced the accountability of public officials, the judiciary, legislators, the media, and public universities. Bangladesh experienced a 21st-century version of Hobbesian anarchy. A culture of impunity became entrenched within the political, administrative, legal, economic, and social systems.[28] Legislative committees, parliamentary debates, public hearings, ministerial oversight, access to information, and the media were stripped of their countervailing power.

The performance of key public institutions deteriorated significantly. According to the Worldwide Governance Indicators, Bangladesh has consistently ranked at the lower end of the spectrum across various governance indicators over the past decade. In the Global Competitiveness Index, Bangladesh regularly ranked below its peers in institutional strength and key components. The World Bank's Business Ready 2024 report placed Bangladesh in the lowest quintile for public services and competition. These weaknesses suggest that Bangladesh's growth has not created sufficient incentives for the ruling elites to address inefficiency and inequity within the economic system.[29]

Checks and balances collapsed. The Election Commission, Anti-Corruption Commission (ACC), and Public Service Commission, which were intended to operate independently, were captured by the ruling party through appointments that rewarded loyal, retired personnel from the judiciary, bureaucracy, and military. Civil society organisations (CSOs), which had been involved in social and economic interventions such as poverty alleviation, literacy, human rights, healthcare, microfinance, environmental protection, and political rights awareness, were fragmented and lost their autonomy

[25] Freedom House ranks Bangladesh as 'partly free,' and *The Economist's Democracy Index* classifies the country as a 'hybrid regime,' between a 'flawed democracy' and an authoritarian state.
[26] Rounaq Jahan, *The Challenges of Institutionalising Democracy in Bangladesh,* ISAS Working Paper No. 39, 6 March 2008.
[27] Inge Amundsen, *Democracy Decaying in Bangladesh,* East Asia Forum, 6 March 2018.
[28] See the White Paper, Chapter 21.
[29] Selim Raihan, François Bourguignon, & Umar Salam (Eds.), *An Institutional Diagnostic of Bangladesh,* Cambridge University Press, 10 January 2024.

and accountability. Government agencies, following instructions from the top of the political hierarchy, became more adversarial and coercive in their reporting on maladministration, irregularities, and lapses.

The media, which emerged in an environment of declining freedom, was subjected to growing government control.[30] The government utilised the Digital Security Act, later renamed the Cyber Security Act, alongside mass surveillance technology, to silence critics and foster a culture of self-censorship. Ownership of media outlets changed hands multiple times, with electronic media increasingly aligning with the broader coalition of the ruling elite. While competition among conglomerates occasionally resulted in the exposure of corruption in the public-private interface, the overall media landscape became more tightly controlled.

1.8 Lethal Interplay of Politics, Business and Governance

The decline in institutions was linked to the oligarchic capture of regulatory leadership and the near collapse of integrity in economic management.[31] Political power became concentrated in the hands of a small elite, and most policies served elite interests, with little consideration for the broader population.

Transactional motives blurred the boundaries between politics, business, and administration. The unchecked expansion of a patronage system impeded investments and innovation. Incumbents focused on cornering, or even cannibalising, rivals to secure their dominance, rather than fostering scale and diversity. Although many firms entered the market, only a small proportion survived to become established businesses.[32] Local oligarchs drove both foreign investors and local competitors away, creating an increasingly uneven playing field. Over time, a few conglomerates came to dominate key industries, with the number of new entrants dwindling. In the World Bank's recent assessment, Bangladesh ranked among the bottom six out of 50 countries in terms of market competition.[33]

Many business models within the formal sectors seemed designed to profit from opportunities for malfeasance. Innovations were disregarded if they threatened connections with political and economic power. Businesses predominantly clustered in traditional sectors such as garments, construction, transport, energy, power, and agribusiness, where the rewards of government connections were highest.[34] While incumbents were successful in generating profits, they were far less successful in creating jobs, preferring instead to launder money abroad.

The energy sector exemplified this collusion and corruption. The Quick Enhancement of Electricity and Energy Supply (QEEES) (Special Provision) Act of 2010 exacerbated energy prices and governance.[35] The Act granted the Energy Minister (who is always the Prime Minister) sole authority to approve energy purchase agreements. This legislation facilitated high-cost energy procurement and

[30] Ali Riaz & Mohammad Sajjadur Rahman, *Media Ownership in Bangladesh: Why More Media Outlets Do Not Mean More Media Freedom,* Center for International Media Assistance, 15 April 2021.

[31] Pierre-Richard Agénor, *Caught in the Middle? The Economics of Middle-Income Traps,* Fondation pour les études et recherches sur le développement international (FERDI), May 2016.

[32] World Bank, *Enterprise Survey 2022*.

[33] World Bank, *Business Ready,* October 2024.

[34] Bangladesh ranked 106th out of 133 countries in the *Global Innovation Index 2024*. Among the 38 low- and middle-income countries (LMICs), Bangladesh ranked 22nd, and 8th among the 10 economies in Central and Southern Asia. See World Intellectual Property Organization, *Global Innovation Index 2024*.

[35] See the White Paper, Chapter 11.

fostered corruption through collusion between politically connected firms and government officials. Offering higher prices to attract investors in a high-risk environment led to even greater corruption, raised risks for future investors, and escalated energy prices, all while limiting the participation of unconnected but potentially more efficient energy suppliers.[36]

The ruling elite embraced kleptocracy, creating high barriers to entry and maximizing short-term payoffs for insiders. Their playbook included making some long-term investments in development, such as the Padma Bridge, Dhaka Metro, regional highways, community clinics, female stipends, and vaccination programs. A few astute bureaucrats managed to navigate the polarized elite politics to push for development outcomes, sharing the booty and keeping disaster at bay. Cash transfers and delivery through non-state actors contributed to some progress, mitigating declines in living standards, health, nutrition, and education outcomes, despite natural and political disruptions and the grabbing and smashing at the top. The path out of destitution narrowed, and the journey to prosperity became increasingly restricted, benefiting the ruling family, their extended relatives, and their loyalists within the party and bureaucracy. The country remained stable despite numerous divides and stagnation. Eventually, the conditions sustaining this inherently unstable equilibrium deteriorated.

Over time, authoritarianism became more overt. The regime's leaders openly declared their intentions, often to intimidate critics (e.g. the Rampal Power Plant issue) and to pacify the broader public with rhetoric about achieving Upper Middle Income by 2031 and Higher Income by 2041. The 'midnight election' (2018) and 'dummy elections' (2024) did little to affect the political establishment. Absolute power led to absolute corruption, as the regime sought legitimacy by portraying a 'threat from the BNP-Jamaat terror' or concocting conspiracy theories involving foreign actors and parts of civil society. A cadre of politicised civil servants undermined the administrative state. The steady suppression of voting rights, the persistent threat of political violence, and the imprisonment or disappearance of critics sealed the fate of Bangladesh's democratic institutions.

An unstable elite bargain undermining national intertest persisted until it collapsed. As the locus of voting rights shifted to state and party agencies controlling violence, businesses had no choice but to enter the patronage system if they wanted to grow. Investments in this system generated higher and quicker returns than investments in people, factories, transport, shops, or public goods. Ordinary citizens increasingly believed that success depended on connections and bribes. Market rigging became common practice, and justice became transactional. Politicians sold themselves to the highest bidder.

A culture of corruption permeated the polity. The Faustian bargain between the ruling political, business, and bureaucratic elites ensured the equation of support with pliancy in areas where political prerogatives were paramount. Policies and institutions became instruments for dividing power and reaping the benefits of rule. Long-term strategies—such as determining where, when, and how to progress, adhering to institutions, the rule of law, and the broader economic needs—were pushed aside in favour of immediate gains and quick transfer of the gains to safe havens abroad.

The political machinations inherent in policies led to commitments being vague and merely aspirational in official statements. The machinery of the state was leveraged to fulfill the ambitions of the party and the family at its helm. In an effort to dazzle the public and international partners, the state overextended itself with initiatives like the 100 Special Economic Zones, Smart Bangladesh, and an increasingly overloaded Annual Development Program (ADP). The political and technical capacity to learn from errors and adjust course was hampered by various obstacles.

[36] Mushtaq Khan, M. Zakir Hossain Khan, Arafat Hossain Rafi, Shadman Sakib Khalili, & Tonmay Saha, *Collusive Pricing in Solar Power in Bangladesh: Mapping Informal Processes and Corruption Risks*, Anti-Corruption Evidence, Working Paper 049, March 2024.

Both state-imposed and self-imposed censorship on information flows proliferated, and transactional politics at the top became deeply entrenched.

The ruling elites failed to recognise the growing anger arising from widespread perceptions of social injustice. The state inflicted violence upon its own people, and the trigger for resistance came from a court ruling that sparked the Antidiscrimination Movement in July-August 2024. The ignominious fall of the previous government is not only a testament to its mishandling of the protests but also a legacy of its 'increasingly autocratic response to political dissent'.[37] The history of '36 July', which ended on August 5, 2024, is currently being written. Only time will reveal whether it will return to the old political order or pivot towards unleashing the forces of growth and inclusion.

1.9 Walking the Talk

Bangladesh has made significant progress in moving from low-income to middle-income status and reducing extreme poverty. This success has led to the perception that the past five decades have been a period of remarkable development. However, this view is as much a reflection of low expectations as it is of actual development outcomes. When measured against the ambition of achieving high-income status within the next two decades, Bangladesh's progress remains less than extraordinary, even according to overly optimistic official data. Since 1990, the number of individuals in Bangladesh who have transitioned to high-income status is likely smaller than the population of a typical village. Thus, complacency has never been warranted. The fact that there are significant pressures from within the country to avoid graduating from Least Developed Country (LDC) status in 2026 highlights the limitations of Bangladesh's development thus far.

An opportunity now exists to alter the trajectory of the nation's development. The shift in political power has raised expectations for reform. Several reforms have been implemented swiftly, including the appointment of competent individuals to key positions, which lent initial credibility to these expectations. Macroeconomic stabilisation, transformative initiatives in banking, energy, and regulation, and investments in human development could generate the momentum necessary to propel the economy beyond its current stagnation.

However, securing Bangladesh's future from autocracy and corruption requires more than just policy reforms. Bangladesh 2.0 will struggle to adopt an inclusive development path without fundamentally rethinking its state and civil society institutions. This includes reforming the legal system, property rights, core economic services, and the broader developmental institutions. These changes will emerge through a political process. The current opportunity to expand the electoral franchise and redistribute political power to the masses is likely to falter unless institutions enabling greater investments in capital, education, healthcare, and freedom are established.

Our past experience shows that top-down action often degenerates into political purges rather than genuine efforts to address malfeasance. Double standards are unlikely to foster trust. A reinvention of civil society, which characterised Bangladesh's earlier periods of growth and development, is needed. This reinvention must focus on improving transparency, ensuring judicial independence, and empowering ordinary citizens to hold corrupt politicians accountable. The re-emergence of student

[37] Geoffrey Macdonald, *Bangladesh's Accidental Revolutionaries Topple Sheikh Hasina—What's Next?*, United States Institute of Peace, 6 August 2024.

activism outside of national politics could also be harnessed to directly engage in building the country's post-August-5 institutions from the ground up. The economic imperative is clear: Bangladesh must become far more efficient in utilising capital, labour, and energy.

Cohesive collective action is essential to realise these promises. Escaping the development trap requires restructuring institutions, organisations, work, and livelihood systems, with a greater emphasis on economic freedom, social mobility, and political contestability. How can society be mobilised to implement policies that discipline incumbency, reward merit, and capitalise on the current political transition? Incumbents—such as large conglomerates, state-owned enterprises, civil and military bureaucracies, powerful elites, and civil society—have the potential to either create or destroy substantial value. Challenges such as domestic political instability, climate change, and increasing global geoeconomic fragmentation offer opportunities to dismantle obsolete systems and pave the way for new actors.

Development practitioners in Bangladesh, as elsewhere, often rely on indicators that provide limited insights into the structural strengths of the economy. These include the size distribution of firms in an industry to measure productive efficiency, household income distributions to gauge social resilience, and the distribution of energy sources to assess ecological sustainability. Policies based on such superficial indicators are particularly susceptible to premature slowdowns in development. More realistic metrics for policymaking include value added, socioeconomic mobility, and emissions intensity. These measures necessitate a willingness on the part of policymakers to make data publicly available to inform policy debates. Without such transparency, we risk navigating uncertain terrain without adequate guidance.[38]

[38] World Bank, *The Middle-Income Trap, World Development Report 2024*.

Annexe

A note on data

Data noise is not unique to Bangladesh. The reliability of macroeconomic data is notoriously problematic, as evidenced by the work of econometricians like Milton Friedman, who popularised the concept of 'errors in variables' nearly three-quarters of a century ago. A distinguishing feature of macroeconomic data in Bangladesh, however, is its politicisation and its use in crafting a narrative of seamless economic growth, financial stability, job creation, and prudent macroeconomic management.

Bangladesh revised its national accounts series twice over the past 15 years. With each revision, the expansion of both production and expenditure coverage led to a 13-15% increase in nominal GDP (in both taka and dollars) relative to the previous series. Such large increases naturally raise concerns. More troubling than the level itself are the growth estimates, which remained robust despite base-year and coverage revisions but were inconsistent with other growth indicators such as trade, credit, investment, and nightlight intensity.

Empirical attempts to critique inflation data have focused on reconstructing the consumer price index (CPI) using expenditure shares of marginalised household groups, where food constitutes a larger portion of the expenditure compared to higher-income groups.[39] Thus, when food inflation exceeds non-food inflation, the overall inflation rate faced by the bottom 50% is higher than for the upper 50%, and vice versa.

This does not necessarily discredit the underlying price data, but there has never been independent verification of the prices of items in the rural and urban baskets used by the BBS. Over time, the basket has changed, and the public perceives inflation as consistently understated. These perceptions are often clouded by a conflation of nominal prices and price changes. Market experiences, media reports, and a lack of trust are compounded by allegations of data manipulation for political gain. Despite these concerns, the direction of inflation is generally uncontroversial, even though the magnitude remains contentious.

The BoPs data is similarly problematic, especially due to recent anomalies in export data. The narrative of a large current account deficit turning into a surplus, offset by a financial account deficit, has been muddied by overreporting of export values and the misclassification of accrued receipts in trade credit. Thus, the overall BoPs (before reserve changes) remains unaffected. Officials from the Export Promotion Bureau (EPB) claim that the overreporting of export data dates back no more than two to three years.

While this is positive news, the bad news lies in the behaviour of Errors & Omissions (E&O), calculated by matching external inflows and outflows with exchange rate-adjusted changes in foreign exchange reserves over the period in question. E&O data has exhibited a persistent (understated) outflow bias in recent years. To assess external balance, we rely on more reliable data sources such as reserves from BB, and less volatile current account items (imports, remittances), financial account data (credit flows), and foreign exchange market data.

[39] Selim Raihan, *Do the Official Inflation Figures in Bangladesh Reflect the Actual Inflation Faced by Marginalised Households in Bangladesh?*, SANEM, 3 March 2022.

Financial sector data is similarly unreliable, though the underlying problems are more evident. The most pressing issue concerns bank balance sheets. NPLs are only reported if they are greater than 180 days overdue and not written off. Additionally, regulatory capital is often understated due to inadequate provisioning. Despite the noise, these data offer some insight into the depth and diversity of financial distress in the sector. We selectively use financial sector data to gauge the vulnerabilities within the banking system.

Data on public debt is also not entirely free from controversy. There is inconsistency in fiscal data, with different sources reporting varying figures for the same indicator, including discrepancies in revenue collection, ADP expenditures, and deficit financing.[40]

The BBS faces significant challenges in fulfilling its statistical mandate. It is constrained by limited financial and human resources, as well as a lack of access to proper training, business registers, statistical information systems, quality assurance frameworks, and data editing techniques. Additionally, the legal mandate of the BBS does not clearly define its role in coordinating national statistical activities. These limitations prevent the BBS from collecting high-frequency survey data and compiling economic statistics in line with international standards and best practices.

[40] Towfiqul Islam Khan, *Fiscal Data in Bangladesh: Issues and Challenges*, Centre for Policy Dialogue (CPD), 24 February 2022.

Chapter II. Gross Domestic Product Growth: Sleepwalking into Middle-Income Trap*

Key takeaways

- *GDP growth has not been as high as officially reported. It likely averaged 4.2% per annum between FY09 and FY19, compared with the official 7%. Growth began declining from mid-2010, in contrast to the official rising growth rates, especially during the 7th Plan period.*
- *Structural indicators such as export depth and diversity, investment rate, financial depth, revenue mobilisation, public expenditure composition, and the share of manufacturing in total employment suggest that Bangladesh is already in a low middle-income trap.*
- *Escaping this trap requires transformative policy and institutional reforms to harness the demographic dividend through the forces of accumulation, imitation, and innovation.*

The most notable feature of Bangladesh's recent official growth estimates is the acceleration in the 2010s, which elevated the country to the status of one of the 'fastest-growing' economies in the global development community. Although not entirely undeserved, the hype surrounding this growth, fuelled by inflated growth figures, masked the nation's descent into a self-made trap, far below the upper middle-income threshold. Employment remains concentrated in low-productivity agriculture and informal activities, resource misallocations are widespread, and the economy's competitiveness has declined.

This chapter begins by examining the data that informs the complacent conventional wisdom. It presents evidence of the disconnect between measured GDP growth and changes in the state of the economy, as indicated by various growth correlates. The systematic upward bias in the data is then diagnosed, exploring whether this bias is inherent in data sources and computational procedures or influenced by political factors. Inflated growth data obscured attention to the low-frequency indicators of structural stagnation, contributing to a growth trajectory characteristic of the 'middle-income trap'. The chapter concludes by discussing the necessary steps to escape this trap.

2.1 Bullish Narrative

Bangladesh surpassed the lower-middle-income threshold in 2015. Gross National Income (GNI) per capita, calculated using the Atlas method,[41] increased from US$519 in FY2000 to US$2,675 in FY24. GDP growth, inflation, exchange rates, remittances, and population growth all influenced the calculation of Atlas GNI per capita, which crossed the $1,026 threshold in 2015 to graduate into the World Bank's Low Middle-Income Country (LMIC) category. Revisions to improve data and methods had significant impacts, but Bangladesh's distance from the LMIC threshold remains robust to these upward biases in income per capita.[42]

* The chapter was prepared by Dr. Zahid Hussain, former Lead Economist, World Bank Bangladesh.

[41] The basis for the World Bank's country classifications.

[42] Even if $1000 per capita is subtracted to correct the overestimation of GNI per capita due to revisions of the nominal series and an apparent upward bias in annual GDP growth numbers, Bangladesh would still exceed the current $1,088 GNI per capita threshold for LMIC status. The Bangladesh Bureau of Statistics revised the National Accounts twice in the past 15 years. These revisions have implications for the year in which Bangladesh surpassed the World Bank's GNI per capita threshold for middle-income country status. Based on 2005-06 prices, Bangladesh reached lower-middle-income status in FY15. Based on 2015-16 prices, it likely exceeded the LMIC threshold in FY11 under plausible assumptions. World Bank, *Change of Fabric*, 2022.

However, the reported growth is less impressive than the official narrative suggests. This hype is best illustrated by a Boston Consultancy Group report, which claims:[43]

> *With an average annual GDP growth of 6.4% between 2016 and 2021, Bangladesh has outpaced Asian peers, such as India, Indonesia, and [the] Philippines, and has performed significantly better than the global average of 2.9%. The country's GDP per capita was ~$2,800 in 2022—already higher than India's. And at its current growth rate, Bangladesh is on track to become an upper-middle-income country (at least ~$4,000 GDP per capita) by 2031.... Bangladesh has proven resilient to global economic shocks.... Buttressing Bangladesh's prospects is its extremely active domestic consumer market, which accounts for nearly 70 per cent of GDP and is rapidly expanding due to a growing middle and affluent class.*

While official growth data is often cited in hyperbolic narratives like this, such claims typically rely on selective comparisons and ignore the shrinking share of the middle class in total income. Moreover, when taking official statistics at face value, Bangladesh had significant competition, with several countries outperforming it. For instance, the proportion of countries classified by the World Bank as low-income fell from 30% in 1987 to 12% in 2023.[44] Despite similar starting points in the 1970s, Bangladesh's GDP per capita today is four times larger than it was in 1972, compared to over five times in India, six times in Indonesia, and over 30 times in China. Vietnam, from 1984 to the present, has more than quintupled its GDP per capita, while Bangladesh's GDP per capita has increased only 3.4 times over the same period.[45]

2.2 Deeper Dive into Official Data

The official estimates merit closer scrutiny, as they have shaped both local and global perceptions of Bangladesh's economic trajectory. The BBS published Fifty Years of National Accounts in 2022. Subsequent BBS national account compilations follow the same methods and sources described in this report. Bangladesh's growth narrative hinges on BBS data, so we begin by analysing the data before addressing its shortcomings.

Stylised Facts

Growth accelerated over time. Average growth rose from 3.8% in the 1980s to 4.2% in the 1990s, with reduced volatility. Subsequently, growth continued along a stable trajectory until 2009 (Figure 2.1). A turning point occurred around 2010, when average growth reached 6.7% in FY09-14 and increased further to 7.3% during FY15-19, with decreasing volatility.[46] Growth slowed after the pandemic.

Industry dominated. Industrial growth fluctuated in the 1970s but recovered in the 1980s (Figure 2.2). The peak in industrial growth occurred in FY18, at 11.6%. Industry's contribution tapered in FY21-24, while construction maintained a steady growth of 8-10% since the 1990s. Along with the rise of manufacturing, the industry retained leadership in growth from the early 1990s.

Services stabilised. Service sector growth averaged 5.2%, with low volatility (around 1%). Wholesale and retail trade, transport, storage, and communication consistently led growth in services. The COVID-19 pandemic spurred the expansion of online trade, and the gig economy gained prominence.[47]

[43] Zarif Munir, Saibal Chakraborty, & Tausif Ishtiaque, *Bangladesh's Economy Is Growing, and So Are Its Emerging Champions*, *International Business*, 28 April 2023.

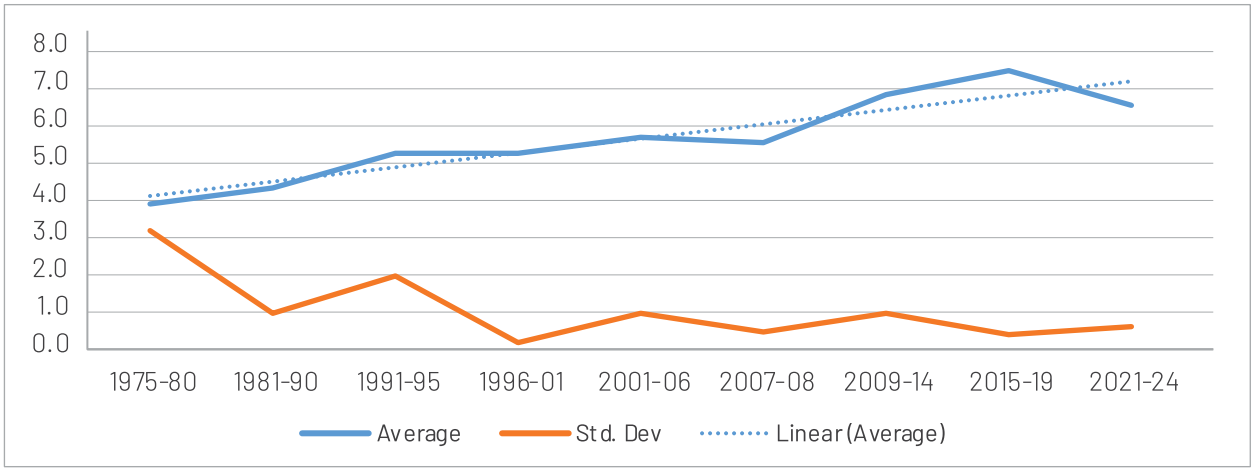
[44] Eric Metreau, Kathryn Elizabeth Young, & Shwetha Grace Eapen, *World Bank Country Classifications by Income Level for 2024-2025*, 1 July 2024.

[45] World Bank, 2022, ibid.

[46] Measure by the standard deviation of growth

[47] Quarterly data on sectoral growth shows the strongest correlation between GDP growth and industrial growth (0.92), and the weakest with agricultural growth (0.51).

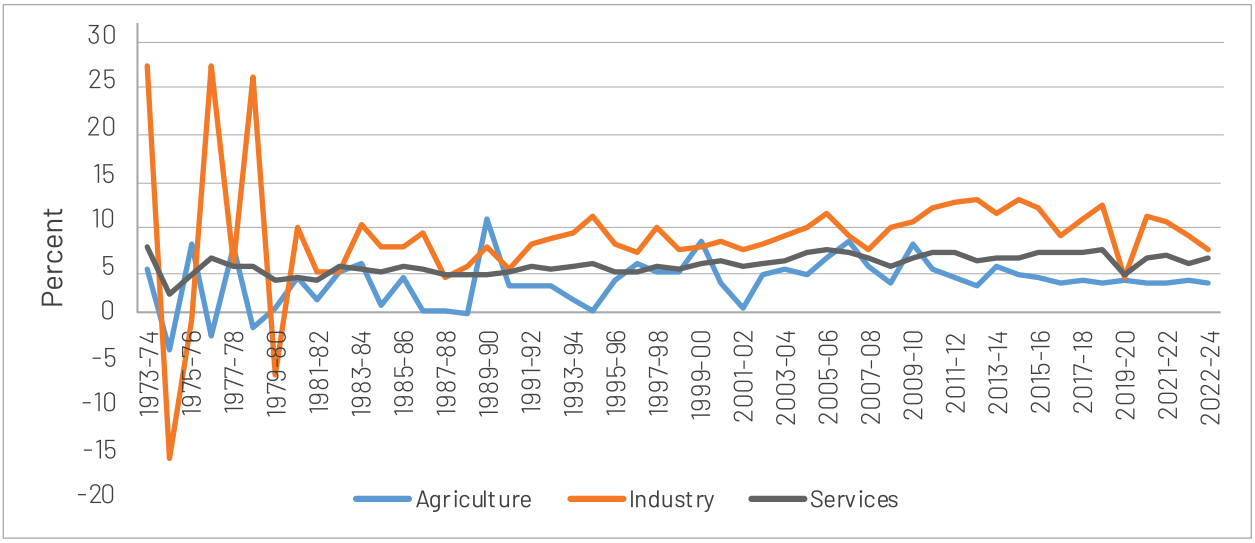
Figure 2.1: Period average gross domestic product growth and deviations (%)



Source: BBS, Fifty Years of National Accounts and national accounts releases in 2023 and 2024.

Agriculture stabilised slowly. The agricultural sector's contribution to GDP declined steadily across various subsectors as industry and services outpaced agricultural growth. Nevertheless, agriculture's shock-absorbing role, despite slower growth, was evident during the pandemic in 2020. Agriculture managed over 3% annual growth in FY21-24, despite extreme weather events and land conversion.

Figure 2.2: Sectoral growth rates



Sources of Growth

Empirical diagnostics of Bangladesh's growth point to physical capital accumulation and demographic shifts as the main drivers of growth. These factors have supported growth in both agriculture and industry.[48] The surplus needed for industrialisation and urbanisation initially stemmed from innovations in farming practices and inputs, coupled with improved inland connectivity. Agriculture, industry, and services benefited from the demographic dividend as Bangladesh transitioned to the third stage of the demographic transition, characterised by slower

[48] Raihan et al., *Institutional Diagnostics*, 2023.

population and dependency growth.[49] The private sector, spanning sectors such as crops, garments, SMEs, banking, trade, telecommunications, migration, and media, flourished, ranging from 'bottom of the pyramid' to 'headline-grabbing' enterprises.[50] The rise in remittances from unskilled workers migrating abroad enhanced purchasing power at the lower-middle-class level and helped bridge external trade deficits.

Reforms unlocked accumulation and demographic dividends. Reforms in agriculture, rural infrastructure, energy, trade, and finance during the late 1980s and early 1990s contributed to economic progress. Domestic political settlements also evolved, expanding the market economy. The synergies from these reforms were particularly effective in Bangladesh's densely populated context.[51] However, reforms stagnated after 2004,[52] even as growth continued to rise, likely due to the long-term effects of previous structural improvements.

Catch-up and Legacy Effects. Starting from a very low base, Bangladesh has progressively caught up with the global economy, outpacing the world average in GDP per capita growth over the past 50 years.[53] The availability of technological knowledge from the developed world and the increasing returns on capital—given its initial scarcity—have contributed to this growth. Legacy effects, or the delayed impact of past GDP on current GDP, have mitigated the absence of second-generation reforms and the reversal of some first-generation reforms.

2.3 Acceleration Demystified

The preceding analysis fails to adequately explain the acceleration observed during 2010–19. The share of growth not accounted for by the accumulation of physical capital per worker rose unexpectedly in the decade before the pandemic. Concurrently, the contribution of labour declined, as did the elasticity of poverty regarding national income.[54] The impact of past reforms on per capita GDP growth decreased from 3.5 percentage points during 2005–09 to 1.5 percentage points in 2015–19.[55]

Maintaining consistent growth requires increasing human capital intensity, given that physical capital is subject to diminishing returns. Human capital growth was modest, ranging from 0.5% to 0.7% per annum, compared to the more robust 7–8% annual growth in the stock of physical capital.[56] While capital flight and inefficient financial intermediation are expected to hinder growth, Bangladesh appears unaffected. Similarly, rising income is typically associated with institutional modernisation; however, Bangladesh consistently ranked below its peers on institutional indicators such as the Corruption Perception Index, World Governance Indicators, Doing Business Indicators, and the Global Competitiveness Index.

[49] Rizwanul Islam, *Fifty Years of Development Experience of Bangladesh: An Employment and Labour Perspective, in Fifty Years of Bangladesh: Economy, Politics, Society and Culture,* edited by Rounaq Jahan and Rehman Sobhan, Routledge Press, 2024.

[50] Hossain Zillur Rahman, *Democratising the 'Middle-Income' Dream,* in Jahan and Rehman (Eds.), ibid.

[51] Mahmood, S. A. (n.d.). *Policy actions, market responses, and economic growth in Bangladesh.* In Jahan, M., & Rehman, R. (Eds.), Ibid.

[52] World Bank. (2022). *Change of fabric.*

[53] UNCTAD. (2021). *Least developed countries report*.

[54] Iqbal, K., & Ferdaus Pabon, M. N. (2018). Quality of growth in Bangladesh: Some new evidence. *Bangladesh Development Studies,* 41(2), 43-64.

[55] World Bank. (2022). *Change of fabric.*

[56] World Bank. (2012). *Towards accelerated, inclusive, and sustainable growth.*

Evidence of significant upward bias. The World Bank (2022) assessed Bangladesh's GDP growth data using a panel dataset covering 149 countries from 1970 to 2019, with time series regression analysis incorporating nightlight intensity as an alternative measure of economic activity. They found that the period FY13–19 was an outlier, with the deviation between reported and predicted growth averaging 3.5 percentage points higher than in previous periods.[57] The discrepancy between predicted and actual growth was 1 percentage point for agriculture and 1.7 percentage points for services. Manufacturing stood out, with a difference exceeding 7 percentage points from the 10.6% average reported growth during the 7th Five-Year Plan (FYP) period.[58] Luis Martinez's (2018) model suggests that Bangladesh's growth was overstated by a factor of 1.28 between 1992 and 2013.[59]

Bangladesh's high GDP growth is a myth. The growth recorded during the 2010s, often highlighted in Bangladesh's branding efforts, was statistically exceptional, particularly when compared with its peers. This fact is evident to both those promoting Bangladesh as a development model and those questioning it. The apparent puzzle only arises when one assumes the economy pivoted as suggested by official statistics. A closer examination of the data reveals that such optimism is unfounded. The acceleration during 2010–19 appears to stem from an unidentified source.[60]

Attributable not just to data or methods. Our discussions with the National Accounts Wing of the BBS clarified the source of the bias (see Annexe for details). Data and methods relying solely on government information, without third-party verification, result in a downward rigidity of estimated real GDP in certain sectors. This artificially bounds growth from below, making GDP appear resilient even during periods of disruption. This explains why growth models consistently underpredict Bangladesh's growth relative to the officially reported figures.

However, data and methods alone cannot explain the linear growth patterns observed in the decade before the pandemic. These linear increases were likely influenced by political leaders who had both the incentive and the means to manipulate GDP growth estimates for domestic and international propaganda purposes. After the most influential political figure left, it is possible that the BBS National Accounts Wing continued to overstate growth, fearing repercussions from higher authorities. The technical committees that previously ensured checks and balances ceased functioning effectively after 2015.[61]

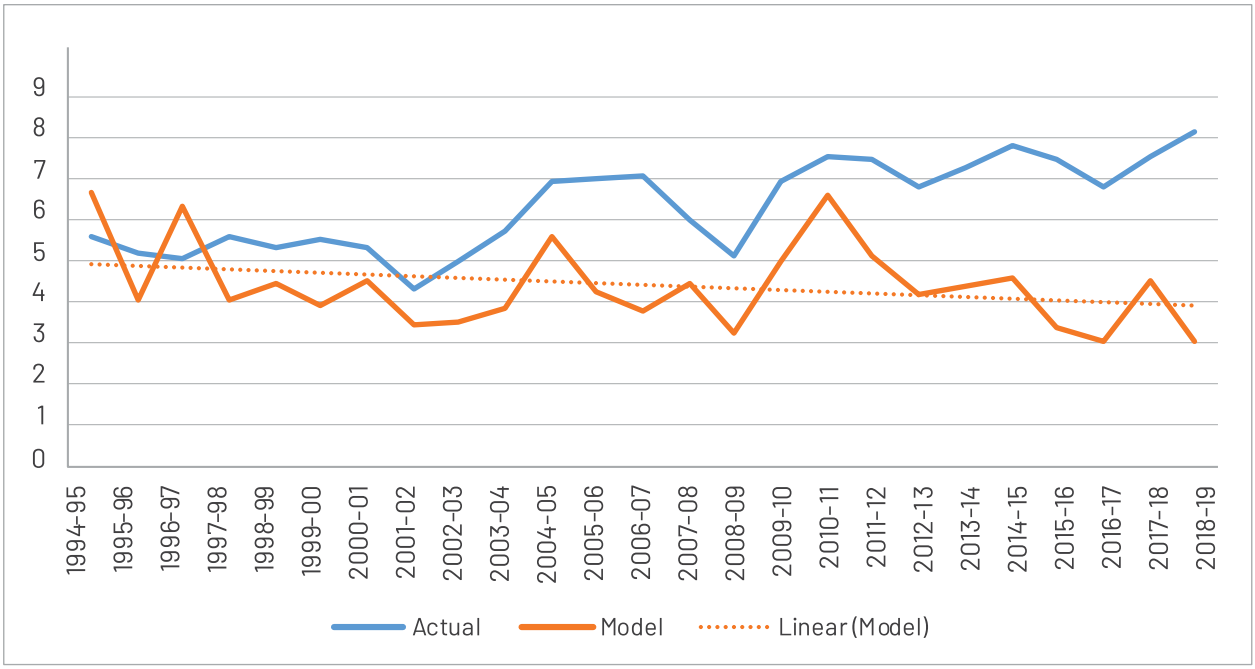
A paradox no more. The narrative of rapid growth unravels once the data is adjusted for statistical aberrations. The conclusion that growth began to slow four to five years before the pandemic is therefore inescapable. Figure 2.3 presents the corrected growth series for FY95–19, adjusted for annual prediction errors based on an international panel dataset. It shows that, with few exceptions in the mid-90s, the corrected growth was consistently lower each year, and the difference grew larger over time.[62] The reported and corrected growth moved in the same direction until 2012–13, after which the divergence increased. Growth declined to below 5% from FY13 onwards,

[57] Large variations in prediction errors across different periods suggest potential measurement issues.
[58] Ahsan, A., & Mansur, A. H. (2019). Financial indicators, which are harder and more reliable, do not align with officially recorded GDP growth. *Policy Insights*, July 1.
[59] Martínez, L. R. (2018). *How much should we trust the dictator's GDP estimates?* Harris School of Public Policy, University of Chicago.
[60] World Bank. (n.d.). Ibid.
[61] Bonik Barta. (2024, October 1).
[62] International evidence suggests that autocracies tend to exaggerate GDP growth. A seminal study by Martínez (2018), titled *How much should we trust the dictator's GDP growth estimates?*, compared self-reported GDP figures with nighttime lights (NTL) data from satellites. The findings indicate that autocracies overstate yearly GDP growth by approximately 35%. Martínez reviewed the assessment of Bangladesh's GDP growth and commented, 'It's very interesting and very compelling.' Further compelling evidence of the abnormal rise in growth during the 7FYP period comes from a breakdown in the corroboration between HIES and LFS data. From 2010 to 2016, household-level income and consumption data from HIES and monthly earnings from LFS were consistent with national accounts data. However, this was not the case during and after the 7FYP period.

following a downward trend that the statistical system consistently failed to capture, either through omission or manipulation.[63]

Average growth was significantly lower, and the direction was downwards. The average predicted growth during FY09–19 was 4.2% per annum, significantly lower than the 7% average reported officially. The model predicted growth would peak at 6.4% in FY11, but declined in most subsequent years, while the official figures generally trended upwards. Much of the optimism surrounding this period stemmed from a misleading manipulation of numbers, which presented growth as following two linear paths from 2010 until the pandemic.[64] There was indeed growth, exceeding population growth, but official data obscured the economy's shift toward a downward trajectory, not to mention the quality issues associated with the achieved growth.[65]

Figure 2.3: Corrected vs reported growth



The overstatement of real GDP growth does not necessarily extend to nominal GDP per capita, whether measured in taka or US dollars. Nominal GDP growth depends on real GDP growth and inflation, as measured by the GDP deflator. Since inflation is likely to have been understated, the overstatement of real GDP growth may have partially offset the growth in nominal income per capita, with the exact effect varying year by year. Importantly, such revisions are unlikely to alter the general narrative of rising nominal income per capita, unlike in the case of real GDP growth, where both the magnitude and direction of growth diverge significantly from the official figures. As corrected real GDP growth exceeded population growth, real GDP per capita has indeed increased, albeit at a much slower pace than suggested by official data.

[63] These findings alleviate the academic burden of explaining the so-called 'Bangladesh paradox' of growth without substantial reforms, investments, or job creation.

[64] Kar, S., Pritchett, L., Raihan, S., & Sen, K. (n.d.). *The dynamics of economic growth: A visual handbook of growth rates, regimes, transitions, and volatility.* After examining growth data from 1960s to 2010, they conclude that growth was episodic in Bangladesh before 2010.

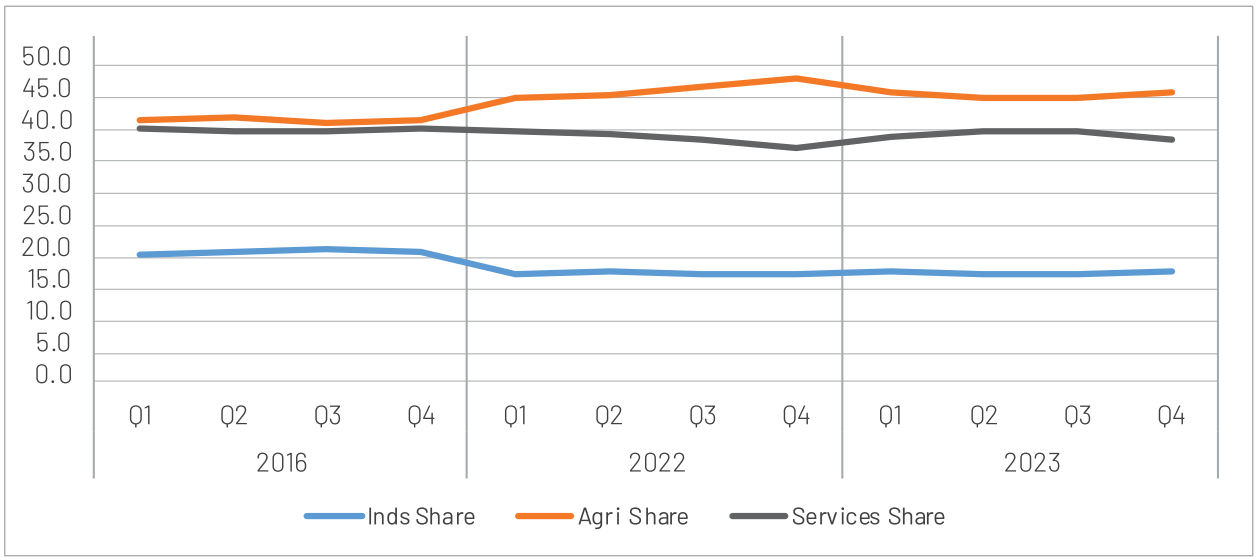
[65] See White Paper, Chapter 13.

2.4 Structural Stagnation

The trends in the corrected growth series align with several structural indicators that suggest stagnation. Structural stagnation is characterised by prolonged underemployment, low productivity, high concentration of activity, and low mobility of labour and capital. Unlike recessions, which are typically temporary and reversible through fiscal and monetary policies, structural stagnation requires deeper structural reforms to resolve.

Unhinged labour markets. The most notable indicator of structural stagnation is the share of employment in industry (Figure 2.4), the fastest-growing sector. In fact, employment in large and medium-scale manufacturing declined between 2016 and 2022.[66] The share of urban employment in total employment fell from 27.9% in 2016 to 25% in 2022. Annual employment growth in urban areas slowed from 4.6% between 2010 and 2017 to just 0.8% between 2016 and 2022.[67] Raihan and Bourguignon (2023) find that while total labour productivity growth doubled after 2000 compared to the 1991–2000 period, the contribution of structural change to this growth significantly declined in the last decade.[68] Segmented dual labour markets persisted, with migration abroad providing a lifeline.

Figure 2.4: Sectoral shares of employment



Good earnings prospects are limited to the minority employed in the formal sector, while the vast majority work in poorly paid jobs in the informal sector.[69] With urban job opportunities scarce, millions of workers returned to agriculture during the pandemic to scrape by. Many have remained in the sector, and now Bangladesh's already distressed agriculture employs 45% of the workforce.

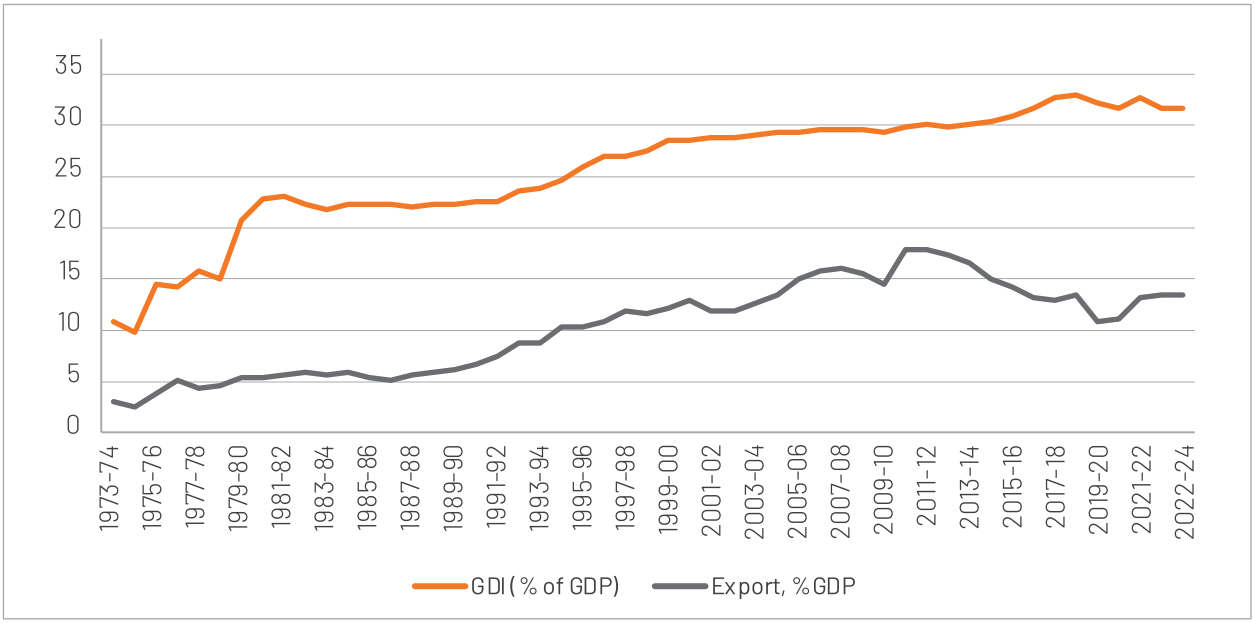
[66] BBS. (2022). *Labor force survey 2022*.

[67] This may relate to a decline in employment growth in services (from 2.6% between 2010 and 2017 LFS to 2.4% between 2017 and 2022 LFS) and a decline in industrial employment (between the 2017 and 2022 LFS).

[68] They decompose aggregate labour productivity increases into three components: (1) within-sector effect (WSE), reflecting overall productivity growth within individual sectors; (2) static reallocation effect (SRE), capturing the impact of reallocating employment from less productive to more productive sectors; and (3) dynamic reallocation effect (DRE), describing the impact of reallocating employment to sectors with faster productivity growth. The last two effects represent the impact of structural change on growth over three decades.

[69] Being employed in the formal sector of either industry or services in Bangladesh 'results in earnings between 56 per cent and 63 per cent large than those in the same sectors but informal.' See Commander, S., & Estrin, S. (2022). *The connections world* (p. 227). Cambridge University Press.

Figure 2.5: Total investment and exports



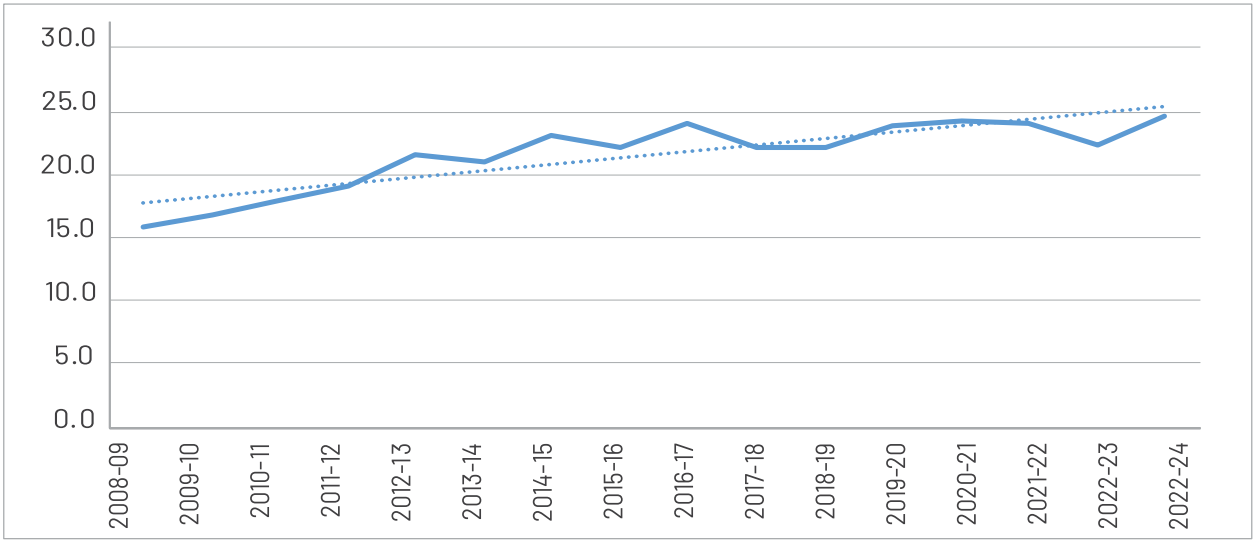
Decreased export orientation. Bangladesh's economic complexity is lower than that of its peers. The share of exports in GDP rose from 5.3% in 1981 to 18.5% in 2010 but then declined to 13.1% by FY24 (Figure 2.5), remaining below the levels observed in countries with similar levels of development. The export basket remains heavily reliant on a narrow range of ready-made garments (RMGs), similar to over a decade ago. The contribution of manufacturing exports to growth began to decline even before the COVID-19 pandemic. Manufacturing increasingly pivoted towards domestic market-oriented industries. As of 2020, Bangladesh's participation rate in Global Value Chains stood at 23.7%, the lowest in Asia.[70]

Misallocated investments. The share of total investment in GDP peaked above 32% in FY19 after stagnating at below 29% for more than a decade (Figure 2.5). Private investment remained flat at around 23% of GDP since FY15. The recovery in investment since 2010 came largely from public investment, which surpassed 7% of GDP during the 2010s—a rate considered suitable for high, sustained growth.[71] However, Bangladesh prioritised overpriced mega public infrastructure projects (PIPs), which inflated recorded investment and contributed to GDP. The contribution of public investment to GDP growth increased from 0.2 percentage points per annum during FY01-10 to 0.7 percentage points per annum during FY11-22. The share of public investment in total investment increased (Figure 2.6).

[70] Asia Productivity Organization (APO). (2024). *Productivity outlook*.

[71] World Bank. (2008). *Commission on growth and development*, p. 36.

Figure 2.6: Share of public investment in total investments (%)



Public investment channelled through development projects has a history of time and cost overruns, irrespective of political regimes. A study by Bangladesh Institute of Development Studies (BIDS) of 329 transport sector projects from FY13-22 revealed that 49.7% experienced both time and cost escalation, while another 36.7% had either time or cost overruns. On average, costs increased by 26.3%, and project timelines were extended by 94.8%.[72] These inefficiencies indicate that the returns on public investments are significantly below the costs recorded in the government's budget. Misallocations also arose from inflated GDP growth data. A notable example is the power sector, where master plans projected rising electricity demand based on a 1.27 GDP growth elasticity. These projections were informed by systematically biased GDP growth data,[73] leading to overinvestment in generation capacity, much of which remains unused.

High tariff protection misallocated private investments, with the assumption that replacing imports would create jobs and save foreign exchange. In practice, the import substitution strategy became biased towards capital-intensive production. This strategy did little to address youth unemployment or general underemployment. It shifted the economy from reliance on imports of final goods to dependence on imports of intermediate goods. The anticipated savings in foreign exchange did not materialise due to inefficiencies.

A trap too soon. Drawing on lessons from 100 countries over the past 50 years, the World Bank finds that countries typically fall into a 'trap' when annual per capita income reaches approximately 10% of the US GDP per person or around $8,000 in 2024.[74] Bangladesh is far from reaching these income levels. An inverse relationship between industry's share of employment and production, stagnating or declining industrial productivity, the GDP intensity of exports, stagnant private investment, public expenditures on health and education, and governance indicators suggest the possibility of economic entrapment.[75]

[72] Iqbal, K., Rahman, M. T., & Satter, J. B. (2023). *Time and cost overruns in development projects: Evidence from audit reports of roads projects*. BIDS Research Almanac, May 18.
[73] Government of Bangladesh. (2023). *Integrated energy and power master plan (IEPMP)*, July.
[74] World Bank. (2024). *World development report: The middle-income trap*. Spence (2011) described 'middle-income transition' as the phase when a country's per capita income ranges from $5,000 to $10,000. Agénor, Canuto, and Jelenic (2012) found that growth slows when a country's income reaches approximately $15,000 to $16,000. Eichengreen, Park, and Shin (2014) suggested that many countries experience slowdowns when income reaches between $10,000 and $11,000 and again around $15,000 to $16,000.
[75] See recent rounds of World Governance Indicators and Corruption Perception Index.

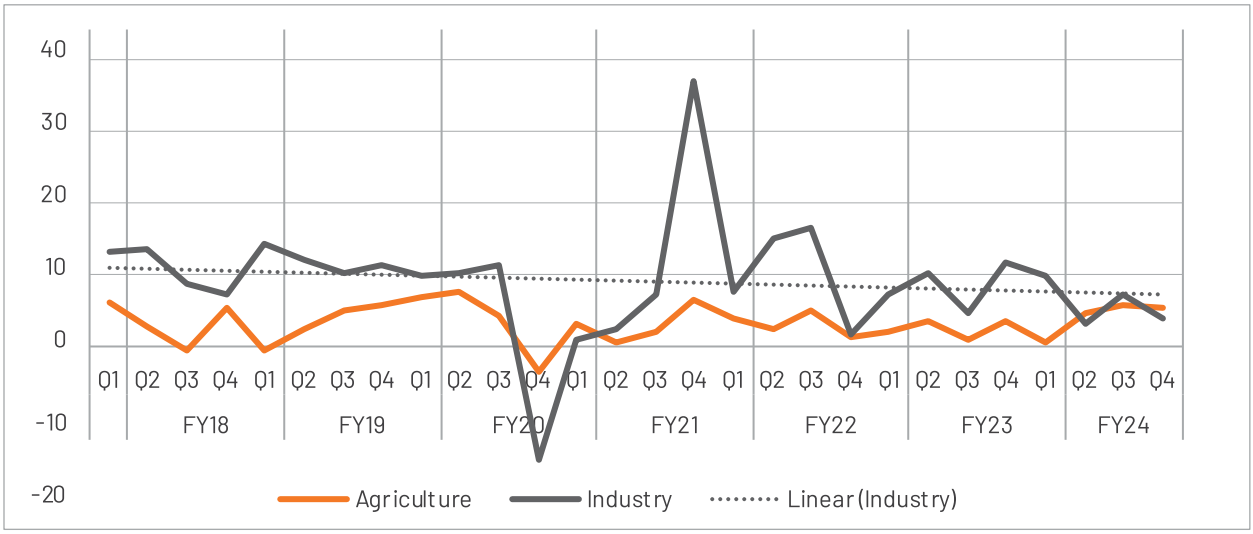
2.5 Escaping the Trap

The July-August 2024 societal uprising exposed the limits of the hyperbolic growth narrative. While statistics may mislead at times, the socioeconomic conditions of the majority of the population did not reflect the kind of development depicted by official macro trends. The lack of opportunities and high youth unemployment have been sources of rising tension. The quota issue was merely the tip of the iceberg, revealing deeper economic, social, and political discontent. A mass uprising was inevitable, awaiting only a trigger.

There is hope, contingent on transformative reforms. Many of Bangladesh's current income growth challenges stem from weakened state capacity, the mismanagement of scarce resources, a system of governance unable to adapt to changing times, and economic growth that failed to benefit all sectors. Addressing the most critical constraints to economic activity—such as governance, business regulation, and resilience to external shocks—can stimulate both domestic and foreign investment and enhance labour productivity. A reform package addressing these issues is projected to increase output by 4% within two years and 8% within four years in economies with large structural gaps like Bangladesh.[76] These reforms could also alleviate macroeconomic pressures, such as inflation, sovereign risk premiums, and weak FDI inflows, by promoting competition and improving investor confidence.

The interim government has inherited a slippery growth trajectory. Four years ago, discussions around how the economy would withstand global shocks, such as COVID-19 and stagflation, popularised the concept of the 'geometry of growth'.[77] Figure 2.7 illustrates Bangladesh's growth trajectory over the 24 quarters ending June 2024. A pandemic-induced sudden stop led to a sharp decline in industrial growth in FY2020, followed by a swift recovery in FY2021.[78] This V-shaped recovery then morphed into a falling W, with increasing volatility.

Figure 2.7: Quarterly growth in industry and agriculture (y-o-y %)



[76] Budina, N., Ebeke, C. H., Jaumotte, F., Medici, A., Panton, A. J., Tavares, M. M., & Yao, B. (2023). *Structural reforms to accelerate growth, ease policy trade-offs, and support the green transition in emerging market and developing economies.* IMF eLibrary.
[77] Economic commentators used English letters to describe the potential growth trajectory following the pandemic: V for a sharp recovery, U for a brief recession, W for a double dip, K for an unequal recovery, and square root for a strong recovery.
[78] Quarterly growth estimates for services are too unreliable for meaningful analysis, while estimates for agriculture and industry are more reliable.

Comfort zone still in the front view. In the first quarter of FY25, despite massive political disruptions over 36 days, remittances were the strongest-performing indicator, with a 26% growth in July through November compared to the same period the previous year. Exports also showed signs of recovery, with an 8.3% year-on-year growth in shipments from July to October. Imports grew by 0.9% after a sharp decline over the previous two years. Foreign exchange availability improved, but the economy remains fragile. Other indicators, such as tax revenues, private credit, and energy supplies, are struggling. Natural challenges were not benign in the first quarter. The IMF, World Bank, and Asian Development Bank (ADB) have all projected a decline in growth for FY25, forecasting it to fall between 3.8% and 4.5%. Persistently high inflation has shifted attention away from growth, increasing the urgency for structural reform.

There are multiple policy issues on many fronts. The list of necessary reforms is extensive, but the key issues are clear. Physical capital accumulation must be complemented by human capital investment. Imitation and importation must be balanced with innovation. Institutions must be supported by organisations and social mobilisation. 'Business as usual' will not deliver these outcomes, especially when reforms involve adverse distributional effects, long-term growth lags, resistance from entrenched interests, and poor administrative capacity. Building trust and confidence in public institutions is fundamental to all growth-oriented reforms, including financial intermediation, business regulation, and tariff rationalisation. Tight monetary policies and fiscal consolidation can be growth-friendly if accompanied by credible policy commitments. A good starting point would be to craft the FY26 budget, and its macroeconomic framework based on realistic assumptions about GDP growth and its drivers.

2.6 An Epilogue

Since the draft White Paper's release to the public, many reactions have warned against taking the data analysis results too literally.[79] This warning is particularly relevant to the case made for reconsidering Bangladesh's LDC graduation in 2026. Could it be that a re-estimation of the nominal GDP in US dollars accounting for years of overstatement in real GDP growth disqualify Bangladesh from graduation based on the GNI per capita criterion?

We have not attempted to re-estimate nominal GDP levels in taka or dollars due to many complexities. Understated inflation measured by the GDP deflator partially offsets the effects of overstated real GDP growth and potential overvaluation of the taka against the US dollar on nominal GDP measured in US dollar. However, considering the consistent positive real per capita growth above 4% and inflation in most years, it is most unlikely that the magnitude of taka overvaluation would be large enough to not surpass LDC graduation thresholds.

This by no means berates the finding that the average real GDP growth rate was significantly overstated in the 2010s, more so than in previous decades, and that the growth deceleration from the mid-2010s was consistent across different data analysis methods. Many other growth indicators support the econometric results based on models with multiple variables, not just nightlight intensity. Bangladesh's economic performance has indeed been much less favourable than widely reported since mid-2010.

For policymakers considering their next steps, the White Paper' message is unequivocal: the issues highlighted should not be dismissed as mere "opinions…that are themselves part of the

[79] A very well-articulated published critical commentary is Nick Lia, Comments on the Bangladesh White Paper, Economic Policy Network, The Blavathink School of Government, University of Oxford, January 23, 2025.

country's political economy."[80] The WP's scrutiny of Bangladesh's developmental narrative is not incoherent with the perspective of its transition from a test case to a success story, endorsed by eminent economists. It is important to recognize that the conclusions drawn from datasets spanning eras before the industrial-scale data manipulation around mid-2010 onwards are not borne out by consistency checks and econometric growth data diagnostics.

International analysts and multilateral agencies missed the breadth of the exaggeration due to their reliance on the adherence of actual national accounting practices to the stated principles in the BBS sources and methods publications. Experts from the multilateral institutions who reviewed the National Accounts data compilation lacked the institutional capacity to publicly challenge the accuracy of the official data, thus confining their doubts at best to the confines of boxes in their reports (for instance, the World Bank, 2022).

[80] Ibid.

Annexe on national accounts data
Handle With Care

Current State of Gross Domestic Product Data

The critical question is the reliability of national accounts data as indicators of trends and the state of the real economy. Our discussions with the relevant technical staff at the BBS suggest that broad generalisations are unwise. The accuracy of estimates depends on the data and methods used, as well as the potential for politically motivated interference, both from within and outside the government. This section provides an assessment of the credibility of national accounts data in the absence of such interference.

There is no apparent reason to assume a systematic bias in many subsectors. The data and methods employed in calculating gross value added for sectors such as crops, manufacturing, construction, and wholesale and retail trade seem capable of reflecting the underlying activity. These data are based on directly observable measures of activity volume, and there is no clear indication of inherent bias in either direction nor any upper or lower bounds resulting from the nature of the raw data. Together, these estimates accounted for approximately 47% of GDP in the base year.

However, in several subsectors, real GDP estimates are subject to downward rigidity. Sectors such as forestry and logging, fishing, electricity, water supply, land transport, and public administration rely on central government and autonomous body budget data to estimate gross value added. Provisional estimates use revised budget data, while final estimates incorporate actual figures when available. Estimates based on revised budget figures, which tend to be overestimated, introduce downward rigidity in the level estimates. Similarly, the use of newly registered vehicles as a basis for estimating GVA in land transport also contributes to this rigidity. These sectors account for about 33% of GDP in the base year and tend to reflect economic growth more accurately in times of expansion than during downturns.

In many sectors, GDP accountants exercise discretion. Some subsectors, such as agriculture, transport, insurance, and professional services, lack clarity regarding the specific factors shaping GVA calculations. The BBS documentation outlining the sources and methods is vague on the data used, making it unclear what specific data is employed for different purposes.[81] It appears that available data at the time of compiling provisional and final estimates are used, which may lead to higher levels of uncertainty in the growth estimates compared to the level estimates. These 'uncertain' estimates account for about 20% of GDP in the base year.

Qualitative assessment of the estimated level of real GDP seen from the production side	**Implications for growth estimate**	**FY16–17 GDP share**
Data and methods capture reality	*Can be positive or negative*	*47*
Data and methods capture rises	*Cannot be negative*	*33*
Data and methods conditional on circumstances	*Require discretion*	*20*

[81] BBS. (2022). *Fifty years of national accounts statistics of Bangladesh and Bangladesh national accounts: Sources and methods*, July.

Expenditure-side estimates are more problematic than production-side estimates. Consumption, the largest component (65%) of total GDP, is estimated as a residual. To calculate consumption, GDP estimated on the production side is adjusted by deducting investment, net exports, and a predetermined share of the statistical discrepancy (SD). The imposition of SD on data weakens the consistency checks between expenditure and production estimates, making the BBS estimate of Gross Domestic Expenditure arbitrary.

Estimates of total investment, its components, exports, imports, and public consumption are not subject to SD constraints. BBS uses BB data on exports and imports, as well as revised or actual budget data for public investments. The private investment estimate is derived as the difference between total investment and public investment. Total investment, particularly in construction, machinery and equipment, and transport equipment (which together account for over 90% of the total), is estimated separately using the commodity flow method. This approach uses data on the production and import of goods relevant to these sectors, better aligning the investment estimate with its intended purpose—measuring gross additions to capital stock during a period. Public capital expenditures tend to be downwardly rigid, particularly in nominal terms, while private consumption carries errors from both total investment and public investment estimates.

Overall, the data should not be dismissed as entirely unreliable but must be handled cautiously. The downwardly rigid component functions as an automatic stabiliser in economic downturns, while acting procyclically in periods of growth. The discretionary elements may exhibit similar patterns, especially when risk-averse officials in the BBS and the Statistical and Informatics Division prefer not to report unfavourable data. These biases help explain the smooth trajectory of annual GDP growth, though they cannot account for the linear upward growth path observed during the FY15-19 SFYP period.

Revisions

Revisions to GDP data and its components are crucial for the accuracy and comparability of national account estimates across countries. Significant revisions arise from the introduction of new methodologies, expanded coverage of economic activities, and updated input-output coefficients, all of which affect both nominal and real GDP. Rebasing the national accounts involves adjusting the reference period for individual price and volume indices from the old base year to the new base year and aggregating sectoral data to produce national estimates. Large revisions are typically recommended once every decade.

In 2013

In November 2013, the BBS published a revised GDP series using the 2005-06 base year. This new series incorporated nearly 150 additional products and services. For example, 24 new items were added to the agricultural and fisheries sub-sector, increasing the total number of products to 124. Items such as bricks, timber, round wood, fixtures, and fittings were introduced to compute GVA for the construction sub-sector. The services sector also expanded with the inclusion of new elements such as motor vehicle and household goods repair, the economic contributions of private airlines, internet service providers, cable services, clearing and forwarding agents, and travel agents. In the financial intermediation sub-sector, new data sources included microfinance institutions, cooperative banks, new insurance companies, insurance agents, and housing finance institutions.

The new series estimated GDP for FY13 at Tk. 11,881 billion (US$149 billion), compared to Tk. 10,380 billion in the previous (1995/96-based) series. This represents an increase of approximately 14.5%. GDP growth rates in both the new and old series were nearly identical over the seven years from 2005/06 to 2012/13. The growth rate in the new series was somewhat less volatile.

Using data from the old GDP series, Bangladesh's GNI per capita (Atlas Method) in 2012 was $840. After factoring in the 14.5% increase in GDP indicated by the new series, GNI per capita rose to $962.

Again in 2021

On December 2, 2021, the BBS published the national accounts using 2015-16 as the base year. This publication included updated actual national account figures for FY16-20 and provisional estimates for FY21. The revision introduced several new subsectors in industry and services. The cottage industry was added as a sub-sector within manufacturing, while the services sector expanded to include: i) accommodation and food, ii) information and communication, iii) professional, scientific, and technical activities, iv) administrative and support activities, and v) arts, entertainment, and recreation. These additions accounted for 7.7% of GDP in FY21. As a result of the revised base year, the share of industry in GDP increased, while the share of services decreased.

The trends in growth and investment are largely similar to those in the previous series, with both rising and falling in a comparable pattern each year. However, growth rates are lower in the revised series, never surpassing 8%. In contrast, investment rates are higher across all reported years. Consequently, the efficiency of investment, measured by the Incremental Output Capital Ratio (the ratio of growth to the investment rate), is lower than indicated by the old series.

The revision had a notable impact on the GDP size. The nominal GDP in FY20 increased to USD 373.9 billion, approximately 15.7% higher than the GDP in the previous series. GDP per capita, measured in current USD, was USD 2,426 in FY21, reflecting a 14.7% increase compared to the old series. GNI per capita rose to USD 2,554, up from USD 2,227 in the old series. This revision significantly narrows the gap between the current per capita income level and key milestones, such as achieving Upper Middle-Income Country status by 2031 and Higher-Income Country status by 2041.

Another Revision on the Cards

BBS plans to rebase the national accounts to a 2021-22 base year within the next two years. This will result in revisions occurring approximately once every four years, which is uncommon in global practice. Bangladesh is already ahead of its peers in terms of the recency of its base year. Only the Maldives (2014) and India (2011-12) have similarly recent base years, while Pakistan (2005-06) and Sri Lanka (2010) lag behind. Each revision in Bangladesh has expanded the coverage of the national accounts, leading to increases in nominal GNI per capita, usually expressed in USD. In principle, rebasing should not alter nominal estimates, and changes to coverage should not occur as frequently as base-year revisions. These considerations will need to be carefully evaluated before implementing another revision in the near future.

Chapter III. Inflation: A Lingering Pain Afflicting Public Lives*

Key takeaways

- *Inflation has remained stubbornly high at double-digit levels for an extended period. It is estimated to have pushed an additional 7.9 million people below the poverty line and increased the number of vulnerable non-poor individuals by 10 million over the past two years.*
- *The surge in inflation was triggered by the post-pandemic unravelling of pent-up demand, global commodity price hikes, and a rising US dollar. Its persistence can largely be attributed to the contradictory monetary, exchange rate, and fiscal policies pursued by the previous government.*
- *The interim government must prioritise reducing inflation, particularly by addressing food prices and providing income support to the large numbers of the poor and vulnerable non-poor.*

Inflation has increased more sharply and persistently than in previous episodes of high inflation in Bangladesh. Reported inflation has reached levels not seen since the early 2010s, squeezing household budgets just as they were recovering from the pandemic. The most severe impacts have been felt by low-income groups, with rising food prices exacerbating the strain on their living standards. The recessionary effects of this high inflation are now being felt throughout the economy.

This chapter examines the reality of inflation in Bangladesh, with a focus on recent trends from FY19-24. It explores the factors contributing to the prolonged entrenchment of high inflation, presents evidence of its likely impact on poverty and inequality, and concludes with policy recommendations to alleviate the burden on the population.

3.1 Reality

Data Distrust

Inflation is generally perceived to be higher than reported. A 2024 BIDS survey of BBS data users found that inflation data ranked highest in terms of distrust.[82] A survey by the South Asia Network of Economic Modelling (SANEM) of 800 urban and 800 rural households highlighted the disconnect between reported inflation and public perception. Between September 2022 and February 2023, average monthly household income remained unchanged, while household expenditure increased by 13.1%.[83] However, the reported inflation rate (12-month moving average) for the same period was only 8.1%, a difference well beyond the margin of error.[84]

The discrepancy between reported inflation and public experiences is difficult to contest. The central issue is whether the price data used to calculate the CPI is underreported due to the sources and methods of data collection. While this does not necessarily bias the inflation trajectory

* The chapter was prepared by Dr. Zahid Hussain, former Lead Economist, World Bank Bangladesh.

[82] BBS Portal. (2024, September 26). Retrieved from https://bbs.portal.gov.bd/sites/default/files/files/bbs.portal.gov.bd/page/b343a8b4_956b_45ca_872f_4cf9b2f1a6e0/2024-09-26-09-43-9507f593c24ab8e46e24d2bd88cebd26.pdf

[83] Raihan, S., Ahmed, M. T., Hasan, E., Hasan, M., & Surid, T. F. (2023). *Effects of inflation on the livelihoods of poor households in Bangladesh: Findings from SANEM's nationwide household survey 2023.* SANEM Publications, Dhaka. This approximates the inflation experienced by these households, assuming their expenditure composition does not differ significantly from the CPI basket.

[84] Empirical verification of inflation data is limited to reconstructing the consumer price index using expenditure shares of marginalized groups. Raihan, S. (2022). *Do the official inflation figures in Bangladesh reflect the actual inflation faced by marginalized households?* SANEM.

downwards over time, it could. A more significant concern may be the influence of political pressures on data adjustments.

There is some evidence suggesting that inflation rates for certain key food items may be understated. We selected price data for three varieties of rice, three varieties of meat, three varieties of fish, lentils, onions, liquid milk, eggs, and soybean oil from the BBS's CPI file. These items account for 27% of rural and 20% of urban consumption baskets. The inflation rates for these items are significantly lower than overall food inflation in rural and urban markets (Annexe-I, Table-1). Understating inflation for these high-weighted items leads to a considerable underestimation of overall inflation. Price charts in Annexe II illustrate the price data that may be distorting food inflation figures.

The causes of this understatement, if indeed it exists, are unclear but may not be intentional. However, discussions with BBS staff responsible for inflation calculations suggest the presence of an unofficial ceiling on inflation under the previous government, which may not be unfounded.

Experienced Inflation Rate

An estimate of the true inflation rate can be derived under certain assumptions. The BBS's CPI is based on national-level price data reflecting the purchasing patterns of the average consumer. Alternatively, changes in the cost of living, as estimated from household survey data, also reflect the minimum cost to meet a fixed set of revealed needs. The CPI weights, based on the Household Income and Expenditure Survey (HIES), allow for comparison between the price changes observed in survey data and those measured by the CPI. Jollif (2014) constructed general, food, and non-food indices using HIES data from 2005 and 2010. He found implied inflation rates of 71%, 69%, and 76% for national, rural, and urban areas, respectively, while the CPI-based figures were 46%, 47%, and 44%.[85] By using these ratios as a reference, it is possible to estimate the true inflation rates experienced in recent months (Table 3.1).

Table 3.1: Heuristic estimates of experienced inflation, 2024 (y-o-y, %)

	Anchor	April	May	June	July	August	Sept
Headline, national	1.5	15.0	15.3	15.0	18.1	16.2	15.3

The true inflation rate may have been in the range of 15-17%, rather than the 9-11% reported by the CPI. Additional evidence supports this: a BIDS survey found 15% food inflation in December 2023,[86] while the official figure was only 7.9%. Similarly, calculations from the Centre for Policy Dialogue (CPD) covering items like coarse rice, soybean oil, moshur dal, onions, fish, beef, mutton, and eggs suggest an annual rural food inflation rate of 11.7% for FY19-23, compared to the BBS's reported rate of 6.7%.[87] These figures indicate that the 1.5 anchor used in Table 3.1 is conservative.

[85] Gimenez, L., & Jolliff, D. (2014). *Inflation for the poor in Bangladesh: A comparison of CPI and household survey data.* Bangladesh Development Studies, 37(1-2), 57-81.

[86] Sen, B. (2024, May). Quoted in *Prothom Alo* report.

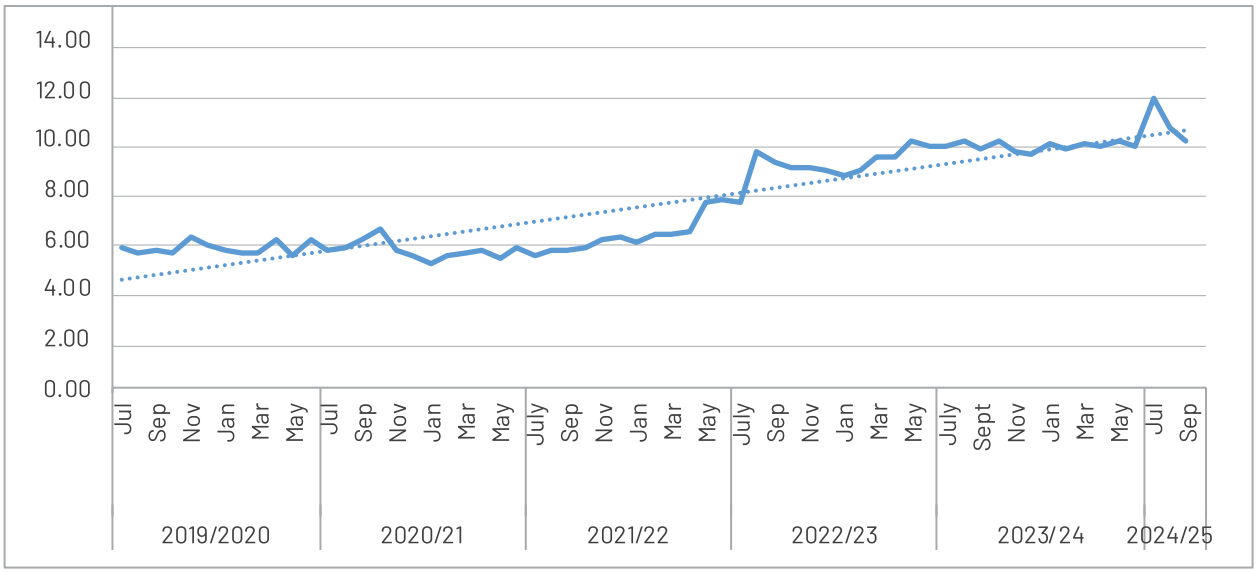
[87] Centre for Policy Dialogue (CPD). (2023). *State of the Bangladesh economy in FY2023-24: First reading,* December 23.

Stylised Facts

Extracting meaningful signals from the volatile inflation data requires a closer examination of the statistical properties of the monthly inflation series produced by the BBS. These properties align with the lived experience of inflation. While official data may understate the level of inflation, its movement over time still provides valuable insights into its underlying sources.

Elevated and Volatile: The behaviour of inflation in Bangladesh between July 2021 and September 2024 differs markedly from global inflation trends and historical inflation in the country. Two years ago, inflation surged in 179 out of 194 countries compared to 2020. Since then, global inflation growth has slowed. Median global headline inflation was estimated at 7.2% year-on-year in April 2023, down from a peak of 9.4% in July 2022, and decreased further to 5.9% in 2024.[88] In contrast, inflation in Bangladesh has escalated since early 2022, rising from below 6% year-on-year in January 2022 to above 9% in August 2023, and remaining above 9.6% iuntil September 2024.

Figure 3.1: Monthly (t-o-y) headline inflation (%)



Both the level and volatility of inflation have increased. A sustained decline in inflation now seems unlikely. Inflation last peaked at 12.3% in FY08, during a global food crisis, but dropped to 7.6% the following year. It then rose to 10.9% in FY11, before declining gradually until FY21.

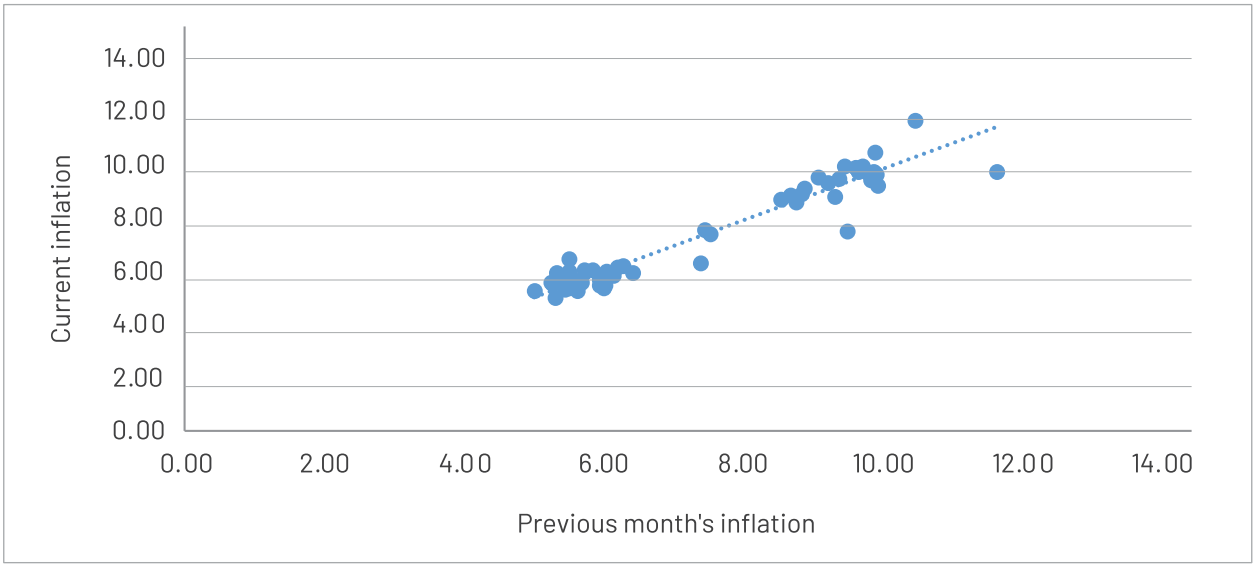
Persistent: The persistence of inflation distinguishes the current period from both historical trends and global patterns. Figure 3.2 plots inflation in month t (y-axis) against inflation in month t-1 (x-axis) for the period FY19–September FY25. Inflation from the previous month strongly predicts inflation in the current month, with a slope of 0.97. A one percentage point increase in inflation this month predicts almost an identical increase in the next month.

The variations in inflation are narrow, with monthly year-on-year inflation never falling below 4% and rarely exceeding 10%, except during July-August 2024.[89] Most observations cluster around an upward-trending line, reflecting the persistence of inflation. The shock in FY22 is clearly visible in Figure 3.2, marking a re-anchoring of inflation at a higher level, by around 300 basis points.

[88] IMF. (2024). *World economic outlook*, July.

[89] Inflation data for July-August 2024 were released under the interim government, which presumably faces less pressure to report inflation above 10%.

Figure 3.2: Inflation persistence, FY19-September FY25



Changes in food-non-food correlation: The relationship between food and non-food inflation has shifted. During the 24 months of FY19-21, food and non-food inflation exhibited a negative correlation of -0.55. However, in the subsequent 37 months, this correlation turned positive at 0.61, with both inflation types moving in the same direction.[90] This co-movement indicates the influence of common drivers, such as global commodity price increases, exchange rates, administered energy prices, and expansionary macroeconomic policies.

3.2 Inflation Triggers and Amplifiers

Inflation has been triggered and amplified by a confluence of factors over time. The key triggers include pent-up demand, expansionary policies, and strained global supply chains. Inflation began rising in January 2021, well before the onset of the Ukraine war, accelerated in April 2022 due to the war's immediate aftermath, and subsequently became entrenched in a rising trend. As restrictions on mobility and assembly eased in 2021, aided by increased vaccinations and the fading of the virus, pent-up demand was unleashed. Expansionary stimulus packages, rising global commodity prices, and higher freight rates collectively exacerbated inflationary pressures. The outbreak of the Ukraine war and its geoeconomic consequences further pushed inflation to new heights, with commodity prices and freight costs rising sharply.

Inflation in Bangladesh has outlasted these global triggers. By the first quarter of 2023, global commodity prices were approximately 30% lower than their historic peak in June 2022. Energy and food prices had significantly dropped from their 2022 peaks (Annexe-I, Table-2). The notion that inflation is entirely imported is inconsistent with these facts. Following the pandemic, inflation was accompanied by falling real wages, ruling out the wage-price spiral explanation of inflationary propagation. Several amplifiers have contributed to inflation from both the supply and demand sides of the markets for goods and services.

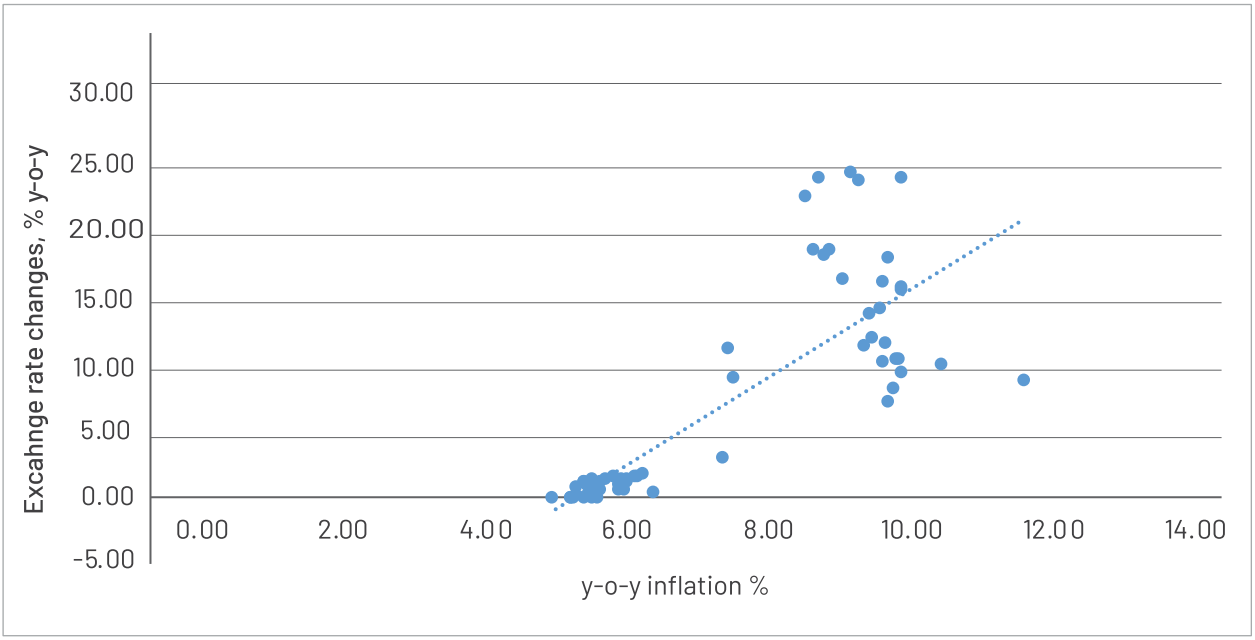
[90] The demand drag effects of food price increases can explain the negative correlation between food and non-food inflation. A faster rise in food prices, as observed during FY19-21, relative to overall prices, may have reduced demand for non-food items via the income effect on the majority of food consumers. Given the 45% share of food in the CPI basket, a 10 percentage-point increase in food prices leads to a 4.5% decrease in real incomes on average. This decrease results in a proportionally larger decline in non-food consumption compared to food (Engel's Law), thus dampening the rise in non-food prices.

Inflationary Pressures from the Supply Side

Exchange rate depreciation: The US dollar reached a two-decade high against other major currencies in September 2022, before declining significantly in early February 2023. As Bangladesh's trade is largely denominated in US dollars, fluctuations in the exchange rate had a notable impact on inflation. Figure 3.3 illustrates that as the dollar strengthened against the taka, inflation also increased. The correlation between the exchange rate and headline inflation, as well as food and non-food inflation, was 0.94, 0.82, and 0.94, respectively, during this period.

A more precise estimation of the inflationary impact of exchange rate depreciation was provided by the IMF. Their estimated pass-through from exchange rate depreciation was 0.25, implying that more than half of the 9% CPI inflation in FY23 could be attributed directly or indirectly to the 20% depreciation of the taka in the same year.[91] However, this proportion declined to less than one-third in FY24, when the exchange rate depreciated by 11.4%, while inflation rose to 9.7%.

Figure 3.3: Headline inflation and exchange rate changes (%), July 2019 - September 2024

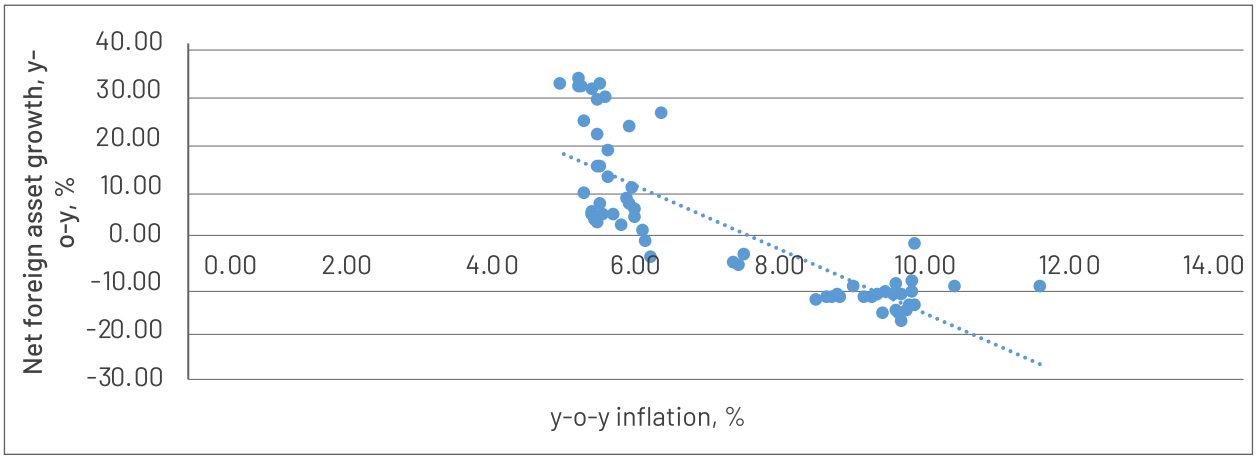


Despite exchange rate fluctuations being minimal, inflation remained between 5% and 6.5%. The variation in inflation around the exchange rate changes expanded significantly once inflation reached 9-10%, indicating the growing influence of other factors.

Foreign exchange shortage: Policy interventions in exchange rate setting created a foreign exchange shortage, which led to import controls and, consequently, hindered production and supply growth. While the shortage—defined as the excess of demand over supply at the prevailing exchange rate—was not directly observable, its effects were apparent as banks drew down their nostro account balances, and BB sold dollars. Despite these interventions, the shortage persisted as private forex flows drained from the system. The wider spread between the official and parallel exchange rates diverted dollar inflows from formal channels.

[91] IMF. (2023). *Bangladesh selected issues*, December.

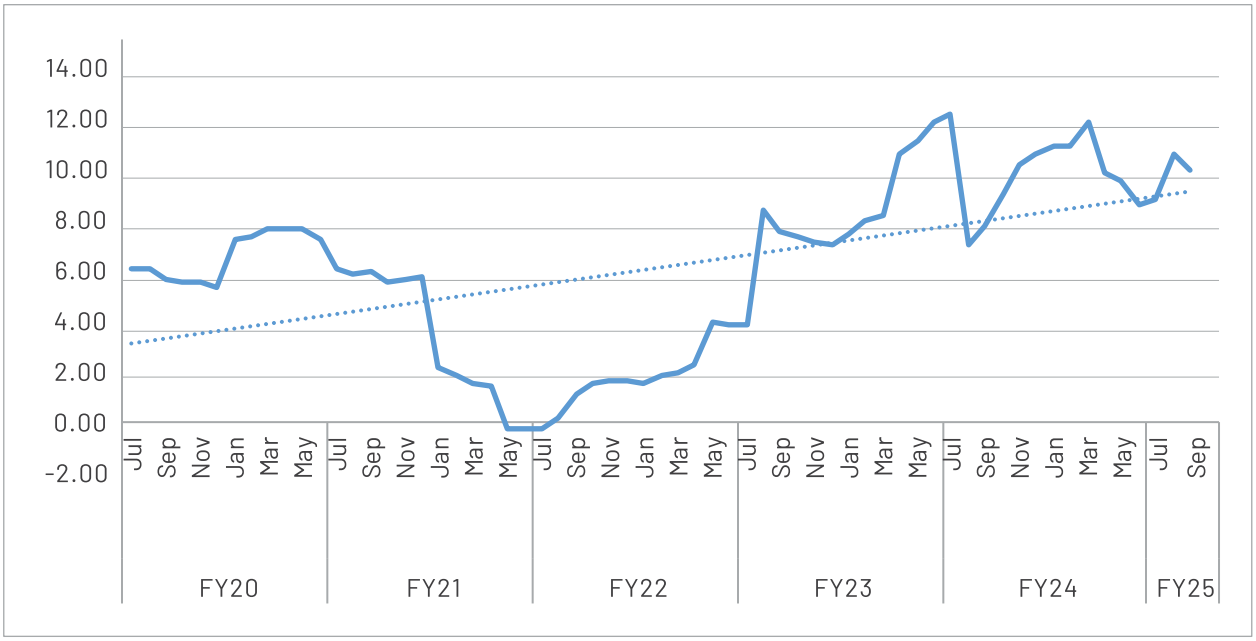
Figure 3.4: Net foreign assets growth and inflation



An indirect correlate of foreign exchange availability is the stock of net foreign assets (NFAs) in the banking system. A decline in NFA suggests a growing shortage of foreign exchange. Figure 3.4 demonstrates a negative correlation between NFA growth and headline inflation, with a correlation coefficient of -0.83. A notable cluster of observations shows that high NFA growth, coupled with 6% inflation, did not significantly impact inflation. However, inflation rose as NFA decline accelerated.

Administered price increases: In August 2022, petrol and octane prices increased by approximately 50%, and diesel and kerosene by 36%, following a 23% increase in November 2021. Retail electricity tariffs rose by 15.7% from January to March 2023, with a further 8.5% increase in March 2024. Gas prices for retail consumers increased by nearly 23% in June 2023. These increases directly impacted headline inflation, extending beyond the 4% weight of electricity, gas, and liquid fuels in the urban CPI basket, and around 2% in the rural CPI basket.

Figure 3.5: Housing, Water, Electricity, Gas, and Other Fuels (y-o-y, %)



From Figure 3.5, energy price hikes, notably in petrol, diesel, and gas, directly influenced the non-food sub-category 'Housing, Water, Electricity, Gas, and Other Fuels', which experienced a sharp increase from September 2021 onward. These increases did not account for the indirect effects, such as the 179% rise in administered gas prices for industrial users, which, along with higher electricity prices, led to higher supply costs.[92] Anecdotal evidence suggests that the pass-through of energy price increases to consumer prices is rapid, with frequent overshooting.

Disorderly market conditions: Extortion within the supply chain of commodities is widespread. Traders are required to make multiple payments at various stages to move a product from producers or importers to wholesale markets. Multiple layers of extortion are common as goods pass through upazila towns, village markets, and district cities. As a result, the disparity between the prices received by original producers and those paid by final consumers is large and varies across products.[93]

While direct evidence of the relationship between extortion rates and inflation is scarce, a natural experiment occurred in the two weeks following August 5, 2024, when incumbent extortionists fled, and their replacements had not yet taken hold. During this period, media reports indicated a cooling of prices for essentials. However, as new players entered the market, these price decreases were reversed. Variations in extortion rates over time may influence inflation, similar to variations in tax rates. A potential extortion rate-price spiral could exist.

Profit push: Business markups, conceptualised as the price-to-marginal-cost ratio, have steadily increased over several years.[94] There is a general perception that firms, or informally connected groups (syndicates), exploit their market power to increase prices, thereby contributing to inflation (price gouging). Anecdotal evidence of rising corporate profits lends credence to this view in Bangladesh.

The presence of large market players in essential food markets is well documented.[95] The most comprehensive and empirically robust evidence on profit push in food supply, from production to wholesale to retail levels, comes from a study by the Dhaka Chamber of Commerce and Industry (October 2024). Price multiples from production to retail range from 1.27 (broiler chicken) to 8.25 (turmeric). Market dominance is evident in the wholesale markets for garlic, eggs, rui fish, and fine rice. Price multiples vary widely across products and regions, indicating market segmentation. The study also identified localised market power in eggs, broiler chicken, potatoes, red amaranth, and green chilli.[96]

[92] Higher diesel prices, particularly for irrigation, transportation costs, and agricultural product prices, have been noted by the World Bank (2023).

[93] The retailers reportedly pay Tk 200 just to load goods onto trucks (The Daily Star, 2024, February 29).

[94] IMF. (2022). *World economic outlook*, October.

[95] The S. Alam Group alone accounts for 35%, 30%, and 20% of market shares in sugar, edible oil, and wheat, respectively (quoted in Bhorer Kagoj from S. Alam's letter to the Governor, Bangladesh Bank, 2024, September 18).

[96] Research & Development & Policy Advocacy Department, DCCI. (2024, October 17). *Food inflation: An analysis of price dynamics of essential commodities.* PowerPoint presentation by A. K. M. Asaduzzaman Patwary, Executive Secretary (R&D, PA Dept.).

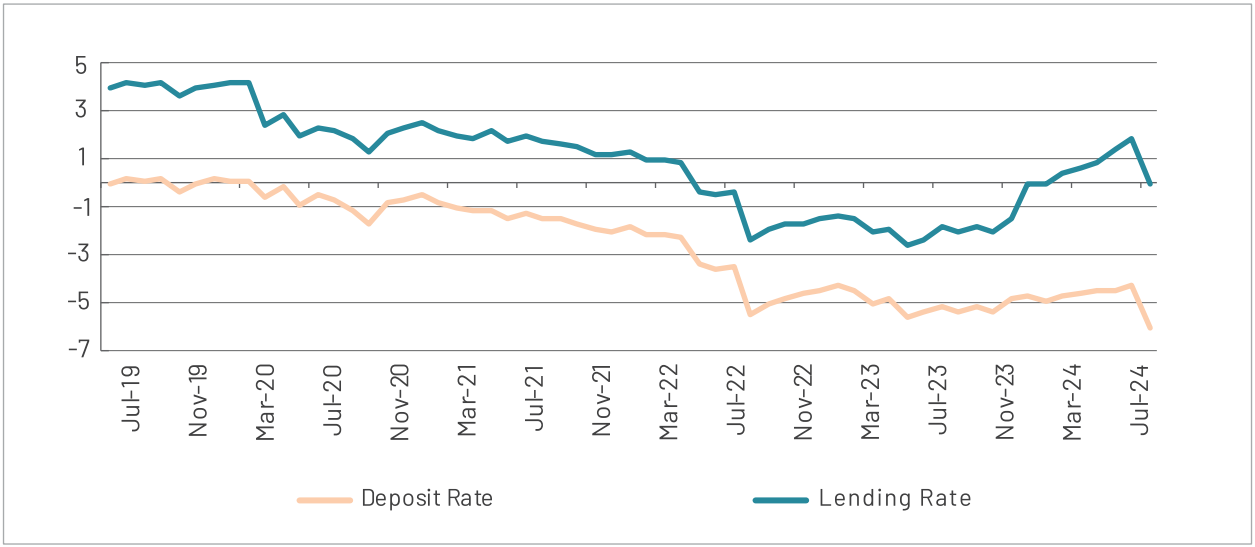
Profit push inflation can exacerbate existing inflationary pressures. It requires enablers such as tighter global market conditions (for food, energy, and metals), exchange rate depreciation, foreign exchange rationing, accommodative or expansionary monetary policy, and regulatory forbearance. Firms may then seize the opportunity to increase profit margins. Beyond several essential mass-consumed food items, it is challenging to confidently attribute rising markups as an independent cause of persistent inflation. However, their growing prominence is evident as many central banks begin to examine the relationship between profit changes and inflation.[97]

Unorthodox Macroeconomic Management

Inflation-friendly monetary policy. The absence of a stable relationship between monetary growth and inflation does not imply that monetary policy is irrelevant to inflation management. A simplistic interpretation of recent data reveals a negative correlation (–0.75) between broad money growth and inflation. However, the key lies in the details.

One critical detail often overlooked is the de facto monetary policy stance, which is best indicated by the behaviour of real interest rates (Figure 3.6). Despite a significant 475 basis point increase in the policy rate in FY22-23, real lending and deposit rates declined and remained negative until November 2023, when real lending rates reached zero. This is far from monetary tightening.

Figure 3.6: Real interest rates on commercial lending and deposits (weighted average, %)



Source: *World Bank, Bangladesh Development Update, October 2024*

Indirect channels of monetary transmission. Broad money comprises both net foreign and domestic assets. The decline in NFA absorbed liquidity from the banking system as the BB sold dollars. A large pre-existing stock of excess liquidity mitigated the impact on banks' lending capacity. The 9% cap on lending rates, introduced in April 2020, kept credit cheap, thereby blocking the transmission of policy rate increases. As the pandemic receded, pent-up demand emerged, not only in the goods and

[97] These include the Federal Reserve Bank of the United States, the European Central Bank, and the Bank of England, all of which are monitoring profit-push inflation, particularly in sectors where firms hold significant market power.

services market but also for credit in 2021. The monetary financing of domestic government borrowing in FY23 further fuelled credit expansion, contributing to inflation (Annexe—III, Chart 1).[98]

The correlation between domestic credit growth and inflation is weak and likely nonlinear. The correlation coefficients range from 0.18 for food inflation to 0.33 for non-food inflation. Indirect effects, such as the inverse relationship between NFA growth and domestic credit growth and the direct relationship with exchange rate depreciation (Annexe—III, Charts 2 and 3), are also notable. Domestic credit expansion is negatively associated with the depletion of NFAs (correlation coefficient –0.58) and positively correlated with exchange rate depreciation (correlation coefficient 0.53). Thus, domestic credit expansion can exacerbate inflationary pressure indirectly by increasing the demand for foreign exchange which in turn depreciates the taka while also deepening foreign exchange shortages.

Fiscal and political dominance of monetary policy exacerbated inflation volatility. Inflation tends to be more volatile as it accelerates, particularly when the central bank is not independent, and seigniorage revenue from money creation finances the government budget.[99] The links between fiscal deficits, seigniorage, central bank subordination, and inflation are stronger during periods of high inflation.[100] Bangladesh exemplifies these conditions, with BB channelling seigniorage through devolvement and dividends to the budget. Seigniorage revenues increased from 1% of GDP in FY20-22 to 1.1% in FY23-24. The fiscal and political dominance over BB was made clear.

3.3 Impact on the Vulnerable Population

There is a substantial divergence between the CPI inflation and increases in the cost of 'minimum needs' as measured by changes in national poverty lines over time. Survey-based evidence suggests that the cost of living, as experienced by the poor, is more accurately represented by changes in poverty lines, given that consumption patterns differ between the poor and non-poor.

CPI underestimates the inflation faced by the poor.[101] Survey-based evidence, using the HIES, indicates that the national-level inflation rate is 35% lower than the implied survey-based inflation rate, which itself is 15% lower than the poverty line-implied inflation rate.[102] Thus, the gap between the inflation rate faced by the poor and the non-poor is significant. The inflationary impact on the poor is more pronounced than on the non-poor, although the exact magnitude can only be gauged empirically.

Deeper poverty. At least 2.751 million Bangladeshis fell into poverty in 2022 due to the global food price hike and the lingering effects of COVID-19. Price increases are more impactful for hunger than for GDP growth, as rising food prices directly limit households' access to food.[103] As inflation increased, most households reduced their consumption of major food items from February 2022 onwards. Many skipped meals, particularly in urban slums, where more women were compelled to work. An overwhelming majority also reduced non-food expenditure.[104]

[98] The correlation coefficient is 0.7.

[99] Seigniorage is approximately equal to the product of inflation and real money balances.

[100] Dmitriev, M., & Kersting, E. K. (2016). Inflation level and inflation volatility: A seigniorage argument. *Economics Letters, 147,* 112-115. They also argue that 'real money balances decrease with higher inflation. When inflation is high and the seigniorage needs to generate an additional 1% of GDP in revenues, inflation has to increase by more, since real money balances (the tax base) are small'.

[101] Raihan, ibid.

[102] Jolliff, ibid.

[103] IFPRI. (2023, December 14). Post-Covid price inflation drives up poverty. Google Scholar.

[104] Rahman, H. Z., & Matin, I. (2022, June 5). Inflation, coping and recovery challenges: PPRC-BIGD 5th Round Survey.

The World Bank estimates that around 0.5 million people in Bangladesh likely fell into extreme poverty between FY22-24 due to the erosion of purchasing power. Higher food prices disproportionately affected poor households (earning less than $2.15 per day), who allocate more than half of their budget to food. Another 0.84 million people may have joined the ranks of the moderately poor (living below $3.65 per day).[105]

Research and Policy Integration for Development recently estimated that inflation pushed 7.8 million people below the moderate poverty line and 3.8 million below the extreme poverty line over the past two years. As a result, the incidence of moderate poverty likely rose from 18.2% to 22.95%, while extreme poverty increased from 5.7% to 7.95%. The number of vulnerable non-poor—defined as those living no more than 25% above the poverty line—grew by approximately 10 million.[106] These estimates consider both rising prices and nominal wages.

Increased inequality. The differential impact of inflation on the poor and non-poor is a major driver of the widening standard of living gap between these groups. Econometric models suggest that a 1% increase in inflation raises income inequality by 5% in Bangladesh.[107] International datasets reveal nonlinearities in the inflation-inequality relationship. An assessment based on a dynamic threshold panel dataset for 101 countries (1985–2020) indicates that inflation rates exceeding 6% are associated with higher income inequality, with the correlation becoming insignificant below this threshold. Additionally, higher initial inequality and unemployment amplify this inequality-enhancing effect.[108]

The poor are net buyers in markets for goods and services. Nominal wage growth for low-skilled workers has consistently lagged behind inflation by 200 to 300 basis points for over 36 months. This indicates that income growth among the poor has failed to keep pace with inflation, placing them on the losing side. They typically lack the means to protect their purchasing power, due to factors such as near-zero bargaining power and limited access to financial markets. In contrast, inflation boosts the profits of net sellers, which are often large corporations in industry, agriculture, and trade, or the government, which benefits from the inflation tax.

3.4 Taming Inflation

Both very low and very high inflation have been linked to significant macroeconomic problems.[109] The thresholds for 'high' and 'low' inflation are not determined by any inherent economic law but by historical context. Bangladeshis are not accustomed to prolonged periods of double-digit food inflation, nor are they misled by statistical misrepresentations of inflation. Positive developments have been observed on both external and internal fronts regarding inflation. However, these will not reach the grassroots without effective policy intervention.

Tailwinds in global prices. After a 3% decline in 2024, the World Bank's commodity price index is expected to decrease further by 5% in 2025 and 2% in 2026, reaching the lowest aggregate commodity prices since 2020.[110] The energy price index is projected to fall by 6% in 2024, followed by

[105]World Bank. (2024). Macro poverty outlook 2024.
[106] Razzaque, M. A., Islam, D., & Eusuf, A. (2024, December). Inflation, poverty, and policy: Rethinking approaches with expanded social protection. RAPID Policy Brief.
[107] Muhibbullah, M., & Das, M. R. (2019, June). The impact of inflation on income inequality in Bangladesh: A time series analysis. Google Scholar.
[108] Glawe, L., & Wagner, H. (2024). Inflation and inequality: New evidence from a dynamic panel threshold analysis. *International Economics and Economic Policy.*
[109] Ha, J., Kose, M. A., & Ohnsorge, F. (2022, March). From low to high inflation: Implications for emerging market and developing economies. Centre for Economic Policy Research.
[110] World Bank. (2024, October). Commodity market outlook: The price of inflation is expected to remain 30% above the 2015-2019 average.

declines of 6% in 2025 and 2% in 2026, provided that conflicts in the Middle East and Ukraine do not intensify. Agricultural prices are forecast to decrease by 4% in 2025, with little change anticipated in 2026 if extreme weather conditions do not worsen. Food commodity prices are expected to soften by 4% next year, stabilising in 2026, assuming that Ukraine does not experience further turmoil. The metals price index is projected to decline slightly over 2025–2026 unless there is a significant rebound in China's economy.

Pass through is not automatic. Lower commodity prices in international markets should help the BB bring headline inflation closer to the target. Food and energy constitute significant portions of the consumption basket. Given the prominence of energy and food prices, the anticipated easing of commodity prices could help temper expectations, potentially easing core inflation pressures. However, the pass-through from international to domestic prices in Bangladesh tends to be more flexible upwards than downwards. Large market players tend to stockpile during periods of falling prices. Monetary tightening raises the cost of financing stockpiling, thus incentivising sellers to pass on cost reductions.

Limits of monetary tightening. The impact of recent monetary tightening will not be fully evident for several months. However, accumulated evidence suggests that tightening may not sufficiently address inflation where it most affects the population. Food inflation creates a livelihood crisis for low-income groups, who constitute over 70% of the population. Prices for essential items such as rice, lentils, fish, meat, eggs, onions, and edible oil need to stabilise below current levels, requiring deflation rather than merely disinflation. While monetary tightening can help control food price inflation through a stable or appreciated exchange rate, it cannot address inflation originating from market structure issues or extortion.

Unintended consequences of public actions. Protection from extortion and anti-collusion actions are lacking. The default policy approach has been market policing, but this has not been effective. Market raids intimidate sellers, and fines act like taxes on prices. Recent attempts to regulate egg markets reaffirm the experience that market policing can be counterproductive.[111]

Carrying public stocks of essential goods could counteract market dominance by traders if managed well—a significant caveat. A study by BIDS found a statistically significant negative association between public stock and the retail and wholesale prices of various rice qualities, although the effect size was modest. A larger public stock could serve as a deterrent to speculative trading, but such stocks are often poorly managed.[112] Similarly, the Open Market Sales (OMS) operations of the Trading Corporation of Bangladesh, aimed at providing subsidised food to low-income families, have faced challenges related to inclusion and exclusion errors in the Family Card programme, which serves 10 million poor people.

Get the priorities right. Perfection should not hinder progress. Expanding cash assistance to the extreme poor should be a top priority in both the FY25 revised and FY26 budgets. Fiscal policy must focus on enhancing the capacity of low-income families to cope with inflation. Bringing inflation down does not mean that consumer prices will revert to their pre-inflation levels, but rather that price increases will slow significantly. Reining in persistent inflation to below 5% requires a combination of domestic policy tightening, improved market management, and increased cash assistance for the poor. Public resources dedicated to maintaining market order, monitoring production, imports, stocks, trade, and prices should prioritise markets for essential food items, which represent the bulk of expenditure for the poor and lower-middle class.

[111] Thecrimebd.net. (2024, October 17). There are no eggs in the market at 'reasonable prices'.

[112] Ahmed, N., Hoque, M., & Azad Shashi, N. (2022). Rice market of Bangladesh: Role of different players and assessing competition.

Annexe-I: Tables and additional charts

Table-1: A smell test of downward bias in inflation data (2024)

	Base Year (2015-16)						
	Weight	**April**	**May**	**June**	**July**	**August**	**Sept**
Rural							
Overall food inflation	0.49	9.9	10.0	9.8	11.9	14.1	10.4
Narrow food inflation	0.27	3.1	3.6	3.7	5.5	5.2	7.9
Contribution to food	0.55	1.7	2.0	2.1	3.1	2.9	4.3
Urban							
Overall food inflation	0.38	9.5	9.7	9.6	11.3	14.2	10.5
Narrow food inflation	0.20	4.6	6.0	6.0	5.7	6.7	7.0
Contribution to food	0.53	2.5	3.2	3.2	3.0	3.6	3.7

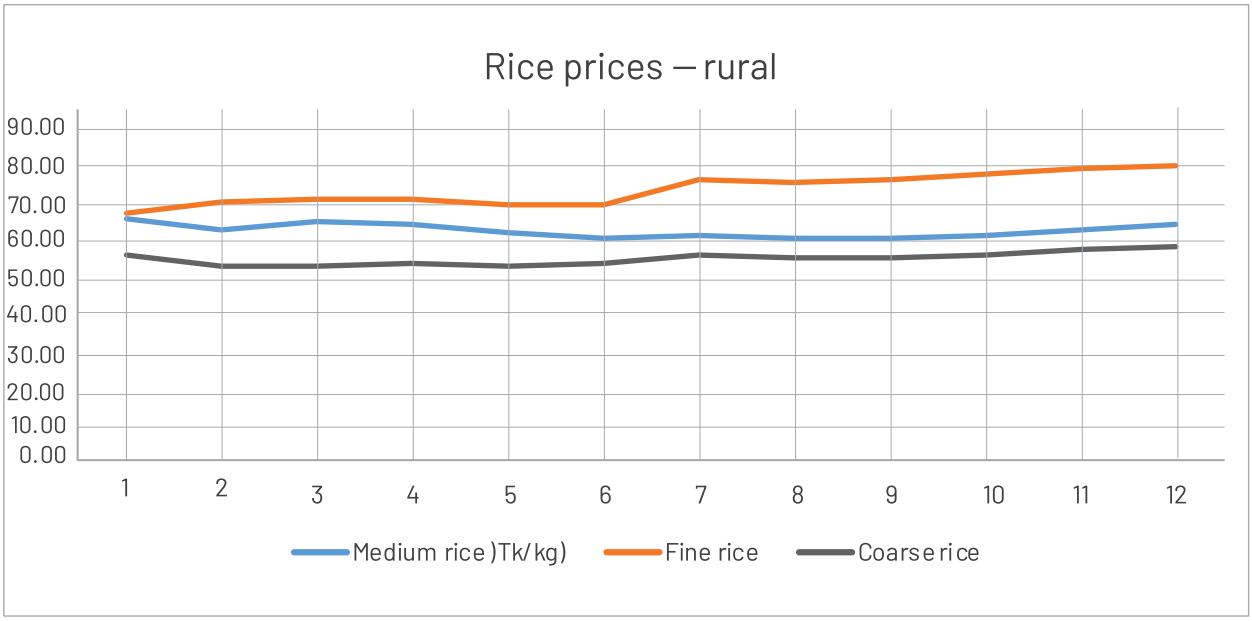
Source: Author's calculation based on BBS data.

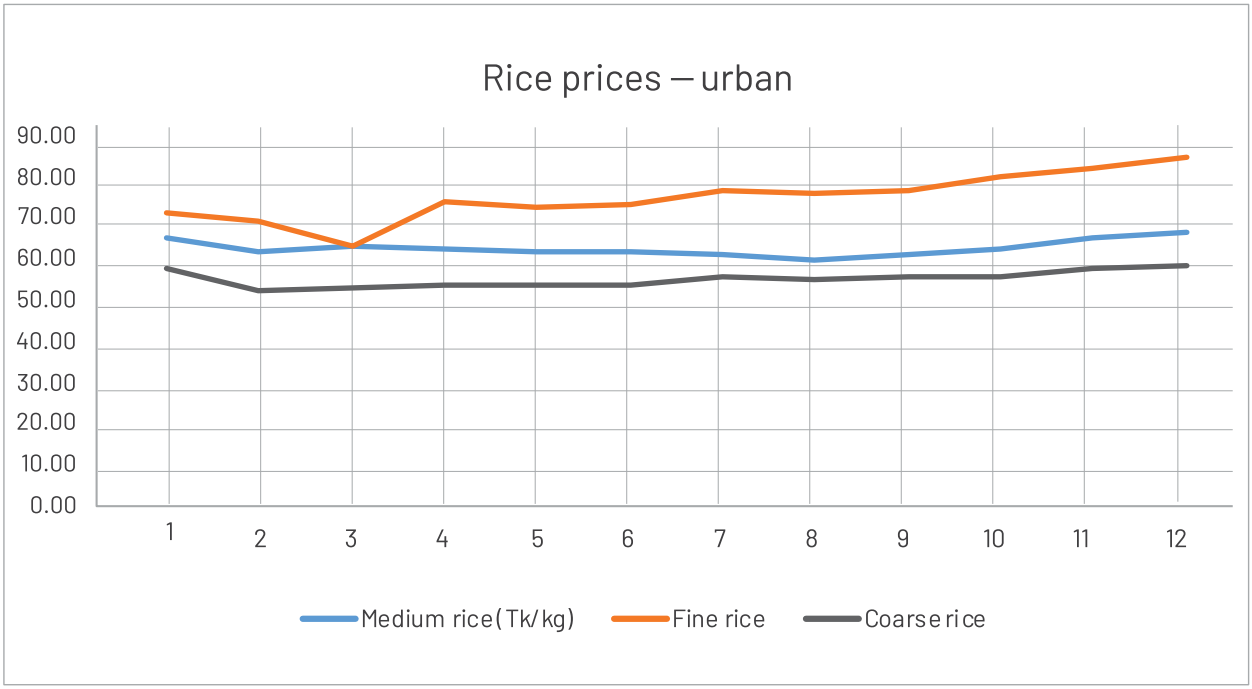
Table-2: Global commodity prices

	2021	**2022**	**2023**	**2024 (f)**	**2025 (f)**
Crude Oil, Brent ($/bbl)	70.4	99.8	82.6	84.0	79.0
Coal, Australia ($/mt)	138.1	344.9	172.8	125.0	110.0
Liquified Natural gas, Japan ($/mmbtu)	10.8	18.4	14.4	12.5	13.5
Fertiliser, TSP ($/mt)	538	716	480	450	380
Cotton ($/kg)	2.2	2.8	2.1	2.1	2.2
Iron ore ($/dmt)	161.7	121.3	120.6	110.0	105.0
Soybean oil ($/mt)	1385	1,667	1,129	1,130	1,150

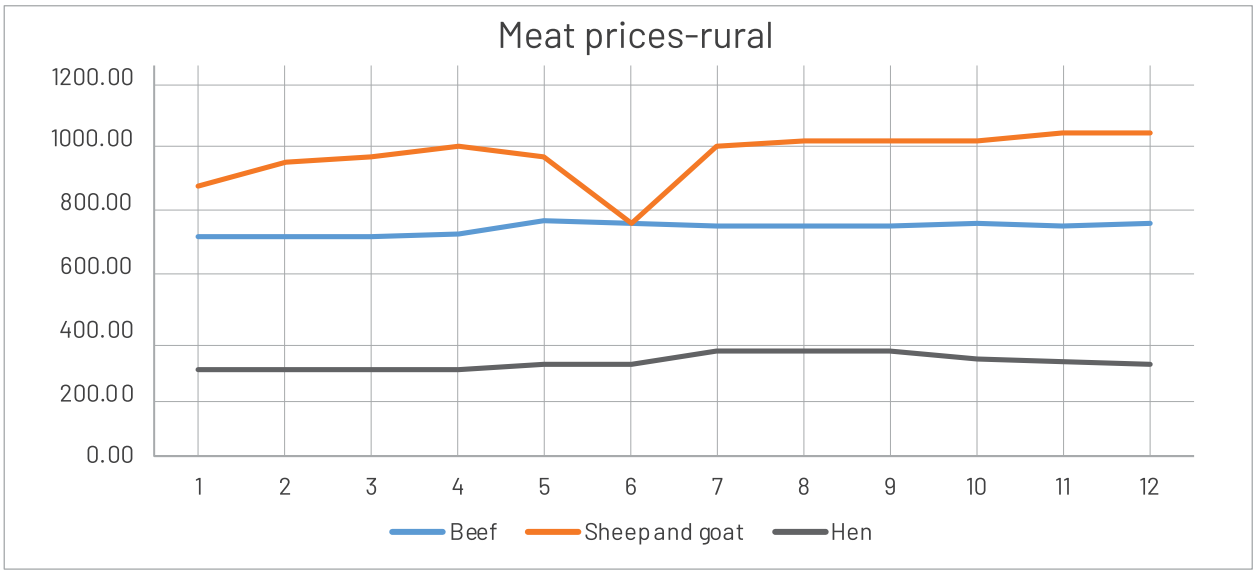
Source: World Bank, Bangladesh Development Update, October 2024.

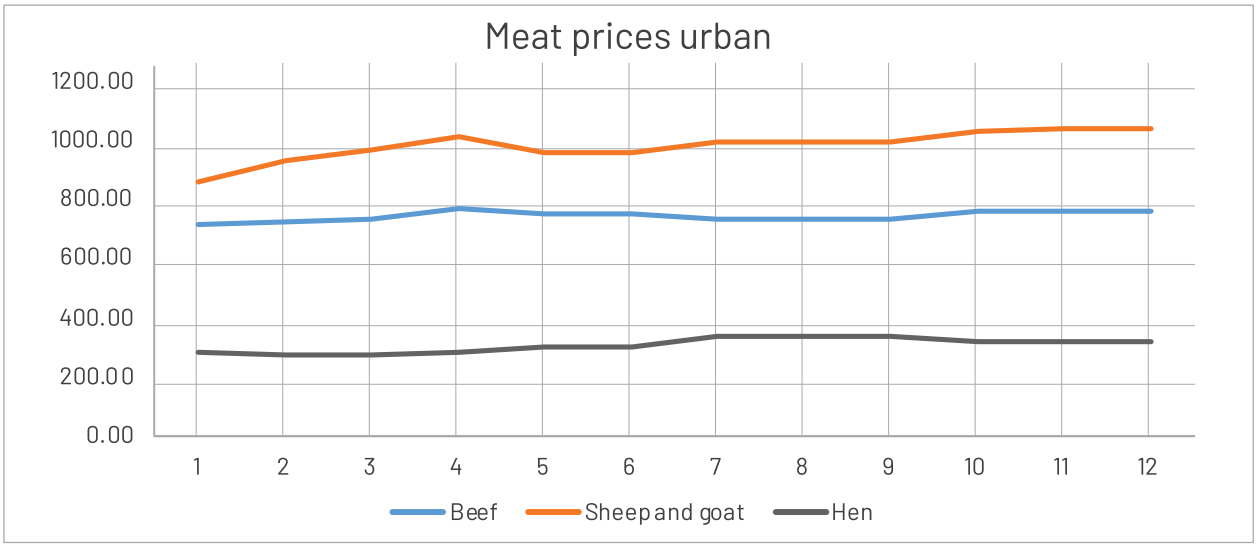
Annexe-II: Price charts[113]

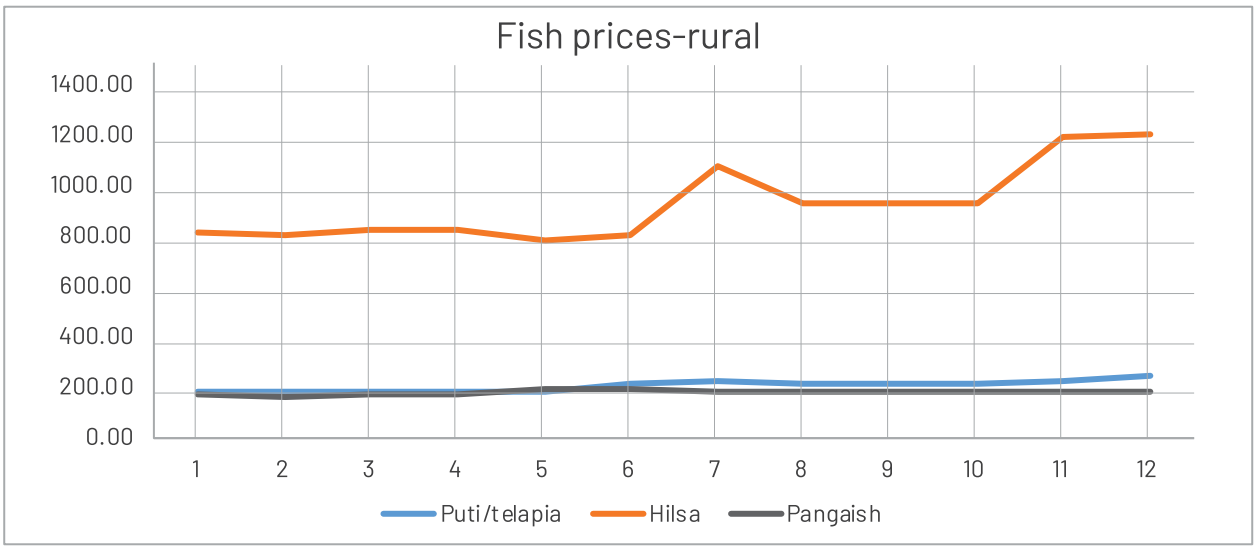


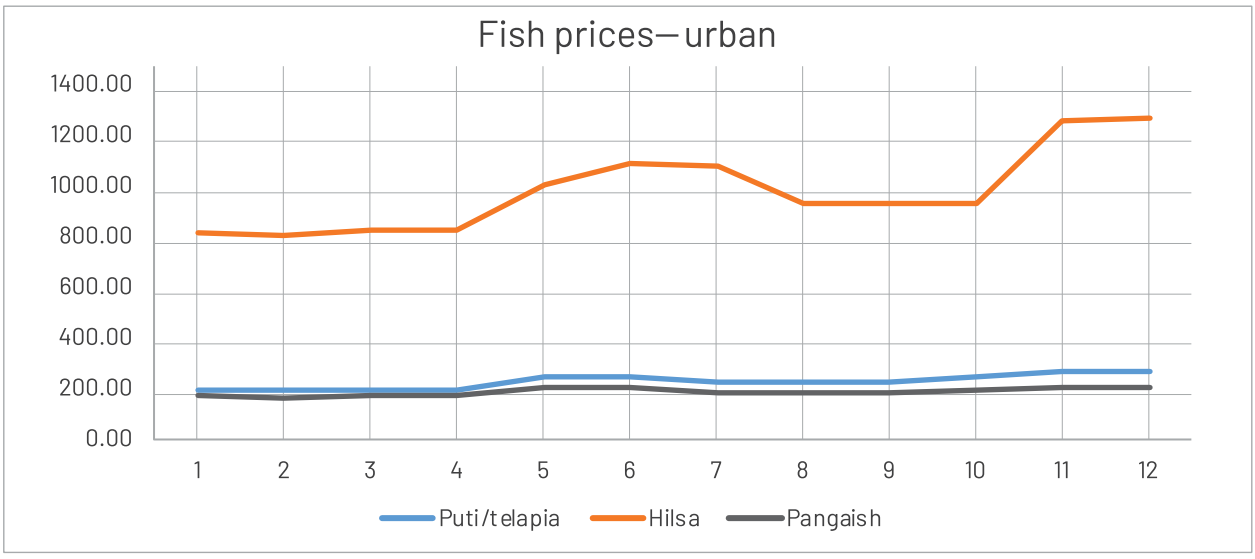


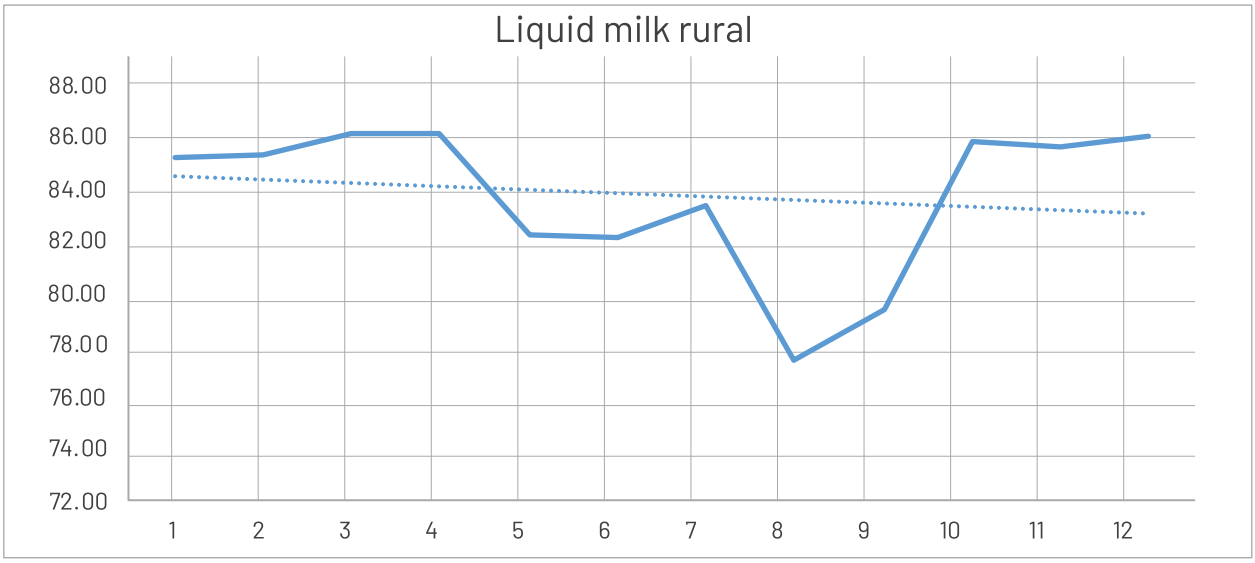
[113] On the horizontal axis in the charts, 1-6 represent January-June 2023, and 7-12 represent January-June 2024.

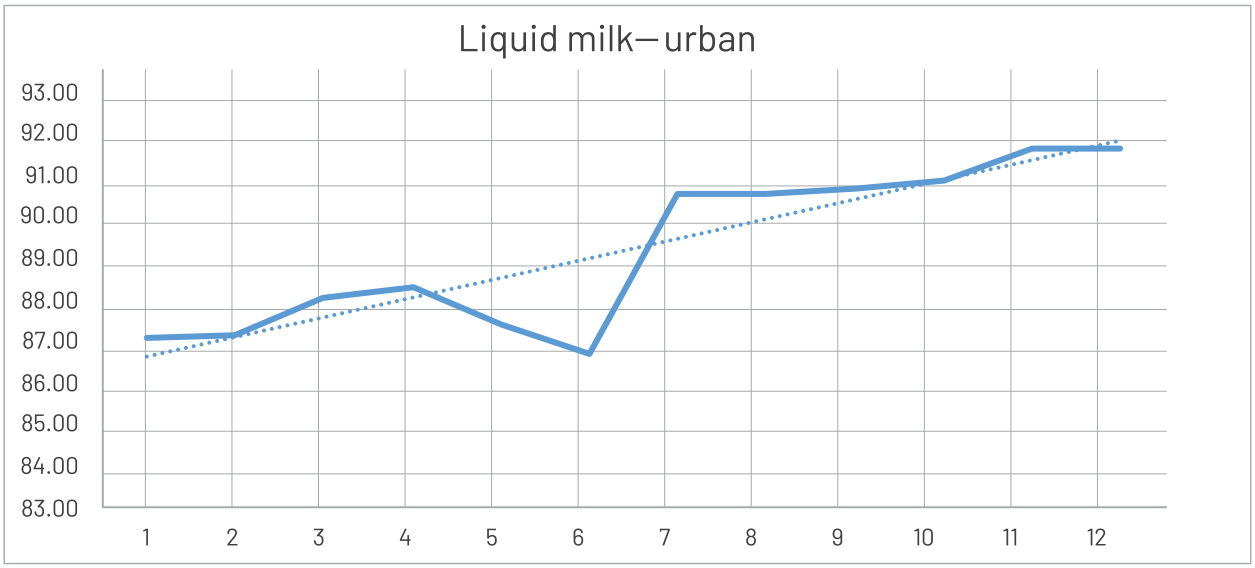

Meat prices-rural
1200.00
1000.00
800.00
600.00
400.00
200.00
0.00
1
2
3
4
5
6
7
8
9
10
11
12
Beef
Sheep and goat
Hen

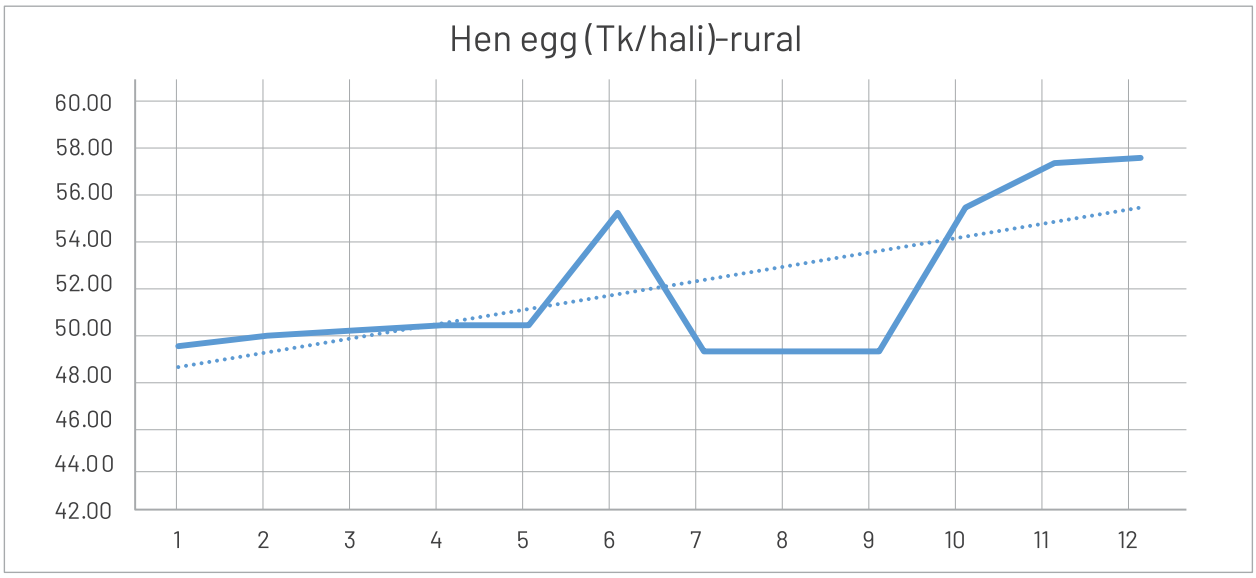

Meat prices urban
1200.00
1000.00
800.00
600.00
400.00
200.00
0.00
1
2
3
4
5
6
7
8
9
10
11
12
Beef
Sheep and goat
Hen

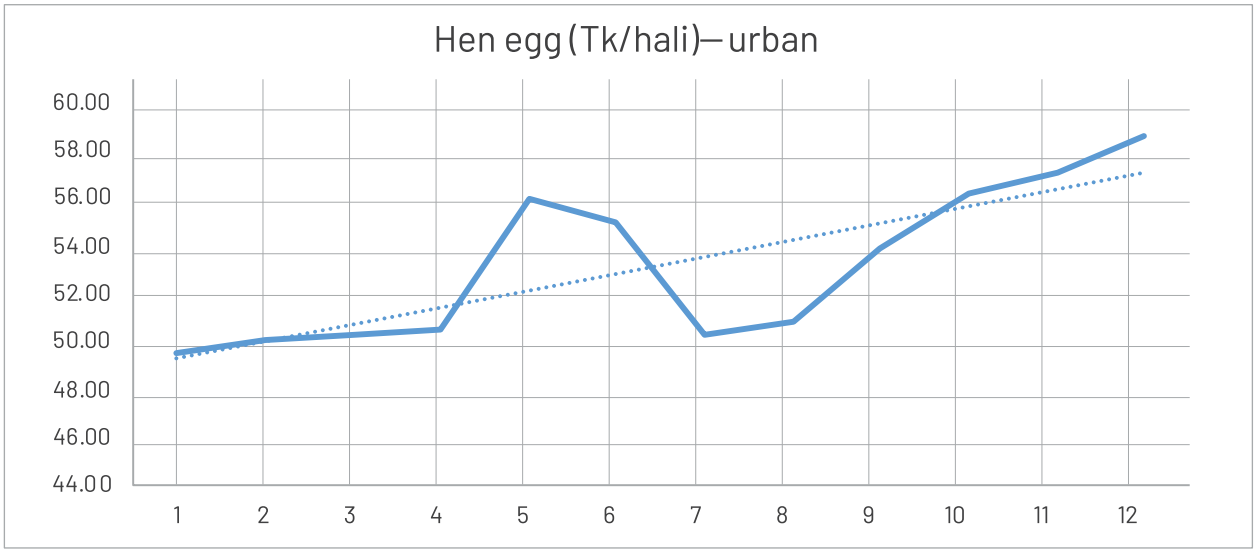

Fish prices-rural
1400.00
1200.00
1000.00
800.00
600.00
400.00
200.00
0.00
1
2
3
4
5
6
7
8
9
10
11
12
Puti/telapia
Hilsa
Pangaish

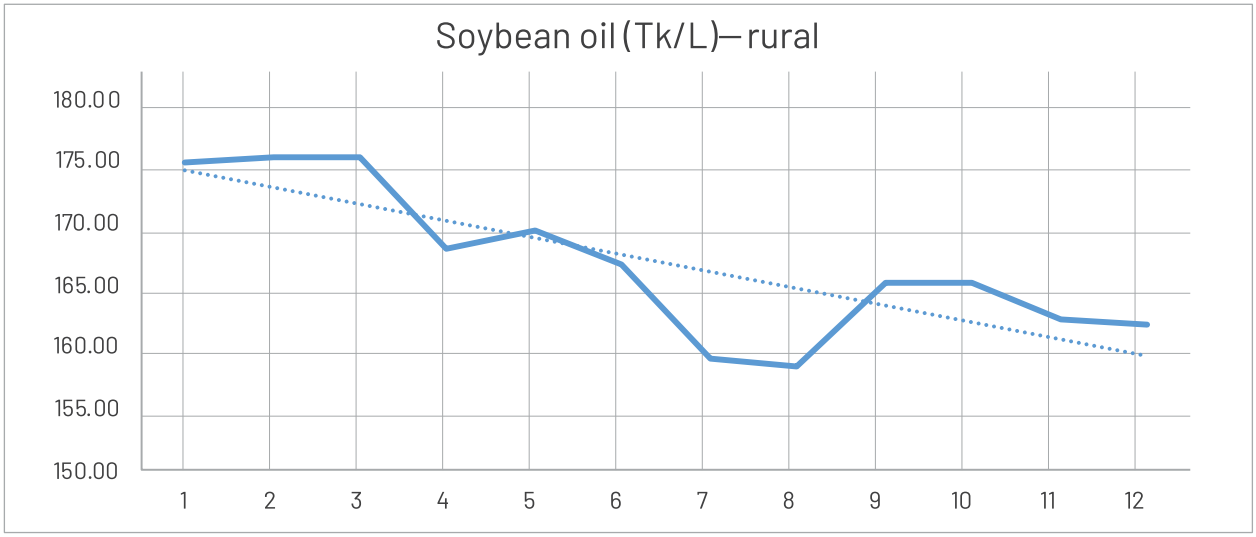

Fish prices—urban
1400.00
1200.00
1000.00
800.00
600.00
400.00
200.00
0.00
1
2
3
4
5
6
7
8
9
10
11
12
Puti/telapia
Hilsa
Pangaish

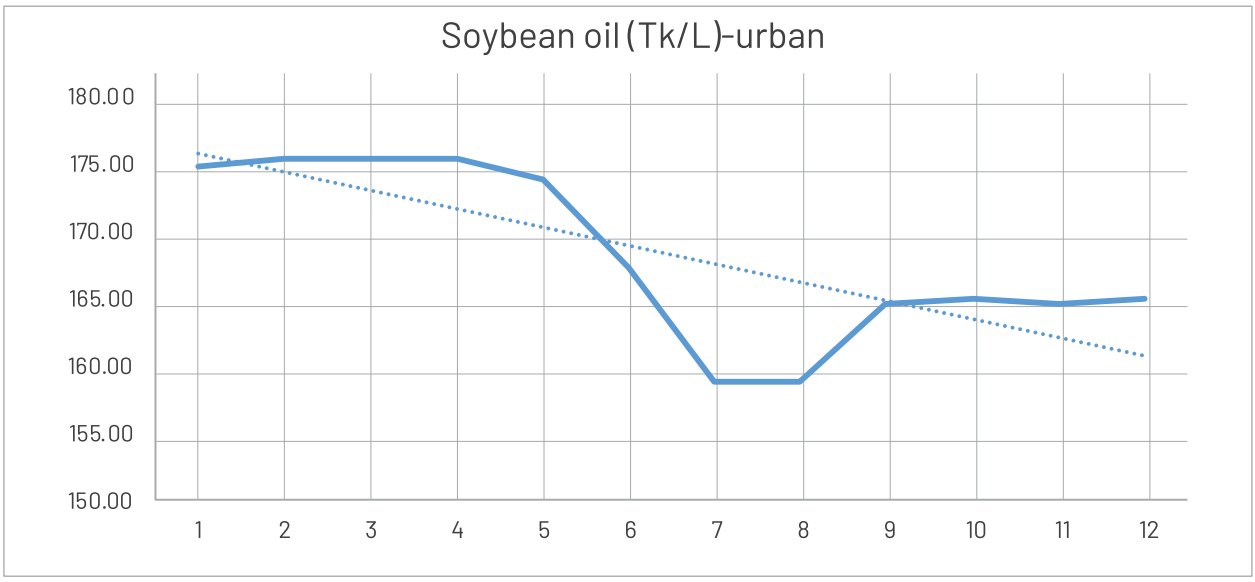

Liquid milk rural
88.00
86.00
84.00
82.00
80.00
78.00
76.00
74.00
72.00
1
2
3
4
5
6
7
8
9
10
11
12

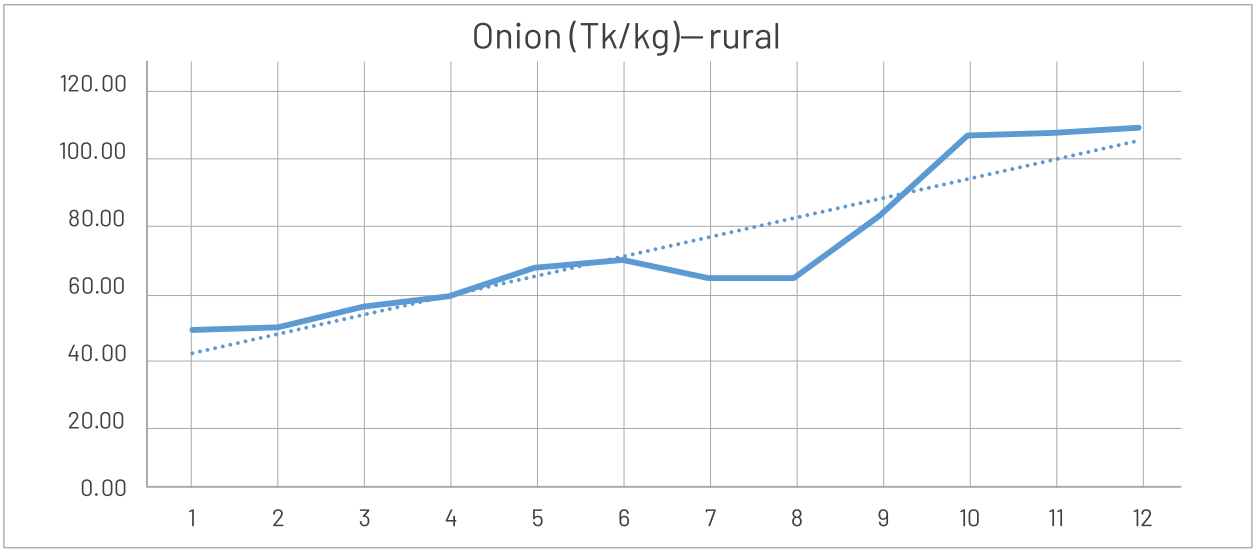

Liquid milk—urban
93.00
92.00
91.00
90.00
89.00
88.00
87.00
86.00
85.00
84.00
83.00
1
2
3
4
5
6
7
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9
10
11
12

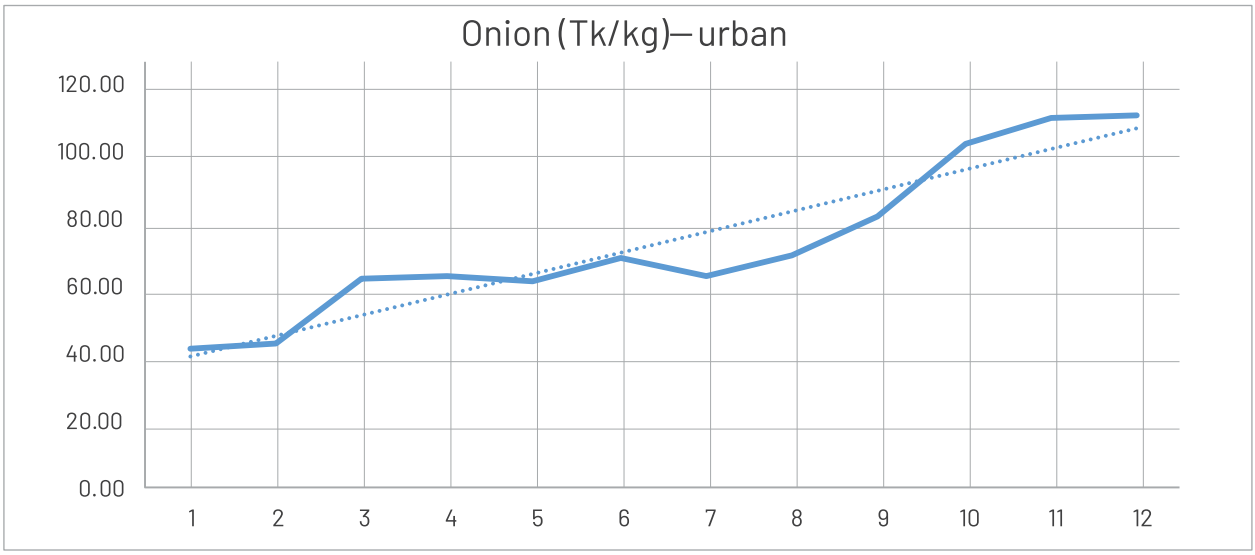

Hen egg (Tk/hali)-rural
60.00
58.00
56.00
54.00
52.00
50.00
48.00
46.00
44.00
42.00
1
2
3
4
5
6
7
8
9
10
11
12

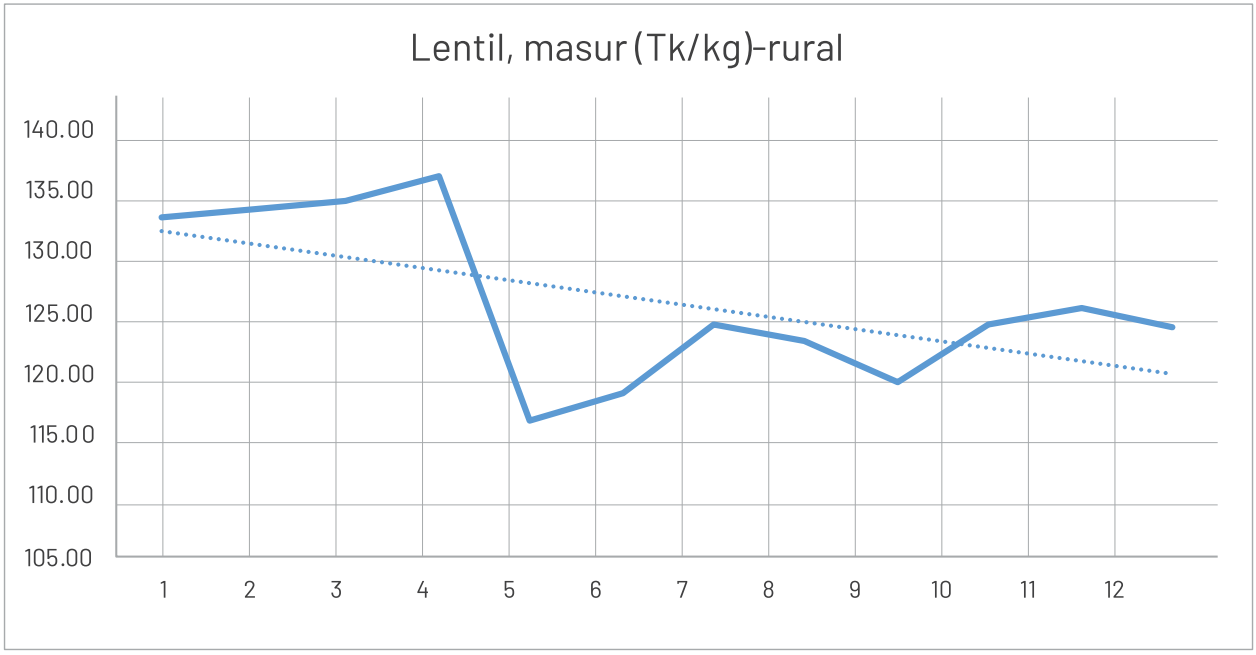

Hen egg (Tk/hali)—urban
60.00
58.00
56.00
54.00
52.00
50.00
48.00
46.00
44.00
1
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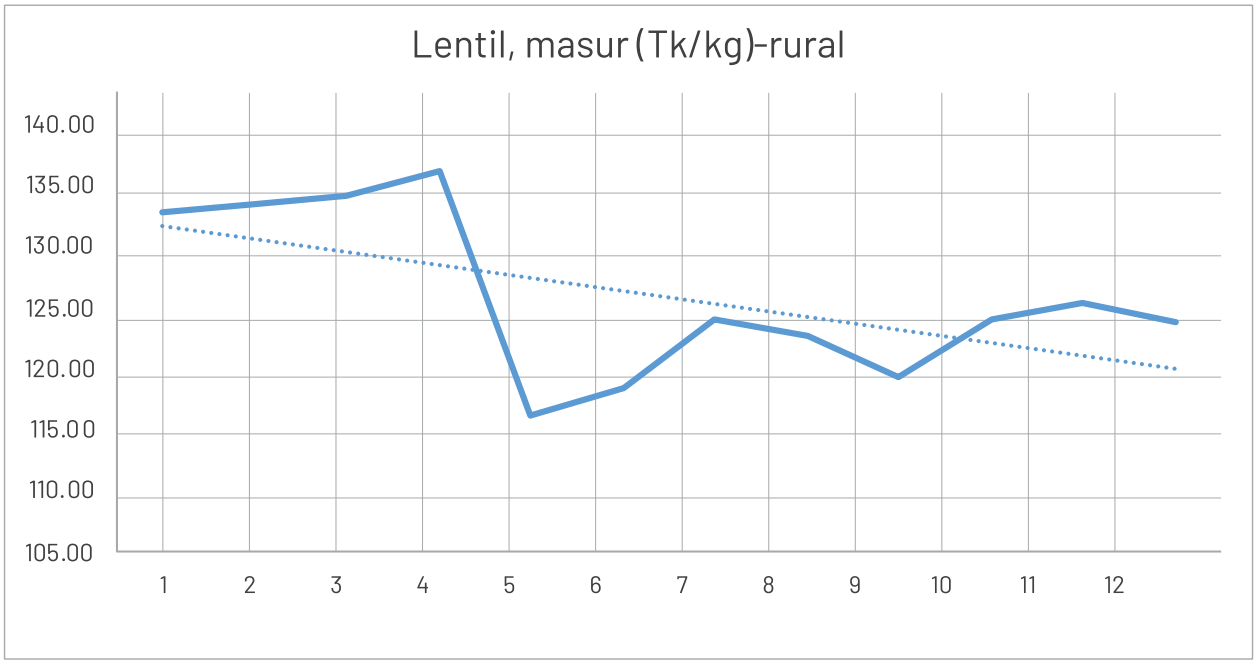

Soybean oil (Tk/L)—rural
180.00
175.00
170.00
165.00
160.00
155.00
150.00
1
2
3
4
5
6
7
8
9
10
11
12


Soybean oil (Tk/L)-urban
180.00
175.00
170.00
165.00
160.00
155.00
150.00
1
2
3
4
5
6
7
8
9
10
11
12


Onion (Tk/kg)—rural
120.00
100.00
80.00
60.00
40.00
20.00
0.00
1
2
3
4
5
6
7
8
9
10
11
12


Onion (Tk/kg)—urban
120.00
100.00
80.00
60.00
40.00
20.00
0.00
1
2
3
4
5
6
7
8
9
10
11
12


Lentil, masur (Tk/kg)-rural
140.00
135.00
130.00
125.00
120.00
115.00
110.00
105.00
1
2
3
4
5
6
7
8
9
10
11
12


Lentil, masur (Tk/kg)-rural
140.00
135.00
130.00
125.00
120.00
115.00
110.00
105.00
1
2
3
4
5
6
7
8
9
10
11
12

Annexe-III: Cross charts

Chart 1: Domestic credit growth and inflation

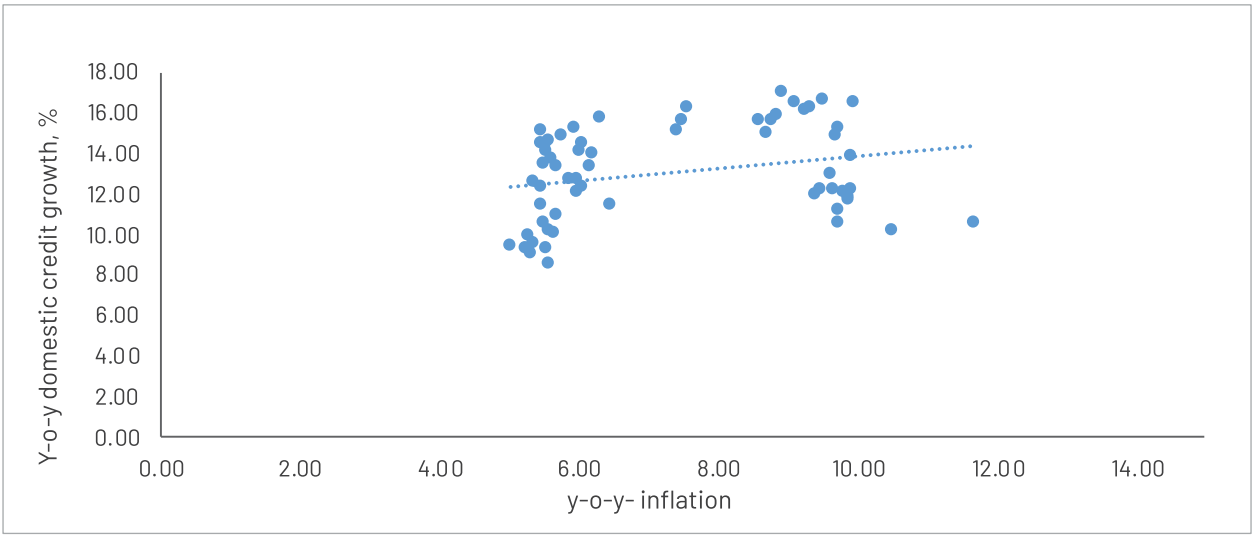


Chart 2: NFA—DC growth relation

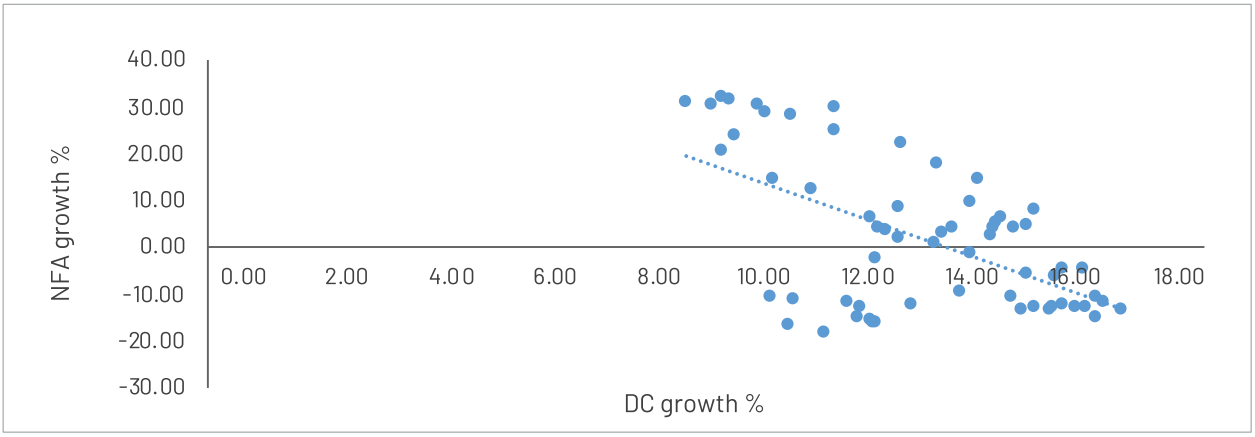
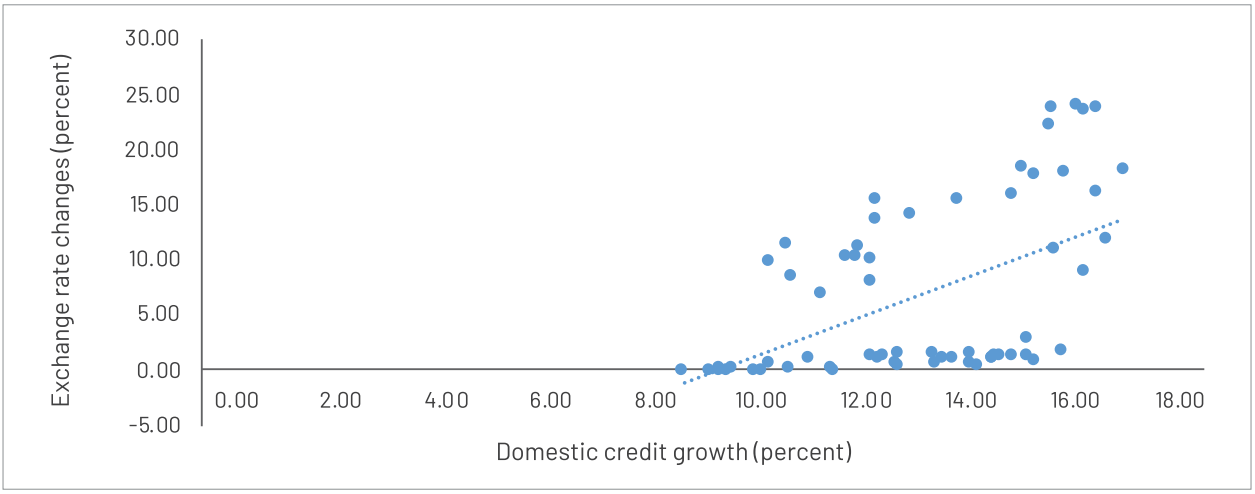


Chart 3: Exchange rate changes and domestic credit growth



Chapter IV. Pitfalls of External Imbalance*

Key takeaways

- *Sharp increases in BoP deficits have reduced foreign exchange reserves by more than 50% since mid-2022. The current account deficit grew due to rising global prices, while the financial account surplus shrank as global interest rates increased and confidence in Bangladesh's banking system eroded.*
- *Pressure on foreign exchange reserves was exacerbated by a decline in national savings, resulting from slower income growth in the private sector and a rising fiscal deficit. Increased protectionism against imports disincentivised exports, failing to mitigate the size of the trade deficit.*
- *A chaotic exchange rate policy introduced in September 2022 further exacerbated the reserve drawdown and eroded confidence in Bangladesh's macroeconomic management, which had previously been seen as a pillar of economic strength. Reforms to the exchange rate policy must accelerate towards a transparent, market-based managed floating regime.*

External balance was once a hallmark of macroeconomic stability in Bangladesh. However, since the pandemic, it has deteriorated rapidly, driven by the rising value of the dollar, global rate hikes, commodity price increases, and misguided domestic policies. Bangladesh has experienced three years of uninterrupted reserve drawdown, bringing the economy to the brink of an external payments' crisis.

This chapter examines external balance from two perspectives: the external lens of trade and payments, and the internal lens of the balance between national savings and investments. These two factors are inextricably linked. The chapter discusses how the exchange rate policy, the most critical absorber of external shocks, moved in the opposite direction of efforts to stem the erosion of foreign exchange reserves. The chapter concludes by urging policymakers to learn from past mistakes.

4.1 External Balance Hurting on Both Sides

Fundamental national income accounting identities show that the current account balance is equal not only to the difference between exports and imports, including net income from abroad but also to the difference between savings and investment. Interest rates, exchange rates, prices, income, and macroeconomic policies guide the microeconomic decisions made by firms, households, and public institutions regarding exports, imports, savings, and investments.

A tale of changing balances

Until June 2024, prevailing wisdom suggested that the current account deficit would shift into a surplus in FY24. The trade deficit narrowed due to a significant reduction in imports, a decrease in import over-invoicing, and a resurgence in exports, which surpassed the celebrated $50 billion mark in FY22-23. Improving remittance flows helped turn the current account from deficit to surplus. However, a rise in net outflows related to trade credit turned the financial account surplus into a multibillion-dollar deficit.

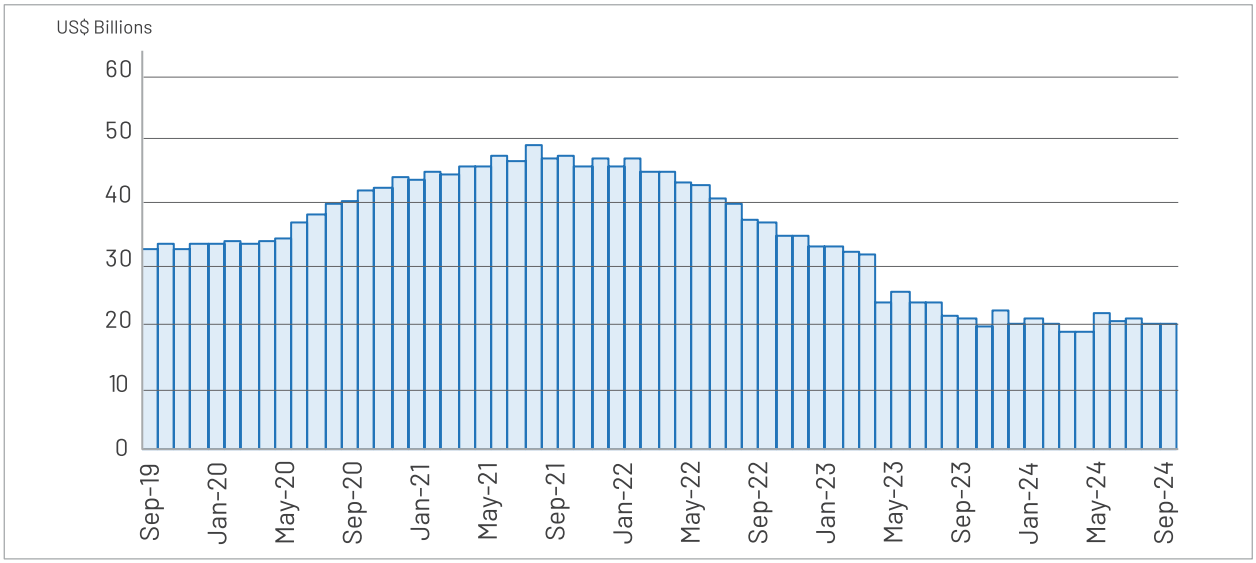
In May 2024, the BB's correction of presumed errors in export data reversed this narrative. The adjustment turned the previously reported current account surplus into a deficit and the

* The chapter was prepared by Dr Zahid Hussain, former Lead Economist, World Bank Bangladesh.

financial account deficit into a surplus.[114] The reduction in export shipment values in FY23-24 led to a corresponding reduction in trade credit in the financial account.[115] The opposing changes in the current and financial accounts neutralised each other, with no significant effects on E&O. Consequently, the overall balance remained largely unchanged, reflecting the loss of foreign exchange reserves.

Reported foreign exchange reserves experienced significant downward revisions. An IMF report in 2021 revealed that BB had overstated its official foreign exchange reserves.[116] Of the $46 billion in foreign reserves reported at the end of June 2021, only $39 billion adhered to internationally accepted reserve accounting standards. In simple terms, BB had included in reserves foreign exchange paid to exporters, infrastructure developers, holdings of fixed-income securities below investment grade, deposits held in state-owned banks (SOBs), and loans to Sri Lanka. The IMF stipulated the use of the Balance of Payments Manual 6 (BPM6) for reserve accounting as a condition for its lending programme, which began in 2022.

Figure 4.1: Gross foreign exchange reserve



Source: Based on BB data.

Reserves have been declining since the second quarter of 2021 (Figure 4.1), driven by trade and current account deficits. The trade deficit increased 3.5 times from $9.5 billion in FY17 to $33.2 billion in FY22, while the current account deficit grew 13.7 times from $1.3 billion to $18.6 billion during the same period (Figure 4.2). A stronger US dollar hurt exports to markets outside the United States, and rising commodity prices increased import payments, even as real imports contracted.Lower trade credit, normalised levels of multilateral borrowing after the pandemic, and a sudden halt in the rollover of private short-term credit during FY22-24 rapidly reduced the

[114]The standard practice is to treat the excess of the shipment value of exports over the payments received against exports as a debit entry in the trade credit account. The over-reporting of the shipment value resulted in debit entries of $12.2 billion (net outflows) during July-March, which was later corrected to $2.1 billion (net outflows), reducing the figure by approximately $10 billion, aligning with the correction in exports.

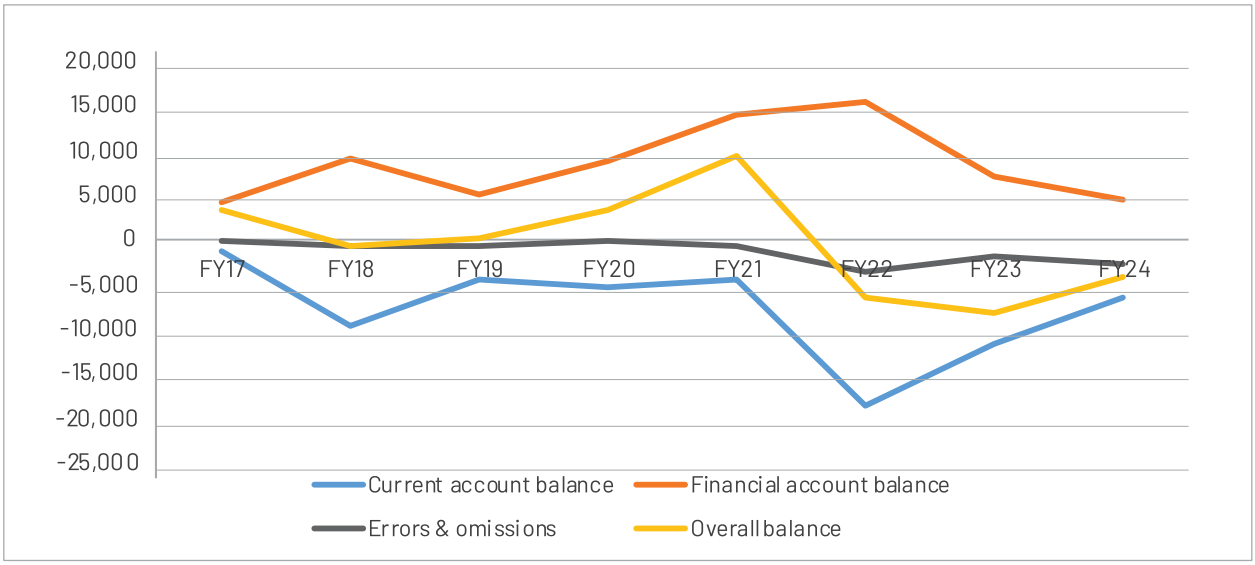
[115] The most significant correction pertains to merchandise export data. The Export Promotion Bureau (EPB) figures indicating significant growth have raised concerns among exporters. Contrary to prior belief, merchandise exports declined by 6.8% in July-April FY24 compared to FY23, largely due to a 6.7% fall in RMG exports. The EPB had reported a 3.9% growth, driven by a 5% increase in garments. Consequently, the current account surplus turned into a deficit, despite a 12.3% decline in merchandise imports.

[116] IMF. (2021). Safeguards Assessment Aide Memoire.

financial account surplus. Global rate hikes increased the cost of trade and commercial borrowings while mounting distress in the banking system eroded confidence among external creditors.

As the overall BoPs became increasingly negative, BB was forced to sell reserves. A significant factor contributing to this deterioration was the elevated levels of unaccounted outflows, reported as 'E&O', which amounted to $19 billion during FY22-24, compared to $1.5 billion in the previous three years (FY19-21).[117] It is plausible that capital flight contributed to this, as corroborated by various anecdotal reports following the changes in political regime after August 5, 2024.[118] The sharp decline in foreign exchange reserves over the 36 months prior to August 2024 followed a period of rapid accumulation, despite the pandemic-induced economic shock. The overall BoP surplus peaked at $9.3 billion in FY21, with low levels of E&O until then. The worsening situation eventually prompted the government to secure an IMF programme to buy time for rectifying external imbalances.[119]

Figure 4.2: External balances



Adverse saving-investment divergence. The current account balance reflects a divergence between savings and investment. A deficit country spends more than it produces, while a surplus country exhibits the reverse. Foreign capital inflows offset the gap between national investment and national savings in the short term. Solvency constraints do not necessarily prevent a country from running current account deficits for extended periods. However, accumulating external liabilities on a large scale exposes the economy to fiscal and financial vulnerabilities, such as sudden stops in financial flows.

A manifestation of internal weaknesses. Weaker national savings, stagnant investment levels, an overvalued exchange rate, growing fiscal deficits, and excessive domestic credit growth underpinned the current account deficit. Gross national savings decreased before recovering somewhat in FY24 (Figure 4.3). The investment rate remained stagnant at approximately 31% of GDP, except in FY22 when pent-up investment demand was released. The real effective exchange

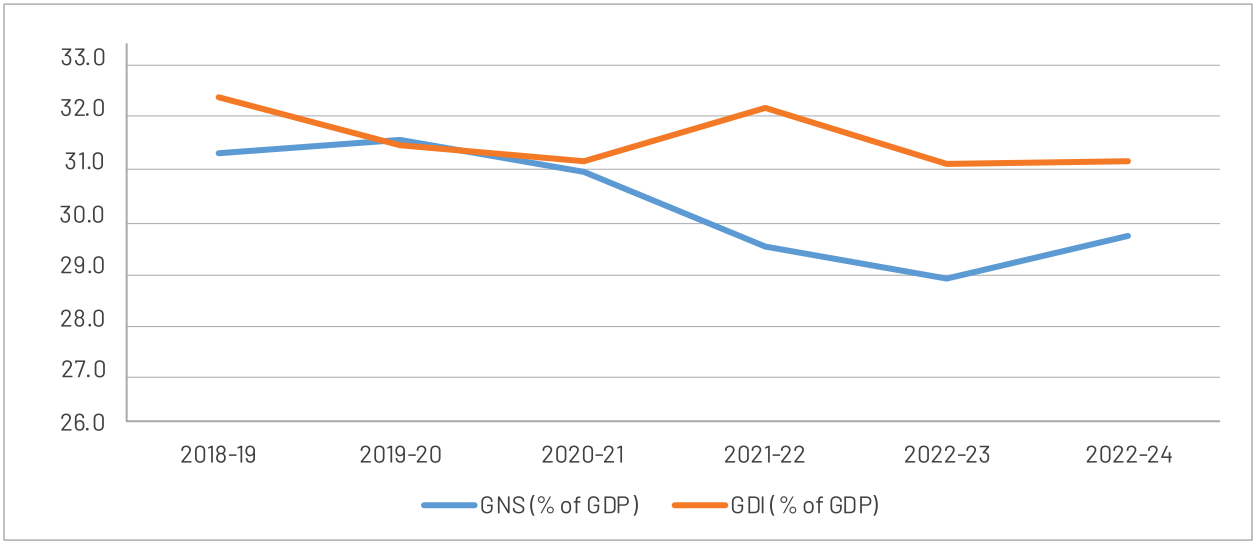
[117] Errors and omissions refer to the part of the foreign exchange reserve drawdowns not accounted for by official foreign exchange receipts and payments.

[118] See White Paper, Chapter 20.

[119] IMF. (2024, June). Bangladesh's external position at end-FY23 was assessed as moderately weaker than the level implied by medium-term fundamentals and desirable policies.

rate—reflecting the nation's competitiveness relative to its trading partners—appreciated.[120] The primary fiscal deficit increased from 1.6% of GDP in FY21 to an estimated 2.8% in FY24,[121] while domestic credit growth rose from 10% in FY21 to 15% by FY23 before slowing to 10.5% in FY24.[122]

Figure 4.3: Saving and investment rates



The co-movement of national savings and domestic investment rates is notable. Both savings and investment were lower on average in the first two decades of Bangladesh's history than in the latter half of the country's more than 50-year existence. The correlation coefficient between savings and investment over the past 53 years is 0.96, illustrating the failure of inward-looking import substitution policies in improving the trade balance.[123] External financing constraints have limited the excess of domestic investment over national savings. Current account deficits could only be financed through official bilateral and multilateral flows. Solvency requires that current account deficits eventually be matched by higher national savings or reduced investment. The policy response of 2022 often described as 'out of the textbook', exacerbated the consequences of external imbalance.

4.2 Disorderly Policies

The policy response failed to mitigate the transmission of disruptive global shocks. Price controls in the financial and foreign exchange markets inevitably led to the rationing of foreign exchange and credit. This rationing, imposed through regulatory dominance, disrupted production, investment, and trade, while also increasing the stock of external debt. The shifts in exchange rate and interest rate policies were only a small part of the broader structural policy reversals in trade and external finance that underpinned Bangladesh's external balance.

[120] Ahmed, S. (2024, May 22). Why is it taking so long to stabilize the economy? *Policy Insights,* Policy Research Institute. According to Ahmed, 'The exchange rate has been highly overvalued for an extended period, as reflected in the appreciation of the real effective exchange rate (REER) by 57% between FY2011 and FY2022. By failing to correct this overvaluation in a timely manner, Bangladesh exposed its currency to substantial depreciation between April 2022 and September 2023. Despite this, the taka is still 40% overvalued in real terms since 2011.' See also IMF, Second Review, Country Report No. 24/186, June 2024, p. 43.

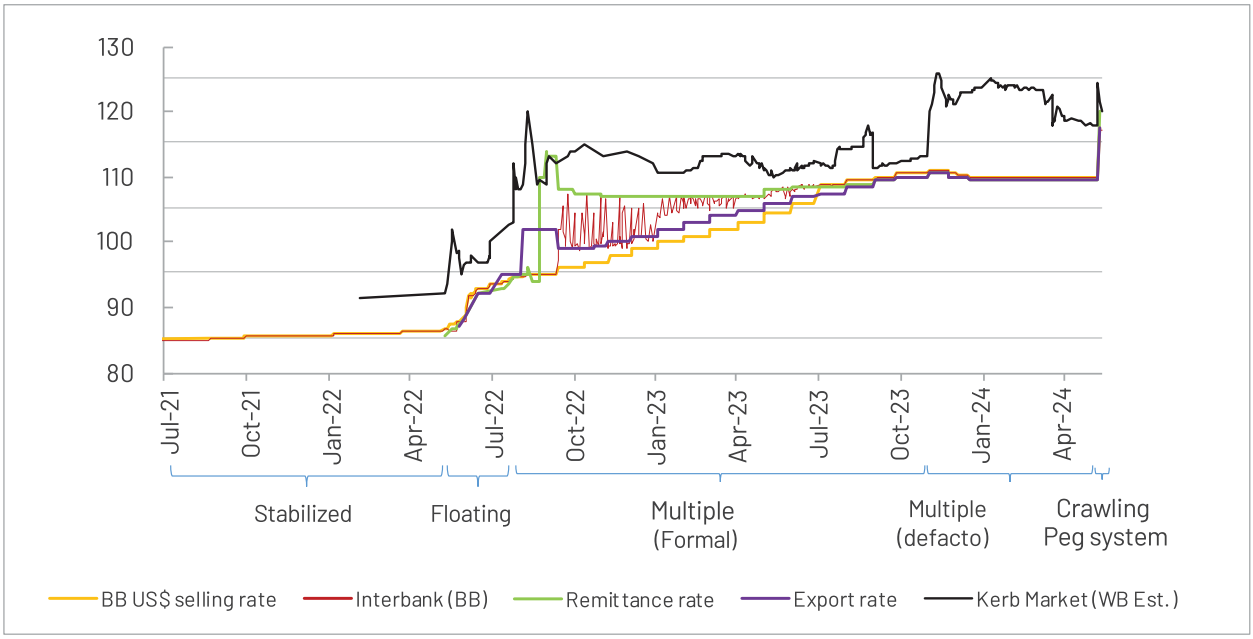
[121] IMF. (2024, June). Second Review.

[122] Bangladesh Bank data.

[123] See the White Paper Chapter 12.

An opaque and chaotic exchange rate regime accelerated the depletion of reserves. Historically, exchange rate regimes in Bangladesh fluctuated in response to economic conditions until they no longer did. A fixed exchange rate was maintained from January 1972 to May 2003, followed by a managed floating regime from June 2003 to September 2022. The BB regularly intervened in the foreign exchange market. The exchange rate of the taka against the US dollar moved from Tk 60/USD in FY03 to Tk 84.81/USD in FY21. The annual depreciation rate remained within 4%, except in FY14 and FY15, when the taka appreciated slightly against the US dollar. Both the nominal effective exchange rate and the real effective exchange rate moved in the same direction during this period.[124]

Figure 4.4: Exchange rate chaos (BDT/US$ Exchange Rates)



Source: Based on BB data

BB engaged in 'excessive smoothing', which ultimately led to the abandonment of the managed float.[125] The Bangladesh Association of Foreign Exchange Dealers (BAFEDA) and the Association of Bankers Bangladesh (ABB) were instructed to jointly establish widely divergent, but below-market, buying rate ceilings for exports and remittances. This resulted in the proliferation of multiple exchange rates (see Figure 4.4). BB also increased telephonic interventions and market surveillance. The BAFEDA-ABB rates increased discontinuously, with the difference between the export rate and the remittance rate narrowing in several distinct steps.

Interestingly, the IMF did not initially view this situation as a multiple currency practice subject to Fund jurisdiction under Article VIII. It took the Fund some time to realise that BAFEDA and ABB, both private-sector associations, were being used as mechanisms to circumvent Article VIII jurisdiction. The IMF was persuaded to believe that the multiple exchange rates 'resulted from disorderly FX market conditions'.[126]

[124] Siddique, M. N.-E., & Hossain, M. A. (2022, April). Analysis of equilibrium exchange rate and exchange rate misalignment in Bangladesh. Bangladesh Bank, PN 2022-02.

[125] As pressures on reserves mounted with Bangladesh Bank (BB) relentlessly defending throughout FY22, the interbank average increased from Tk 87.1/$ in May to Tk 95 in August. BB experimented with imposing interbank market rates, market policing, and firing several treasury officials from dealer banks before getting the authorized dealers to preannounce differentiated rates.

[126] IMF. (2023, February). Country Report No. 23/66, p. 6, para-6.

However, BB was selling official reserves at rates below the interbank rate, which the Fund could not ignore. The IMF noted:

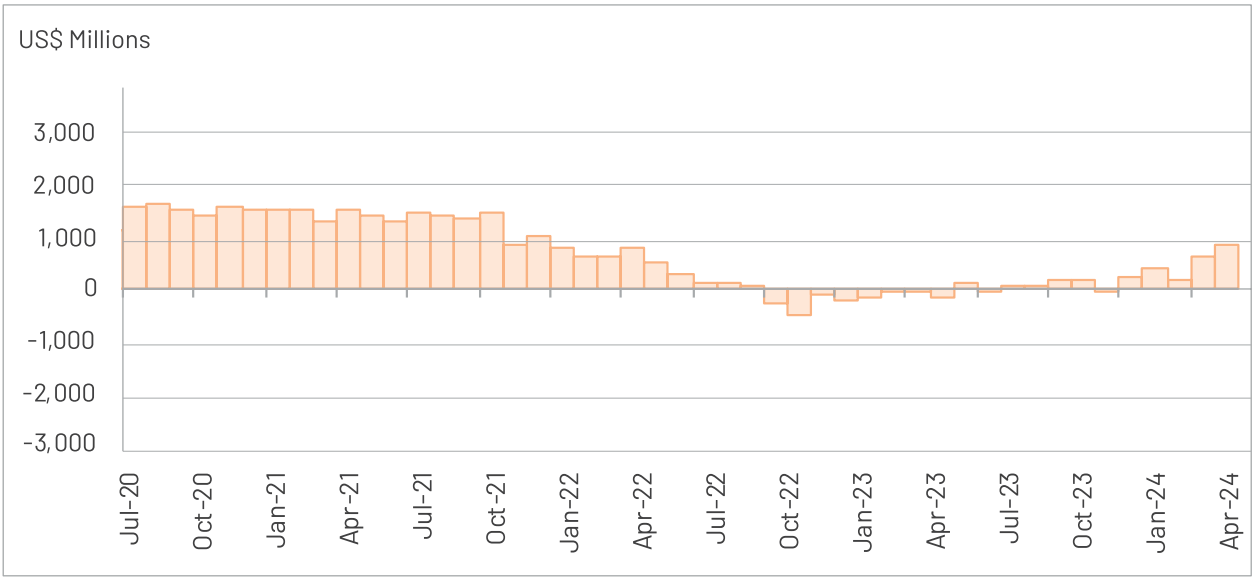
> *During the mission, staff learned of a multiple currency practice subject to Fund jurisdiction under Article VIII that arises as a result of an internal governmental exchange rate used for (i.e. transactions by BB on behalf of the government) that differs by more than 2 per cent from the prevailing market exchange rate. The measure is not maintained primarily for BoP reasons.*

The World Bank, mindful of the Fund's jurisdiction, refrained from making similar assessments.[127] It remarked:

> *This approach can be considered unusual, as ABB and BAFEDA have historically played an advocacy and policy dialogue role as industry associations. The institutional arrangement for enforcement of the exchange rate regime is also unclear. BAFEDA has indicated that deviations from this system of rates will be addressed by regulatory authorities.*

Shortages deepened in the formal system, disrupting the economy across all sectors. The volatility in exchange rates led to increased fluctuations in forex trade volumes, caused by arbitrarily fixed rates. Figure 4.5 illustrates the decline in forex liquidity within private banks during this period. With misaligned administered rates and segmented markets, quantities supplied and demanded at the fixed rate were cleared only by rare, unpredictable events. Consequently, trade volumes shifted to the informal market. The interbank foreign exchange market, where foreign exchange dealer banks buy and sell from each other, became largely inactive, while a de facto barter system (known as 'matching') emerged, where exporters had to find specific importers to make side deals, and vice versa. Bankers acted as intermediaries to facilitate foreign trade transactions.

Figure 4.5: Forex liquidity (net open position) in private banks



Cronyism became a significant factor in forex trades. The rationale for the non-standard model cannot be explained by differing views on multiple versus unified or fixed versus flexible exchange rate.

[127] World Bank. (2023, April). Bangladesh development update.

In FY23, BB sold a record $13.58 billion and a further $12.79 billion in FY24 at rates below the interbank rate. Allegedly, banks, particularly state-owned ones, used BB's support to pay import bills for entities like the Bangladesh Petroleum Corporation, Bangladesh Agricultural Development Corporation, and Bangladesh Chemical Industries Corporation. This official narrative was difficult to verify, as BB never disclosed how much it sold to whom. However, the total imports of petroleum, fertilisers, and chemicals by these three public entities in FY23 and FY24 would likely fall short of these figures. While the regime favoured imports, the forex shortage limited benefits to connected importers. Exports suffered, although some connected exporters found ways to bypass these restrictions.

The rate ceilings became ineffective. Given the dominance of the dollar in Bangladesh's international finance and trade, the underpricing of the dollar and the multiplicity of exchange rates, alongside regulatory inconsistencies and corruption, fostered disorderly conditions in the foreign exchange market (see Annexe for further details). In contrast to most emerging markets, which exhibited resilience amid global monetary tightening due to stronger fundamentals and robust fiscal, monetary, and financial frameworks,[128] Bangladesh's approach led in the opposite direction. Competition for preferential regulatory treatment and access to BB dollars, bolstered by the oligarchic market power of business conglomerates, pushed foreign exchange transactions into informal, personal contact-dependent shadow markets. Many banks resorted to forward dollar trading to circumvent the BAFEDA-ABB rates. In September 2022, BB introduced a ceiling on the taka-dollar forward rate, fixing the 90-day forward premium, which led to a cascade of additional ceilings.

4.3 Current State of Play on Foreign Exchange Reserves

The depletion of reserves necessitated corrective measures. Accessing an IMF programme becomes almost unavoidable when reserves diminish rapidly. This led to the unification of the BB exchange rate with the interbank rate, the adoption of a crawling peg regime, a substantial correction of the peg (Tk 7 per USD) in May 2024, an increased peg width in August, and the removal of regulatory constraints on bank treasuries. These measures have provided some relief to the foreign exchange market. Although reserves remain at depleted levels, they have stabilised since BB ceased selling dollars, and the interbank market has recovered. However, the situation is not yet fully resolved. The volume of interbank foreign exchange transactions remains low, and the interbank exchange rate has been fixed at Tk 122/USD since this upper bound was introduced.

Banks have maintained net positive foreign exchange positions. In recent months, commercial banks' net open positions have been positive, with foreign currency assets exceeding liabilities. Remittances have been consistently above $2.2 billion per month since July 2024. There is early evidence of reduced demand for Bangladesh-bound dollars in the hundi market, possibly reflecting a temporary decline in illicit capital outflows, driven by heightened political scrutiny following the regime change. BB has curbed regulatory overreach.

Official reserves provide little buffer. Several economies, including India, China, and Vietnam, have recently experienced significant expansions in their BoP surpluses. Their reserve positions in 2024, adjusted for nominal GNI in 2023, far exceed that of Bangladesh (see Table 4.1). The only exception is Ethiopia. It is safe to conclude that Bangladesh has a very limited buffer compared to its peers. Buffers are crucial to prevent economic shocks from escalating into crises. A major exogenous

[128] Allen, C., & Berns, R. (2024, July 12). Emerging markets show resilience despite global monetary tightening. Google Scholar.

shock—such as a pandemic, commodity price surge, or export order disruption—could trigger a BoPs and debt servicing crisis if the economy is unprepared. Investors and rating agencies derive confidence from the adequacy of reserves.

Table 4.1: Reserves compared with selected countries

$ in billions

Countries	Gross Reserves	Atlas GNI	Res/GNI (%)
China	3316	17634	18.8
India	701	3498	20.0
Thailand	231	503	45.9
Indonesia	150	1336	11.2
Malaysia	102	388	26.4
Philippines	112	485	23.1
Vietnam	93	407	22.9
Ethiopia	3	163	2.1
Nepal	18	41	44.5
Bangladesh	21	455	4.6

Source: Reserves (2024), IMF; GNI 2023 (WB).

Adequacy rules of thumb. Insufficient reserves expose the economy to risk, akin to lacking insurance, while excessive reserves may result in missed opportunities for more productive use of scarce resources. No definitive answer exists for the optimal level of reserves, but several rules of thumb provide guidance. Countries should have reserves sufficient to cover 3 to 6 months of imports, ensuring the availability of essential consumption goods, raw materials, intermediate inputs, and capital goods. Reserves should also cover over 100% of short-term debt to mitigate sudden disruptions and rollover risk. Last, but not the least, reserves should constitute at least 20% of broad money to support domestic demand for foreign assets.

Rebuilding needed. Bangladesh does not have ready access to liquid foreign currency sources. In 2023, the IMF assessed that the reserve adequacy range for Bangladesh is between 4.4 and 5.7 months of imports, depending on the assumed cost of reserves. However, given the tightly managed exchange rate, Bangladesh likely requires higher reserve coverage. For instance, the IMF's assessment of reserve adequacy in economies with fixed exchange rates and no access to international capital markets suggests that Bangladesh would need 12.4 months of import cover.[129]

Table 4.2: Safe levels of forex reserves

Countries	Gross Reserves	Atlas GNI	Res/GNI (%)
Imports per month	6112	4	24446
Short-term debt	14190	100%	14190
Broad money	181536	20%	36307
Decision rules			
Equally weighted average			24731
Max of the metrics			36307
Min of the metric			14190
Notes: NIR = net international reserves. Imports per month are based on FY24 total imports of goods and nonfactor services Short-term debt equals public and private debt at the end of June 2024 Broad money at the end of June divided by Tk112/$			

[129] IMF. (2022, March). Staff report for the 2021 Article IV consultation, p. 49.

The safe level of reserves, using conventional rules of thumb, for Bangladesh ranges between $14.2 billion and $36.3 billion. As indicated in Table 4.2, the equally weighted average of the three rules is $24.7 billion. The current net international reserve (NIR) level of approximately $15 billion satisfies only the short-term debt criterion. Recent NIRs levels have been stable within the $14.5 billion to $15.5 billion range, bolstered by a clampdown on BB sales, some BB purchases and an increase in the value of reserves held in gold, which rose from $1.06 billion at the end of June 2024 to $1.4 billion on April 10, 2025.[130]

4.4 Learning from Policy Mistakes

Significant lessons emerge from recent policy shifts and their unintended consequences. Macroeconomic policy errors can exacerbate systemic risks. Transitioning the exchange rate from regulatory control to the market is more feasible when the informal market premium is low. BB must carefully balance the trade-off between building reserves and the exercise of BB control of the exchange rate.

The volume of the interbank market remains extremely low, with the interbank exchange rate remaining constant at a BB determined level. Liquidity in the foreign exchange market has recently improved sufficiently to warrant a quicker transition to a market-based, flexible exchange rate regime. BB may miss an opportunity if it delays further.

There has been numerous backs and forth on the timing of the transition from the current crawling peg to a managed float. Crawling peg is semi-fixed with gradual adjustments in the exchange rate, while managed float is more flexible, and market driven. BB has infrequently adjusted the inter-bank rate and refrained most often from market intervention. Aiming for stability, BB wants to keep control on rate changes, fearing natural dynamics of market driven rates could lead to too much volatility. The apparent stability of "crawling peg", in which BB is supposed to pre-plan setting taka to follow the U.S. Dollar as inflation or trade competitiveness change, can be spurious. Foreign exchange transactions cross the highly porous borders between the formal and informal markets as the regulatory apparatus is managed to align with informal trades.

Exchange rate management reforms are part of a broader agenda to modernise monetary policy and its implementation framework. Striking a balance between speed and prudence is crucial. The consensus is clear regarding administered exchange rates: they do not work. The key question now is not how flexible the exchange rate can be, but how quickly the regulatory framework can be reformed to facilitate market-determined rates with transparency and fair competition.

Given the prevailing domestic macroeconomic conditions, increased geoeconomic uncertainties and stronger market monitoring mechanism instituted by the BB, the time to switch to a market driven regime looks just about right. The risk of market manipulation exists on both sides of the choice between crawling peg and managed float.

China has been a subject of controversy with critics accusing the government of manipulating the yuan to gain trade advantages by adjusting foreign exchange reserves and exchange rates.

[130] Gold prices in international markets increased by about 30% during April-November 2024. Gold prices have seen significant increases in 2025 reflecting gold's role as a safe-haven asset during uncertain times.

A crawling peg is vulnerable to such accusation and speculative runs. On the other hand, in a market driven regime, exchange houses may offer rates that deviate significantly from the market rate, exploiting the weak bargaining power or unhealthy competition between authorized dealer banks. Note, however, that exchange houses can also manipulate rates within the crawling peg's band to create artificial demand or supply pressures.

These examples highlight the complexities of managing exchange rate systems and the challenges in distinguishing between controlling rate change with an apparatus that is itself vulnerable to malpractices or adapting to exchange market behavior. Vietnam shifted from a crawling peg to a manged float in 2016. The Vietnamese dong adjusted more flexibly to external shocks while still enabling the central bank to intervene when necessary. Bangladesh's own experience with managed float from mid-2003 to mid-2021 (see Annexe for details) provides confidence that a greater space to market forces in setting exchange rates will position Bangladesh better to absorb external shocks without risking excess volatility and compromising monetary policy independence.

Annexe
Chaotic detour on exchange rate management

The most consequential indicators of external balance are the behaviour of net foreign exchange reserves and the nominal exchange rate. An economy may appear externally balanced to a layperson if neither of these indicators attracts attention, except in relation to real-time economic fluctuations. International trade in goods, services, labour, and assets underpins movements in reserves and exchange rates, which can either stabilise or disrupt the broader economy.

Multiple Fixed-rate Regime

Aligning the exchange rate with reserve fundamentals is crucial for external balance.[131] Bangladesh has experienced two distinct exchange rate regimes: a fixed exchange rate from January 1972 to May 2003, and a floating exchange rate since June 2003. The BB has regularly intervened in the foreign exchange market. From FY03 to FY21, the average exchange rate of the Bangladeshi taka (BDT) against the US dollar rose from Tk 60/USD to Tk 84.81/USD. The nominal depreciation rate peaked at 11% in FY12. Since then, the depreciation rate remained within 4%, except for FY14 and FY15, when the taka appreciated slightly against the dollar. Both the nominal effective exchange rate and the real effective exchange rate moved in tandem during this period.[132]

Excessive rate volatility has been rare under Bangladesh's managed float system. There has been no significant period of 'excessive' volatility in weekly or monthly interbank exchange rates since May 2003, when BB ceased fixing the exchange rate. The market-determined exchange rate withstood political instability in 2006, natural disasters in 2009, the global financial crisis followed by food and energy price hikes in 2008-09, political instability again in 2013-15, and the pandemic in 2020. The exchange rate remained relatively stable, with reserves increasing from $10.3 billion in FY12 to over $46 billion by the end of FY21, bolstered by a sustained current account surplus until FY17 and a growing financial account surplus from FY18. The exchange rate appreciated from Tk 79.2/USD in FY12 to Tk 77.7/USD in FY15, before depreciating to Tk 84.8/USD by FY21.[133]

The situation changed dramatically with the Russian invasion of Ukraine in February 2022. The US Dollar Index surged from 96.3 in mid-January 2022 to a 20-year high of 114 by late September 2022, an 18% increase. The dollar strengthened against nearly every major currency, reaching levels not seen in decades. During the same period, the taka depreciated by 15.2%, notably less than the 18% depreciation of the dollar. From 2020 to 2021, the exchange rate remained stable at around Tk 84.8/USD. In response to fears of volatility, BB engaged in 'excessive smoothing'.[134]

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[131] See, among others, Williamson, J. (1994). Estimating equilibrium exchange rates. *The Peterson Institute for International Economics (PIIE),* Washington, DC; Jongwanich, J. (2009). Equilibrium real exchange rate, misalignment, and export performance in developing Asia. *Asian Development Bank Economics Research Paper Series,* (151).

[132] Siddique, M. N.-E., & Hossain, M. A. (2022, April). Analysis of equilibrium exchange rate and exchange rate misalignment in Bangladesh. Bangladesh Bank, PN 2022-02.

[133] Hossain and Ahmed (2009) note that the Bangladesh Bank's de facto managed float system tended to overvalue the currency. See *Exchange Rate Policy under Floating Regime in Bangladesh: An Assessment and Strategic Policy Options* (January 2009). Alom and Hossain (2009) found the real effective exchange rate overvaluation peaked in 2019. The misalignment was reduced to 5% in 2020 and 7% in 2021.

[134] As pressures on reserves mounted with BB relentlessly defending throughout FY22, the interbank average increased from Tk 87.1/$ in May to Tk 95 in August. BB experimented with imposing interbank

BB was unable to maintain a consistent exchange rate or influence movements effectively. It eventually abandoned the managed float. The Bangladesh Association of Foreign Exchange Dealers (BAFEDA) and the ABB were directed to jointly set distinct buying rate ceilings for exports and remittances, well below market levels. The following extract from a BAFEDA letter to the managing directors and CEOs of all authorised dealers in foreign exchange in Bangladesh is of historic significance:[135]

> *We would like to inform you that a joint meeting among the Executive Committee of Bangladesh Foreign Exchange Dealers' Association (BAFEDA), Board of Governors of Association of Bankers' Bangladesh (ABB) and the concerned Executives of Bangladesh Bank (BB) was held on 08.09.2022, which was chaired by the Deputy Governor-I. The meeting reviewed the present position of major economic indicators relating to foreign exchange transactions.*
>
> *It may be mentioned that another meeting was held between the Executive Committee of BAFEDA and the Board of Governors of ABB on 1L.09.2022, where the current position of the FX market and the movement of exchange rates were reviewed.*
>
> *Considering the overall market situation and in order to bring stability to the FX market with a view to better serve the customers, the meeting held on 11.09.2022 unanimously decided to implement/apply henceforth the following USD/BDT uniform exchange rates by all ADs until further revision:*
>
> > *1. All export proceeds and all inward remittances (other than remittances from exchange houses) irrespective of ticket size will be bought by the banks at a fixed rate of Tk.99.00 per US dollar.*
> >
> > *2. All remittances from exchange houses and other similar entities including remittances from a bank's own exchange houses will be bought by the banks at a rate not higher than Tk. 108.00 per US dollar. In other words, banks can offer a maximum of Tk. 108.00 per US dollar in case of such inward remittances. This will apply to the conversion of all other currencies into US dollars as well.*
> >
> > *3. In case of settling import bills and other outward remittances, banks will charge a maximum of Tk. 1.00 as 'spread' over the weighted average buying cost of above items no. 1 & 2 and dollars bought from interbank (excluding dollars from the central bank). This weighted average cost will be calculated on a 5-day rolling average basis by each bank based on its actual cost.*
> >
> > *4. It is expected that when all export proceeds and all inward remittances are bought at Tk. 99.00 per US dollar and dollars from exchange houses are bought at Tk. 108.00 per US dollar, and the selling rate is calculated on the weighted average cost of these two, an 'interbank rate 'will eventually emerge around this weighted average cost line. Treasury Heads of all banks will report their weighted average cost to BAFEDA by 10 AM daily. BAFEDA will then calculate the average of all these rates submitted by the banks and post it on their website. This industry average rate will be the reference rate for revaluation purposes.*

[135] Bangladesh Foreign Exchange Dealers' Association. (2022, September 11). BAFEDA-ABB/EXCHANGE RATE/2022/98

> *5. It is understood that the selling rates and interbank rates emerging out of the buying curve stated above are dynamic in nature (i.e. may change from day to day and bank to bank). However, the calculation method will be as stated above. Similarly, the buying rate from exchange houses is also dynamic in nature (i.e. it is expected to come down from the maximum rate of Tk. 108.00 as demand for the US dollar falls).*

The subject line read: 'Fixation of Uniform USD/BDT Exchange Rates in Foreign Exchange Dealings'. The operative word is 'uniform'. Additionally, the remittance rate was revised down to Tk 107.5/USD effective October 1, 2022.

BB increased its interventions as informal channels flourished. The BAFEDA-ABB rates gradually increased, and the difference between the export and remittance rates narrowed (Figure 4.2).

There are crucial lessons to be learned from this experience to prevent the recurrence of such macro-critical policy errors. It illustrates that the volatility often reported in exchange rates is only one aspect of the foreign exchange situation. The other aspect is the volatility in foreign exchange trade volumes caused by arbitrary rate fixing. This issue became particularly evident during this period. Figure 4.3 illustrates how forex liquidity in private banks dried up during this time. The downsides of rate volatility are contingent on the quantities supplied and demanded, which typically clear over time at the fixed rate. However, misaligned administered rates and segmented markets with porous boundaries between formal and informal sectors hinder this process. When formal market rates are overvalued, quantities shift to the informal sector, restricting international transactions through formal channels.

The extended global monetary tightening, insufficient domestic policy responses, and expectations of further currency depreciation contributed to financial outflows. While the policy rate gap between Bangladesh and the US has narrowed, the inflation gap has widened. As Bangladeshi firms reduced foreign borrowing, private external credit inflows sharply declined, and repayments outpaced new loans. Frequent changes in exchange rate policy and uncertainty surrounding the forex management framework made forex trade volumes volatile.

Returning to the Basics

The institutional weaknesses revealed during the crisis and payment deferrals eroded confidence, leading to difficulties in rolling over short-term debt. The administratively determined 'float' was incompatible with the reality of large amounts of capital seeking safe havens. BB's directives encouraged speculative one-sided bets, and the expectation of further rate increases became self-fulfilling. The digitised and informal exchange systems lie beyond regulatory control, while the regulated kerb market disperses when BB inspectors intervene.

Currency markets are vulnerable to speculation, herd behaviour, sticky dollar prices (due to dollar invoicing), and irrational mood swings. However, such markets are not easily manipulated. Traders may change the value of a currency to profit from inside information, but without regulatory connections, currency manipulators are unlikely to survive in markets with near-instantaneous contestability, such as the forex market. Manipulation seen in other sectors, such as rice, wheat, or edible oil, does not have parallels in currency markets.

Price levels in the economy typically reflect the substantial and sustained spread between official and parallel rates. Allowing market participants to use a market-clearing rate in such circumstances benefits economic activity without necessarily causing inflation, provided fiscal and monetary policies are supportive.[136] Policymakers must act swiftly and decisively, especially in smaller economies that are not 'anchors of the international system'.[137]

The authorities took several measures to stem the decline in NIR. The most notable of these was increased exchange rate flexibility and a credible signal in August that BB reserves would not be used to support the market, except for essential imports. On May 8, 2024, BB implemented a crawling peg with a narrow Tk 1 per USD band (plus or minus) and an upfront devaluation of 6.4% (from Tk 110 to Tk 117/USD). Subsequently, BB adjusted the band to Tk 3 per USD (plus or minus). This new arrangement brought the exchange rate closer to market-based flexibility. Over time, the parameters of the regime will be reviewed periodically to ensure that the rate of crawl aligns with market conditions and monetary policy settings.

[136] IMF. (2021). Recognizing reality.

[137] Fischer, S. (n.d.). Former IMF Chief Economist and US Federal Reserve Vice Chairman

Chapter V. Growing Burden of Public Debt*

Key takeaways

- *An excessive focus on the seemingly low debt-to-GDP ratio has fostered a false sense of security regarding the risk of debt distress. Projections suggesting a favourable debt-GDP ratio have been misleading, owing to overly optimistic GDP growth estimates.*
- *The effective interest rates on both domestic and foreign debt have risen, while the repayment periods for external financing have shortened. Additionally, poor value for money from debt-financed public investments has exacerbated the public debt burden.*
- *Rising debt service payments, coupled with a shortage of dollar liquidity, are becoming a significant concern. The external debt burden, as measured by the ratio of external debt-to-foreign-exchange earnings, is unfavourable enough to necessitate pre-emptive action.*

Public debt intensity in Bangladesh has increased. Although the debt-to-GDP ratio remains well below thresholds that typically signal growth-reducing debt levels, and is comparatively lower than that of many peers,[138] the trends in debt intensity are less reassuring, particularly when examined using metrics free from data distortions. Debt distress can arise even at 'low' debt intensity levels when debt servicing competes for both domestic and foreign currency liquidity in a situation of scarcity. Bangladesh has not yet moved beyond such a risk. A sharp increase in the already growing debt servicing burden is imminent.

This chapter examines the level and composition of Bangladesh's external and public debt, identifies factors that may currently provide comfort regarding the debt outlook, and highlights the limitations of those metrics. When alternative measures are considered, the comfort associated with the debt situation appears tenuous. The chapter advocates for the use of metrics that assess not only the cost and scale of debt but also the liquidity in both taka and dollars required to manage the debt without friction. Additionally, the chapter critiques the lack of attention to value for money in borrowing decisions, which has been a critical flaw in Bangladesh's public debt management over the past 15 years.

5.1 Level and Composition of Debt

The Bangladesh government is the largest single borrower in the domestic debt market and enjoys privileged access to borrowing from external sources, particularly official creditors. As of June 30, 2024, Bangladesh's financial system held one taka of public domestic debt for every 4.5 taka of private domestic debt. In contrast, for every dollar of private external debt, the government's external debt counterpart was four dollars.

The increase in public indebtedness has been driven primarily by domestic borrowing. By the end of June 2024, total debt is projected to have reached 41.3% of GDP, up from 35.6% just two years earlier. The majority of the US$166.7 billion in public and publicly guaranteed (PPG) debt at the end of FY23 was domestic debt, denominated in local currency, accounting for 55.6% of the PPG debt stock. Nearly 50% of domestic debt consists of treasury bonds and bills, with most of these held by banks. The BB holds just under one-fifth, while the remainder is held by non-bank financial institutions (NBFIs). National Saving Certificates account for 20.3% of total domestic debt. The interest and amortisation payments on domestic debt amounted to US$19.4 billion (11.7% of GDP) in FY23.[139]

* The chapter was prepared by Dr Zahid Hussain, former Lead Economist, World Bank Bangladesh.

[138] A large majority of studies on the debt-growth relationship find a threshold between 75% and 100% of GDP. See de Rugy, V., & Salmon, J. (n.d.). Debt and growth: A decade of studies. Google Scholar.

[139] IMF. (2024, June). Country report.

External debt is rising. By FY23, external debt represented 44.4% of the PPG debt stock and 17.7% of GDP, up from 15.1% in FY21. External PPG debt is primarily owed by the central government to multilateral and bilateral lenders, which together accounted for 52% and 34%, respectively, at the end of FY23. The remainder consists of short-term sovereign bonds held by non-resident Bangladeshis and guaranteed SOE debt. Private-sector external debt stood at 5% of GDP in FY23, declining by 7.5% by the end of June 2024 compared to the same point in 2023. Total interest and amortisation payments on external debt in FY23 amounted to US$3.9 billion (0.9% of GDP).

5.2 Comfort Narrative

Policymakers and multilateral institutions generally feel comfortable about the intensity of public debt. This comfort is based on two main factors. First, including guarantees, PPG debt is lower than in countries like India, China, Thailand, and Vietnam, despite recent increases (Figures 5.1 and 5.2). Second, the June 2024 joint IMF-World Bank Debt Sustainability Analysis (DSA) continues to assess the risk of external and public debt distress as 'low'. This assessment downplays a 'short duration breach of low magnitude' in the present value of the debt-to-export ratio. The overall public debt-to-GDP ratio in the projections is expected to follow a declining path in the medium term. However, such declines have not materialised in recent years.

Figure 5.1: General Government Debt in Bangladesh

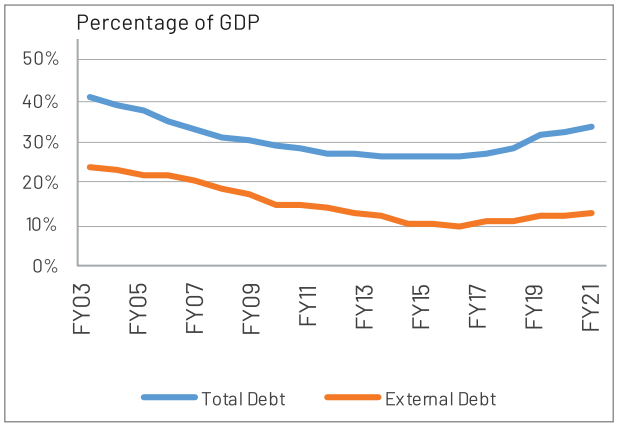
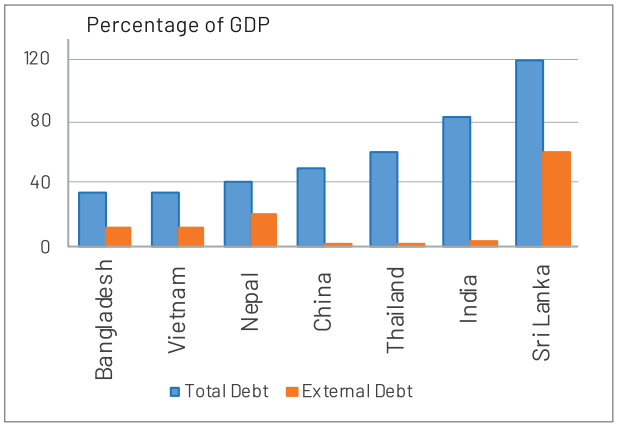


Figure 5.2: General Government Debt 2022



Source: World Bank, Public Finance Review 2024

Changes in debt intensity. Changes in debt are decomposed into two components: the primary budget balance, reflecting fiscal policy, and a component known as 'automatic debt dynamics', which accounts for the impact of GDP growth, interest rates, and exchange rates on the debt-to-GDP ratio. The latter is termed 'automatic' because it is driven by market forces. Debt dynamics are favourable when interest rates are low, growth is high, and the domestic currency is strong. Conversely, they are unfavourable in the opposite conditions. The primary budget balance is the difference between government revenue and government expenditure, excluding interest payments.[140] Primary deficits contribute to debt increases, while primary surpluses reduce it.

[140] The sign (+/-) and size (scaled usually by nominal GDP) together define the fiscal policy stance and its impact on future debt. A primary budget deficit, particularly when it increases over time, is considered expansionary fiscal policy, which contributes to indebtedness. Since debt cannot grow indefinitely, primary budget surpluses will be necessary in the future to stabilise the debt ratio. This implies that debt ratios must eventually stabilise to maintain sustainability.

Table 5.1: Analytics of the comfort view

	% of GDP			
	2021	2022	2023	2024 (p)
Public debt	35.6	37.9	39.8	41.3
Low external debt	15.1	15.4	17.7	18.9
Changes in debt	1.1	2.2	1.9	1.5
Primary deficit	1.6	2.1	2.6	2.8
Automatic debt dynamics	-0.8	-0.5	0	-2.4
Real interest rate	1.6	0.3	0.3	-0.4
Real GDP growth	-2.2	-2.4	-2.2	-2.0
Real exchange rate depreciation	-0.2	1.6	1.9	..
Residual (primary deficit + auto - change in debt)	-0.4	-0.6	0.7	-1.2

Source: IMF Report, June 2024; p=projected.

Negative interest-growth differentials dampened debt increases. Nevertheless, debt has still risen due to growing primary deficits (Table 5.1). From FY08 to FY18, public debt steadily declined from 37% of GDP to 31%, driven entirely by favourable debt dynamics. Since then, debt has risen but remains below the country's debt-carrying capacity.

The IMF estimates Bangladesh's overall debt-carrying capacity to be 55% of GDP, with external debt capacity at 40%.[141] This assessment is based on the Composite Index (CI), a weighted average of real GDP growth, remittances, international reserves, world growth, and the World Bank's Country Policy and Institutional Assessment (CPIA) score. The April 2024 World Economic Outlook uses ten-year averages of these variables, including five years of historical data and five years of projections. Bangladesh is rated medium on the CI.

The low-risk assessment of debt distress rests on baseline optimism. The IMF-WB analysis assumes a long-term average economic growth of 7%, primary budget deficits averaging 2.6% of GDP, inflation between 5-6%, and stable exchange rates. This optimistic macroeconomic outlook seems increasingly unrealistic as we approach mid-2025. Growth projections for the current year have already been revised down to between 4% and 5%, and the timing of any projected recovery remains highly uncertain. Furthermore, other variables, such as contingent liabilities, financial market instability, natural disasters, and export shocks, have moved in directions contrary to the baseline assumptions.[142] The IMF-WB DSA has gained a reputation for underestimating economic downturns, often leading to delayed debt relief and hastily implemented austerity measures.[143] While their message is not to 'don't worry, be happy', their deeply entrenched optimism often obscures the risks.

5.3 Devil's Advocates

The pillars of comfort are fragile. Historically, negative interest-growth differentials have been insufficient in preventing countries from experiencing debt distress. An IMF study, based on a sample of 150 emerging and developing economies from the 1970s, revealed that persistent primary deficits often lead to a sharp rise in debt service, precipitating a fiscal crisis. Much of the debt accumulation during crises is driven by valuation effects linked to external debt and the materialisation of contingent liabilities. Low interest-growth differentials 'cannot fully offset the deleterious effects of large fiscal deficits, foreign exchange exposures, or hidden

[141] IMF. (2024, June). Debt sustainability analysis in country report.
[142] The only exception is a significant decline in the Secured Overnight Financing Rate.
[143] Rehbein, K. (2023, October). Understanding IMF debt sustainability analysis: A toolkit for CSOs to critically engage with the IMF.

debts' such as guarantees provided to large loss-making state-owned enterprises.[144] Bangladesh exemplifies these characteristics within its fiscal policy framework.

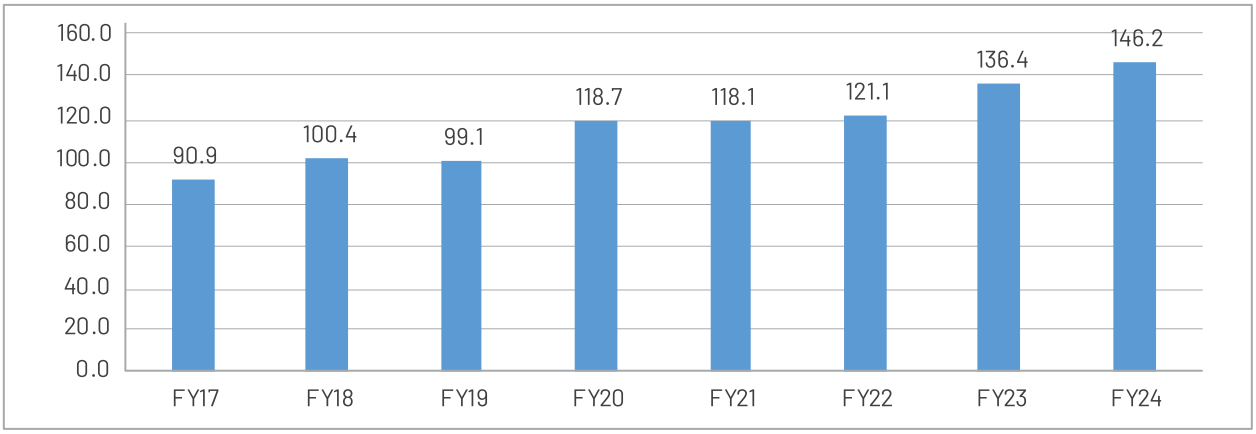
The unknown exceeds the known. The standard debt accumulation equation, which serves as the basis for the calculations in Table 1, does not align with the data. While GDP growth, interest rates, and the real exchange rate appear significant, they explain only 0.4 of the 1.5 percentage point increase in the debt-to-GDP ratio in FY24. The unexplained residual has grown in absolute value, often arising from financial operations below the line, exchange rate fluctuations, and other valuation effects.[145] The increase in the residual over time may signal a lack of transparency in debt reporting. At 73%, this unaccounted portion is too large to be adequately explained by contingent liabilities and balance sheet effects stemming from exchange rate and interest rate changes.

The GDP-based framework may be missing the larger issue. It is concerning that a decline in long-term growth to 6.5% does not affect external or overall debt risk ratings. Inaccuracies in GDP data suggest that even 6.5% growth may represent an upside risk rather than the downside risk indicated in the DSA. Bangladesh has likely not exceeded 4 to 5% annual growth, except during the volatile 1970s. The reported increase in indebtedness may be understated, and the perceived favourability of debt dynamics is overstated, owing to upward biases in official GDP growth figures and possibly in nominal GDP estimates. Furthermore, there is a limit to how much favourable debt dynamics can reduce indebtedness in the face of substantial primary deficits or off-balance-sheet adjustments, which often have a significant impact.

External debt capacity is weaker than commonly perceived. Key factors influencing Bangladesh's debt vulnerability include its growing exposure to foreign currency-denominated, non-concessional debt for large-scale projects, elevated refinancing risks, and low fiscal and external buffers. A modified version of the standard debt sustainability framework, used in a CPD study, found that Bangladesh's external debt-carrying capacity, when scaled by exports and remittances, has weakened in recent years.[146] The study estimates the optimal debt-to-exports-plus-remittance ratio at 124%, with Figure 5.3 showing that Bangladesh exceeded this threshold in FY22. Given uncertainties surrounding the accuracy of real GDP growth and nominal GDP data, the external debt-to-foreign exchange earnings metric offers more credibility and has gained prominence as Bangladesh has struggled with recent foreign exchange liquidity challenges.

[144] Moreno Badia, M., Gamboa Arbelaez, J., & Xiang, Y. (2021). Debt dynamics in emerging and developing economies: Is R-G a red herring? IMF Working Paper, Fiscal Affairs Department.
[145] Patel, N., & Peralta-Alva, A. (2024). Public debt dynamics and the impact of fiscal policy. IMF Working Paper, Research Department.
[146] Rahman, M., Al Rahman, M., & Tasnim Arpita, A. (2024, July). Bangladesh's external public borrowing and debt servicing capacity. Centre for Policy Dialogue, Dhaka.

Figure 5.3: External debt-to-Foreign-exchange earnings (%)



Note: Foreign exchange earnings include exports of goods and services plus remittances. External debt includes public and private debt.

Source: Based on Bangladesh Bank data.

The dynamics of this metric are concerning. The framework used to analyse changes in the external debt-to-foreign-exchange-earnings ratio mirrors the debt-to-GDP ratio's equation of motion, with the key difference lying in the denominator. In this case, the denominator is foreign exchange earnings, and the primary deficit measure is the current account balance before interest (the primary current account balance), rather than the government's primary budget deficit, as we are considering total external debt, not just government debt, and domestic debt is not included.

Table 5.2: Decomposition of changes in external debt/forex earnings ratio

Percentage points	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Change in external debt	9.5	-1.2	19.6	-0.6	3.0	15.2	9.8
Interest-growth factor	-8.8	-10.6	13.0	-18.3	-13.9	15.8	6.4
Primary CAD/earnings*	16.1	6.0	6.5	4.5	18.6	10.0	3.2
E & O/Earnings	-1.1	-1.1	-0.5	-1.0	-7.3	-5.5	-4.1
Capital grants/Earnings	0.6	0.4	0.4	0.7	0.8	0.7	0.8
Predicted change	7.8	-3.8	19.6	-13.5	11.2	30.6	12.9
Residual (actual-predicted)	1.7	2.6	0.0	12.9	-8.2	-15.4	-3.1

*CAD= external current account deficit

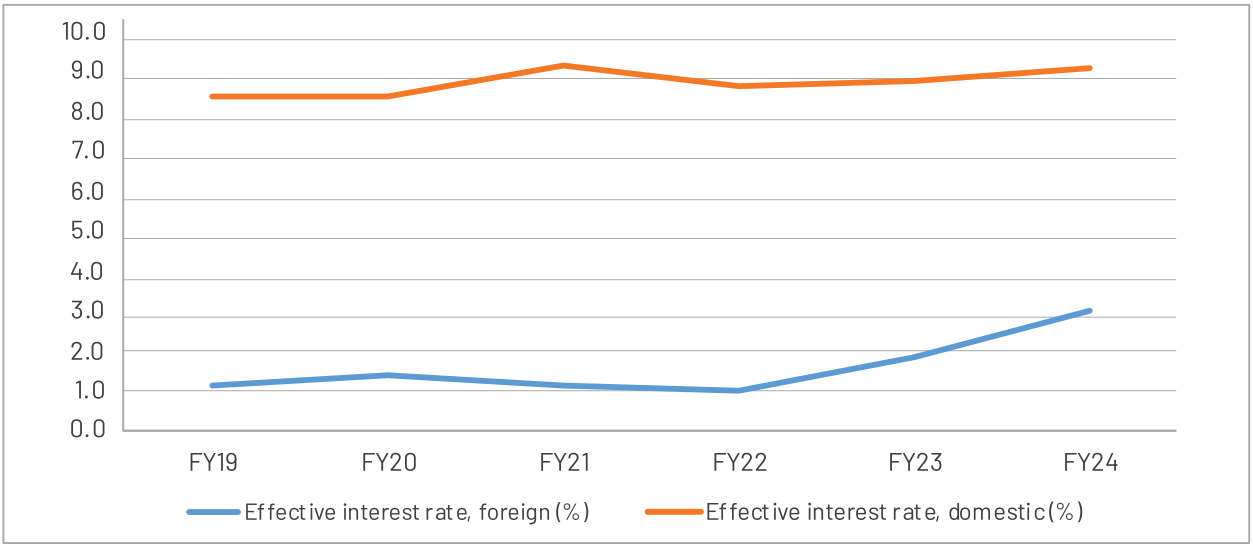
The dynamics of the debt ratio now depend on the effective interest rate on external debt, the growth rate of foreign exchange earnings, the primary current account balance-to-foreign-exchange earnings ratio, and several off-balance-sheet factors such as capital grants and E&O. Recent trends suggest that these dynamics have become increasingly unfavourable, significantly contributing to the rise in the external debt ratio in FY23-24.

Earnings growth has been highly variable, while the effective interest rate has surged. A decline in concessional loans, an increase in the share of commercial terms from multilaterals, the growth of relatively expensive bilateral loans, and sharp global interest rate hikes have elevated the effective interest rate on external debt (Figure 5.4). A reduction in the primary current account deficit in FY23 and FY24 has slowed the increase in the debt ratio. However, given the vulnerability of the primary current account balance to global demand and price shocks, this trend cannot be relied upon. Large residuals during FY21-23 suggest the need for further investigation into the effects of exchange rate fluctuations and other debt value adjustments not accounted for in the BoPs.

Domestic debt presents similar challenges. Indicators of domestic debt sustainability, such as the debt-to-government-revenue ratio, have risen and fluctuated.[147] Domestic debt relative to government revenue increased from 212% in FY19 to 258% in FY23, the most recent year for which comparable data is available. The concentration of the investor base, dominated by commercial banks and the BB, crowds out lending to the private sector. The fundamentals have shifted from strength to weakness. Revenue growth is weak, interest rates are rising, and budget deficits have increased. The growing share of pension payments relative to budgetary funding has added complexity to domestic debt management.[148]

The cost of domestic debt is rising (Figure 5.4). The government debt yield curve shifted upward by about 400 basis points for short-term bills and 250 basis points for long-term bonds in FY23-24. The BB's termination of its devolving of primary government securities auctions in August 2023 triggered a significant rise in the interest rates on marketable instruments. Interest payments on domestic debt relative to revenue increased from 17.6% in FY18 to 22.5% in FY23, further shrinking fiscal space. This is likely to worsen, as tighter monetary policy, necessitated by high inflation, has increased interest rates on treasury bills and bonds.

Figure 5.4: Effective interest rates



Debt revenue is often overlooked. Increasing tax revenues or rolling over existing debt are typically used to manage the debt servicing burden. Recently, a growing body of literature has explored a third method: generating new revenue each time new public debt is issued, known as debt revenue.[149] Creditors typically offer the government a discount, charging less than the market rate on public debt. This discount, multiplied by the amount of debt, constitutes the debt revenue. The discount allows the government to collect lower future taxes to repay the debt. Concessional external finance has been a significant source of such revenue for Bangladesh.

In contrast, this is not the case for domestic debt, particularly in recent years. Debt revenue exists as long as there is a discount; that is, when the effective rate is lower than the market rate.

[147] This indicator is preferable to the debt-to-GDP ratio as it better captures the fiscal capacity to accumulate debt.

[148] Rigorous and updated functional reviews of government expenditures are unavailable. Pension payments to retired civil servants have been one of the fastest-growing items in the national budget, with nearly a ninefold increase since FY07.

[149] Reis, R. (2022). Debt, revenue, and the sustainability of public debt. *Journal of Economic Perspectives*, 36(4), 103-124.

The closest approximation to the market rate is the rate on advances charged by commercial banks. As shown in Table 5.3, the discount was negative during FY20-23, a period when retail bank lending rates were capped at 9%. No such cap applied to treasury bills, bonds, and national savings certificates. The effective rate on the government's domestic debt exceeded bank lending rates, making it highly attractive for banks to invest in risk-free government securities with higher returns—a rare combination in financial history. The government incurred 'debt expenditures' amounting to Tk 13,642 crores in FY23. Future taxpayers would have been better off if the government had taken advances from banks instead of selling bills and bonds. With the removal of the 9% cap in FY24, debt revenue became positive.

Table 5.3: Illustrative debt revenue calculations

Percentage points	2019	2020	2021	2022	2023	2024
Effective interest rate on domestic debt (%)	8.4	-8.4	9.2	8.6	8.8	9.1
Bank lending rate (%)	9.6	8.0	7.3	7.1	7.3	11.5
Debt revenue (%)	1.2	-0.5	-1.8	-1.5	-1.4	2.4
Debt revenue flows, Tk in crores	6503	-2902	-13254	-13059	-13642	23712

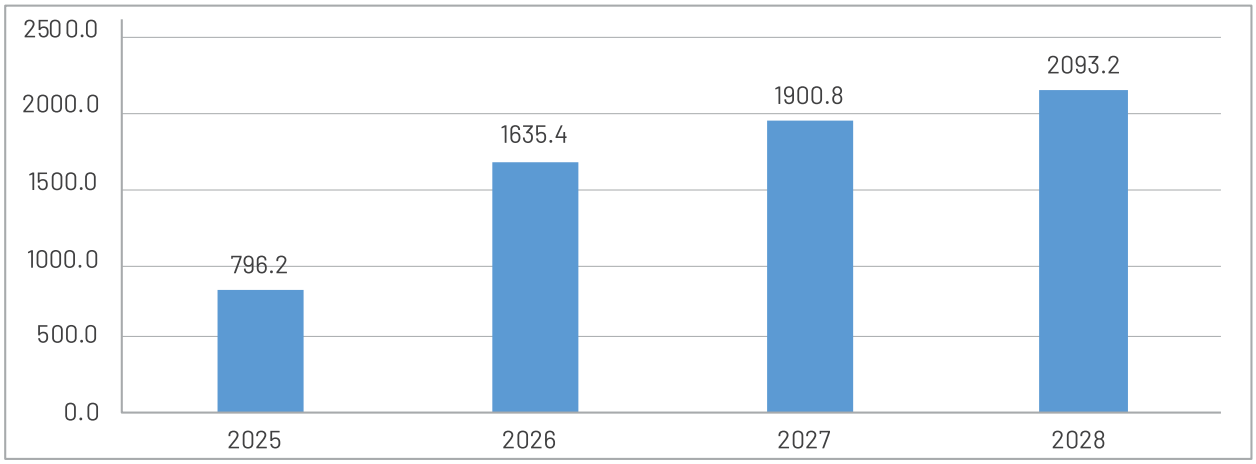
Source: Author's calculation based on BB and Ministry of Finance data.

Amortisation payments on public external debt are expected to rise in the near future. Analysts have already raised early warnings.[150] The grace periods of several significant loans have ended, and more are expected to end soon. The maturity of new loans, including grace periods, has also shortened. A majority of externally funded infrastructure projects generating income in local currency have exposed the risks of exchange rate fluctuations, especially in the 2020s.[151]

An examination of active loans reveals imminent sharp increases in amortisation payments (Figure 5.5).[152] These include repayments for 213 loans as of the end of June 2023, such as the Rooppur Nuclear Power Plant, the Padma Bridge Rail Link, the Karnaphuli Tunnel, the Expansion and Strengthening of the Power System Network, the Dhaka Mass Transit projects, the disbursed amount of the Indian Line of Credit, and several credits from the ADB, Asian Infrastructure Investment Bank, and World Bank.

Figure 5.5: Projected gross increase in public external debt amortisation payments

($ in millions)



Source: Based on ERD data.

[150] Ahmed, S. (2022, September 25). Bangladesh's external debt situation and vulnerabilities. *Policy Insights*, Policy Research Institute.
[151] Rahman, M. (2024, July 6). Bangladesh's external debt management: Some emerging concerns. Global Bangladesh.
[152] The calculations underlying Figure 5 are based on data on active loans from the Economic Relation Division, *Flow of External Resources into Bangladesh* (as of 30 June 2023 and 10 December 2023).

The additions to annual amortisation payments may triple by 2028. While these estimates are subject to changes in parameters such as exchange rates, cancellations, restructurings, or rescheduling, the magnitude and direction of the change in amortisation payments remain robust under reasonably conceivable scenarios. The debt servicing burden is rising rapidly. Revenue and foreign currency cash flow constraints may cause relatively modest debt levels to inflict severe pain. The government has projected amortisation at $2.6 billion in FY25, up from $2.47 billion in FY24 and $1.74 billion in FY23. Projections for FY26 are $2.73 billion, reaching $3.2 billion by FY27.[153] Considering both legacy and new debt, the projected levels appear relatively low compared to the gross additions estimated in Figure 5.5.[154] There is consensus on a spike in FY27 across both projections.

The low value derived from borrowed money is typical. The value-for-money assumption underlying the assessments by the World Bank and the IMF does not hold. If infrastructure-related debt increases primarily served as a vehicle for siphoning funds from the public exchequer, as evidenced by the increasingly expensive energy mix and massive cost overruns in nearly all development projects, the debt is passed on to future generations without creating assets to service it. Debt can be either beneficial or disastrous, depending on its use.[155]

Distress signals are already flashing. Fiscal management in recent years has struggled to prevent the accumulation of arrears. Increased demands from independent power producers (IPPs) and fertiliser suppliers have resulted in domestic arrears amounting to about 1% of GDP.[156] These arrears stemmed from liquidity pressures due to revenue shortfalls and external finance constraints. Desperate measures, such as issuing special bonds to commercial banks at below-market interest rates to clear arrears, have only delayed the inevitable. The government has been forced to turn to multilateral and bilateral lenders for budget support to settle these arrears. Macroeconomic shocks and calls on contingent liabilities are also materialising. Outflows from the civil servants' pension scheme, the General Provident Fund, are increasing.

Risks stemming from the government's inadequate institutional capacity have severely impacted fiscal aggregates, as evidenced by numerous scandals involving mega projects. Payment stress from external public debt has drained foreign exchange reserves, and monetary financing of domestic borrowing has contributed to inflation. Fiscal aggregates are particularly vulnerable to shocks in commodity prices and exchange rates.[157] The currency and interest rate composition of debt, the maturity structure of debt, and the availability of assets to service debt have all worsened in recent years.

Liquidity problems can arise independently of solvency issues. A solvent Bangladeshi government has struggled to pay its bills on time in recent years. A self-fulfilling liquidity crisis occurs when creditors lose confidence, triggering transactions that place pressure on the country's international reserves. A sharp drop in foreign exchange earnings, an increase in interest rates, or rising import prices can trigger this loss of confidence.

[153] Finance Division. (2024). *Medium-term Macroeconomic Policy Statement 2024-25 to 2026-27*. June 6, 2024.

[154] The difference could be attributed to a potential decline in legacy payments, which are not included in the gross estimates and offset part of the gross additions. Externally funded projects that began repaying approximately 30 years ago are nearing book closure. Whether these projects are substantial enough to explain the slower rise compared to estimates of gross additions remains an open question.

[155] This is examined in greater detail in the chapter on mega projects.

[156] IMF. (2024). *Second Review, Country Report*. June 2024.

[157] Medina, L. (2015). Assessing Fiscal Risks in Bangladesh. IMF Working Paper, May 19, 2015.

5.4 Prudent Borrowing

Government debt binds successive administrations. Past fiscal policies have created the current debt levels, which will shape the fiscal choices of both the interim government and future administrations. Fiscal preferences are intricately linked to political conflicts involving individuals, regions, and generations. Politicians in power have often abused the government's borrowing capacity for personal gain. They have not only accepted any foreign currency loans available but also incurred significant implicit obligations through unfunded, off-balance-sheet liabilities. The most notable examples of such borrowing include, but are not limited to, energy, transport, and banking sectors. Both external and domestic borrowing exacerbate macroeconomic vulnerabilities when they do not deliver value for money.

Debt servicing cannot be taken for granted. Revenue mobilisation has stalled, foreign exchange reserves are low, and debt service payments are increasing. A positive development, however, is the easing of monetary policies by major central banks worldwide. The Secured Overnight Financing Rate (SOFR), which serves as the base for many of Bangladesh's multilateral and bilateral loans, declined by nearly 100 basis points as the US central bank reduced its policy rate by 100 basis points since mid-September 2024. Such developments will help mitigate the rise in the interest payment burden. Bangladesh's credit ratings have recently deteriorated. Fitch downgraded Bangladesh's default rating in May 2024 due to the sustained weakening of external buffers, followed by a similar downgrade by Moody's in November 2024, making the country more vulnerable to external shocks.[158] Earlier in July 2024, S&P Global Ratings downgraded Bangladesh's long-term foreign and local currency sovereign credit ratings, citing persistent pressure on external metrics.[159]

It is better to address sovereign debt issues proactively than to allow them to worsen. Managing the increase in amortisation payments will require exploring debt renegotiations, prioritising loans with high interest rates and short maturities. Bangladesh was not eligible for the Highly Indebted Poor Country initiative in 2003 and opted not to seek debt repayment suspension under the G20 Debt Service Suspension Initiative in 2020. The country does not bear the stigma of incurring past debt distress. Transformative debt management reforms are necessary to make a credible case for renegotiations, supported by global lenders such as the IMF and the World Bank. Renegotiations would only buy time to reform fiscal institutions and practices responsible for the current discomfort. It is not a substitute for fiscal reforms.

[158] Fitch Ratings. (2024, May 27). *Fitch Downgrades Bangladesh to 'B+'; Outlook Stable.*
[159] S&P Global. (2024, July 30). *Bangladesh Long-Term Ratings Lowered To 'B+' On Elevated External Vulnerabilities, Outlook Stable.*

B. STRUCTURAL



Chapter VI. Illusive Goal of Domestic Revenue Mobilisation*

6.1 Introduction

A significant challenge facing Bangladesh is its inability to generate sufficient domestic resources to meet the financing needs for growth and poverty alleviation. This shortfall has forced the country to rely on both internal and external borrowing to fund development projects and social programmes. However, there remains substantial potential to manage domestic resource mobilisation (DRM) more effectively, thereby enhancing its impact.

Historically, Bangladesh has consistently struggled with low domestic revenue generation. The current revenue-to-GDP ratio is approximately 8%, well below the potential of a country that has experienced sustained GDP growth since 2000. Despite notable economic progress, revenue generation has not kept pace with income growth. Moreover, tax revenue as a percentage of GDP has been declining in recent years, with direct taxes accounting for just one-third of total revenue. This figure is markedly lower compared to peer nations and the average for lower-middle-income countries.

The reliance on indirect taxation presents several disadvantages compared to direct taxation. First, indirect taxes impose a higher burden to generate the same amount of revenue, exacerbating allocative inefficiency. Second, indirect taxes contribute to income inequality. Lastly, expanding direct taxation could help reduce the informal economy, thereby enhancing the collection of indirect taxes.

This chapter provides a critical analysis of the current state of revenue generation, the challenges impeding progress, and potential avenues for reform. The methodology used in this white paper on DRM involved a comprehensive review of secondary data from key national sources, including the NBR, the Ministry of Finance (MoF), and the BBS. Consultations were conducted with various stakeholders, such as NBR representatives, Finance Division officials, local government bodies, and private-sector associations. The findings were synthesised to develop and finalise recommendations for enhancing revenue mobilisation in the country.

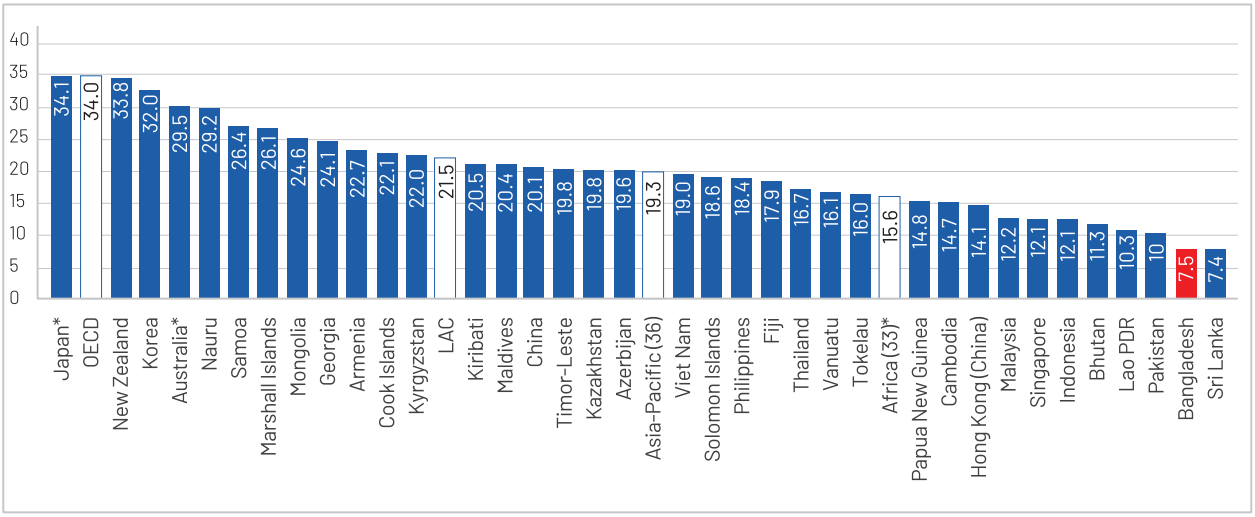
6.2 Six Stylized Facts of Domestic Resource Mobilisation

Persistent Low Tax-to-GDP Ratio

Bangladesh has one of the lowest levels of revenue generation in the Asia-Pacific region (Figure 6.1). With a tax-to-GDP ratio of 7.5%, the country ranks near the bottom, just above Sri Lanka (7.4%). In contrast, developed economies such as Japan (34.1%), Organisation for Economic Co-operation and Development (OECD) countries (34%), and New Zealand (33.8%) have much higher ratios. Several Asia-Pacific countries, including Samoa (29.5%) and South Korea (32%), significantly outperform Bangladesh. This data highlights Bangladesh's poor DRM relative to both regional and global peers.

* The chapter was prepared by Dr Mohammed Abu Eusuf, Professor, Department of Development Studies, Director, Centre on Budget and Policy, University of Dhaka; and Executive Director, Research and Policy Integration for Development (RAPID).

Figure 6.1: Tax-to-GDP ratio of Bangladesh compared to other Asian and Pacific economies and regional averages, 2022



*Data for 2021 are shown for Australia, Japan and Africa (33) average as 2022 data are not available. Note by the ADB: The ADB recognises "Hong Kong (China)" as "Hong Kong, China" and "Kyrgyzstan" as "Kyrgyz Republic". LAC refers to the average for Latin America and the Caribbean.

Source: OECD report on revenue statistics in Asia and the Pacific 2024.[160]

Bangladesh's tax-to-GDP ratio has remained substantially lower than the Asia-Pacific average between 2007 and 2022. Starting at 6.3% in 2007, it gradually increased but has consistently remained below 8%. By 2022, it reached 7.5%, reflecting only marginal improvement. In contrast, the tax revenue in the Asia-Pacific region is typically between 30% and 40%, demonstrating a significant gap in DRM between Bangladesh and its regional counterparts.

This persistent low ratio underscores Bangladesh's challenge in DRM, aligning with the global understanding that 'taxation is the price we pay for a civilised society'.[161] For sustainable development, this low tax-to-GDP ratio highlights the need for reforms to increase revenue collection, particularly from direct sources, to reduce inequality and reliance on external financing.

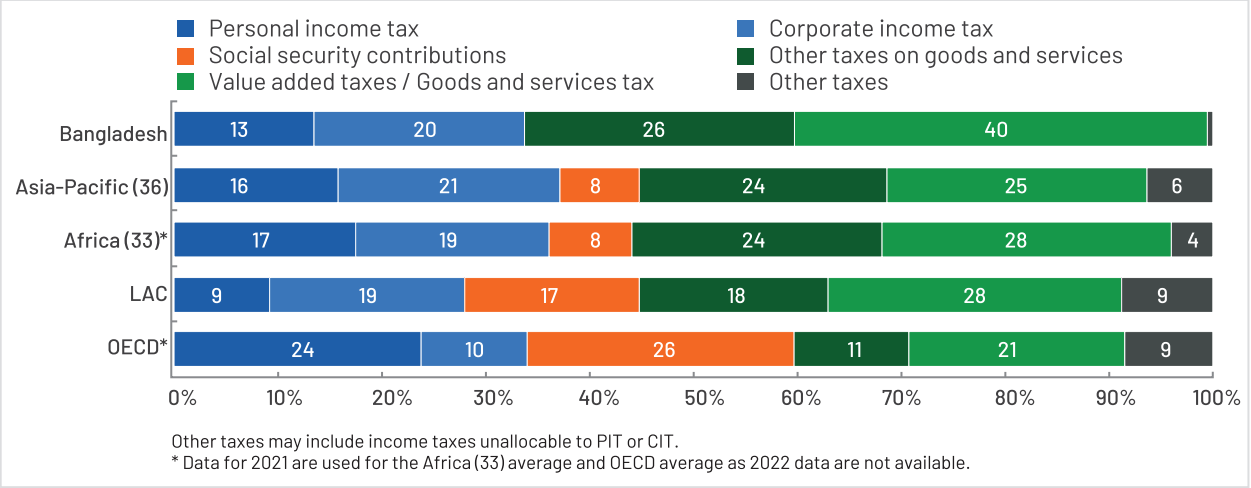
Greater Contribution of Indirect Tax to Revenues

Bangladesh's tax revenue structure is dominated by value-added taxes (VATs), which contribute 40% to total tax revenue, a higher proportion than in many other regions. Figure 6.2 compares the composition of tax revenue in Bangladesh with several regions, including Asia-Pacific, Africa, Latin America and the Caribbean (LAC), and the OECD. Corporate income tax contributes 20% in Bangladesh, which is in line with the Asia-Pacific and Africa averages, but lower than in the OECD. Personal income tax in Bangladesh stands at 13%, well below the OECD average of 24%. Notably, Bangladesh lacks significant social security contributions compared to other regions, especially the OECD (26%) and LAC (17%). This indicates a tax system heavily reliant on indirect taxes, with a comparatively smaller contribution from personal taxes than in more developed economies.

[160] Organisation for Economic Co-operation and Development (OECD). (n.d.). *Revenue Statistics in Asia and the Pacific – Bangladesh.* Retrieved from https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-tax-revenues/revenue-statistics-asia-and-pacific-bangladesh.pdf

[161] Quote Investigator. (2012, April 13). *Taxes Civilize*. Retrieved from https://quoteinvestigator.com/2012/04/13/taxes-civilize/

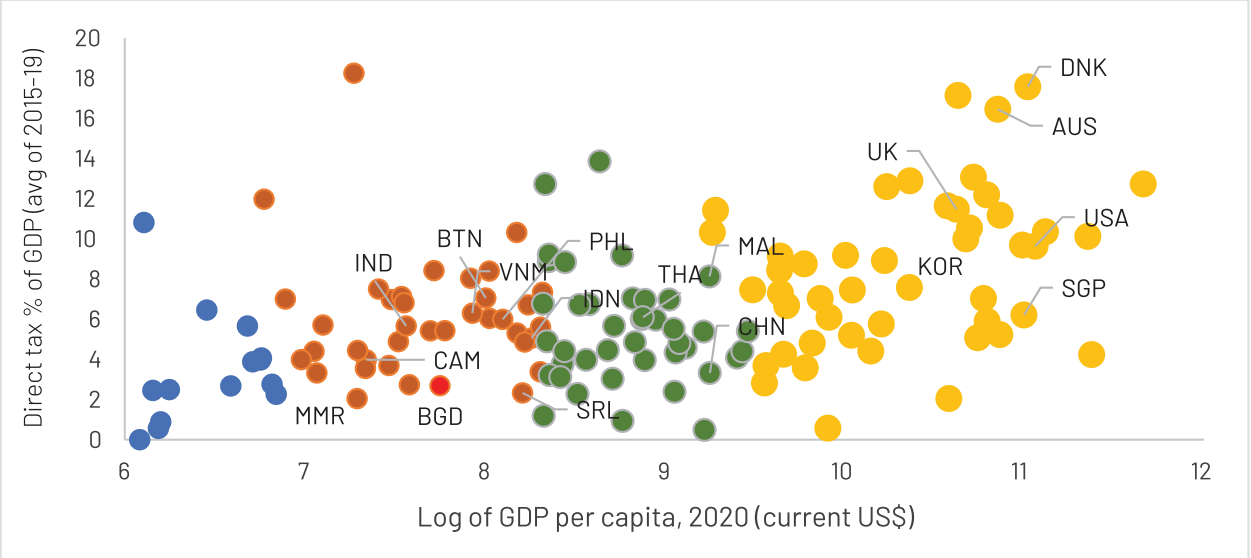
Figure 6.2: Tax structure of Bangladesh compared to the regional averages



Source: OECD report on revenue statistics in Asia and the Pacific 2024.[162]

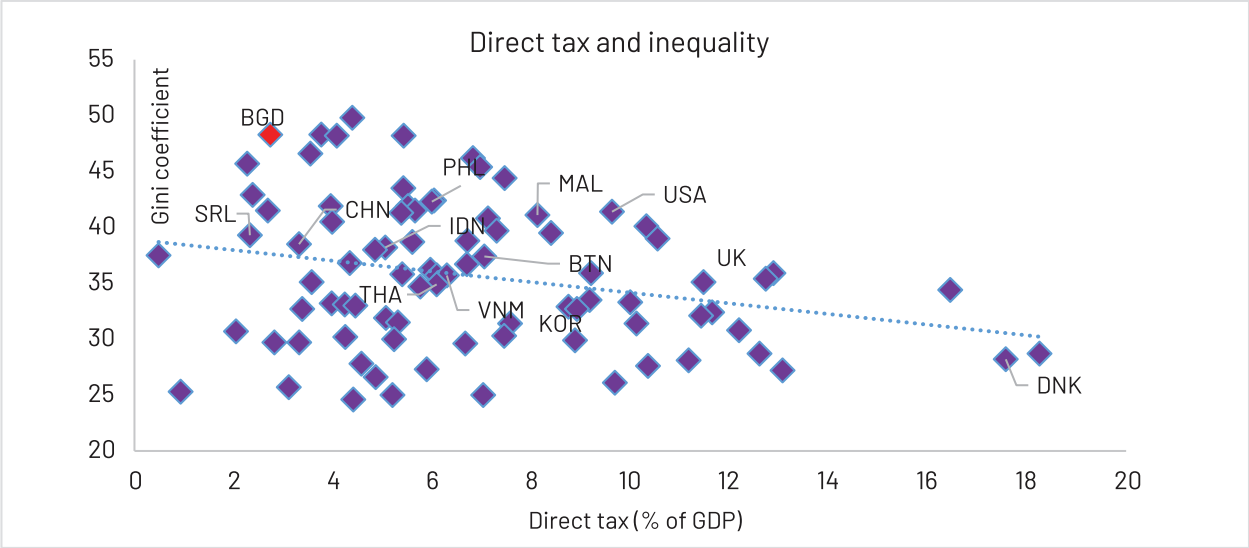
The underutilised capacity to collect more direct taxes also hampers the country's ability to address inequality. Bangladesh has one of the lowest direct tax-to-GDP ratios (Figure 6.3). Cross-country evidence suggests that increasing direct tax collection can reduce inequality (Figure 6.4). Bangladesh has performed poorly in addressing inequality through direct taxation (Razzaque et al., 2023).

Figure 6.3: Direct tax as a percentage of GDP and per capita GDP



[162] Organisation for Economic Co-operation and Development (OECD). (n.d.). *Revenue Statistics in Asia and the Pacific – Bangladesh.* Retrieved from https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-tax-revenues/revenue-statistics-asia-and-pacific-bangladesh.pdf

Figure 6.4: Cross-country comparison of direct tax and inequality



Source: Razzaque et. al (2023)[163]

Low Tax Net

Bangladesh's tax net—the total number of individuals or entities eligible to pay taxes—remains very small. According to the NBR, as of June 2024, there were 1.04 crore Taxpayer Identification Numbers (TINs), yet only 43 lakh tax returns were filed, a 22% increase compared to the previous year (Figure 6.5).[164] This means that nearly 59% of registered individuals did not file their tax returns for the 2023-24 fiscal year. NBR data also reveals that 2 lakh TIN holders have passed away, and 3 lakh individuals obtained TINs for migration purposes.

Although the number of registered taxpayers continues to rise, the submission of tax returns has not kept pace with the country's economic growth.[165] As a result, the collection of taxes necessary for public expenditure falls short of its potential.

Many firms registered as companies have become inactive. The NBR identified approximately 1.37 lakh inactive companies listed under the Registrar of Joint Stock Companies and Firms, with many individuals obtaining TINs to secure trade licences (TLs), only for these firms to later become dormant.

It is important to note that an official estimate of the tax gap—the difference between actual tax revenue collected and the potential tax revenue that could be mobilised if full compliance were achieved—is currently unavailable.[166]

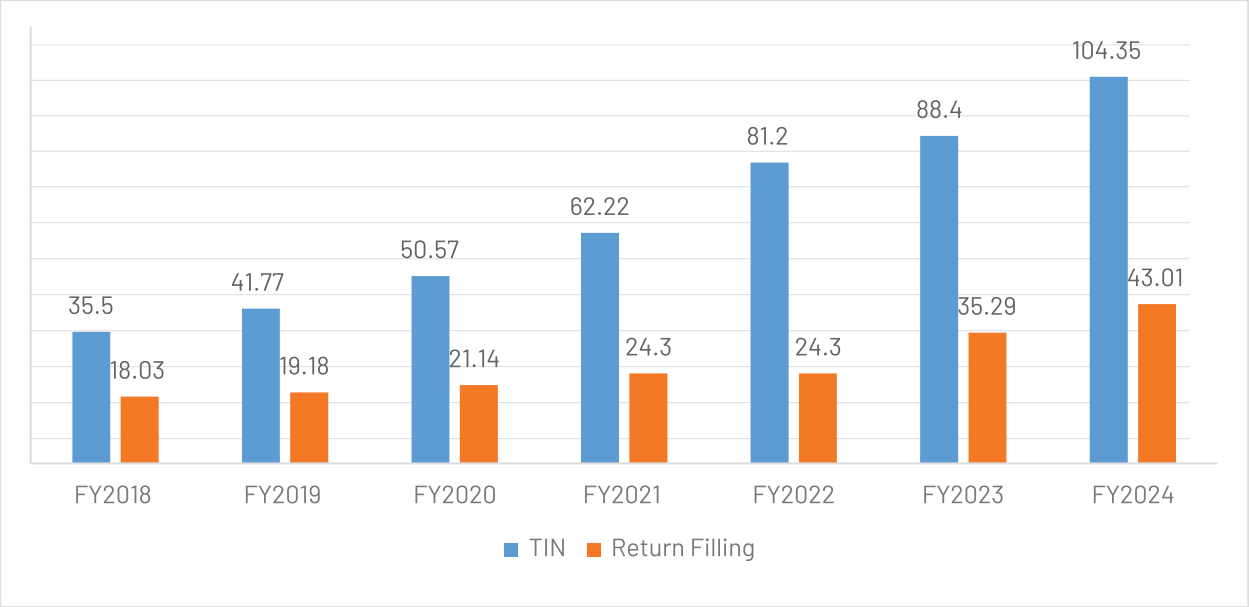
[163] Razzaque, M. A., et al. (2023, January). [*Working Paper*]. Retrieved from https://www.theigc.org/sites/default/files/2023-10/Razzaque%20et%20al%20Working%20paper%20January%202023.pdf

[164] 59% of TIN Holders in Bangladesh Do Not File Tax Returns. *Nearly two-thirds of TIN-holders do not submit tax returns.* (The Daily Star). Retrieved from https://www.thedailystar.net/business/news/nearly-two-thirds-tin-holders-dont-submit-tax-returns-3666011

[165] An analysis revealed a significant decline in the ratio of households capable of paying income taxes to those actually doing so, from 16.37% in 2005 to 10.04% in 2010 (Khan, Kamal, & Talukdar, 2019). Given that this data is now outdated, a new assessment is essential to determine the current gap between eligible taxpayers and those fulfilling their tax obligations. Nevertheless, the marked decline highlighted in the analysis raises important policy concerns, emphasising the need for a deeper understanding of the factors influencing household-level tax compliance.

[166] According to the UNESCAP *Economic and Social Survey of Asia and the Pacific 2024*, Bangladesh's additional tax potential is approximately 2% of GDP. This estimate is likely an underestimate, given the country's growing economy, high degree of informality, and challenges in tax collection.

Figure 6.5: Taxpayer identification numbers (TINs) and return filings in Bangladesh (in lakh)



Source: National Board of Revenue as reported in The Daily Star.[167]

High Direct Tax Expenditure, and Value-Added Tax Gap

Direct tax expenditure has decreased slightly in recent years, yet it remains heavily influenced by political and business interests, often without evidence-based policy analysis. 'Direct Tax Expenditure' refers to tax subsidies, such as rebates, exemptions, reduced tax rates, and the exclusion of certain income from taxable income. If these subsidies were collected as taxes, overall tax revenue would rise substantially.

According to the budget speech for FY2024-25, direct tax expenditure for FY2021-22 was estimated at Tk 1,15,616 crore, with Tk 71,954 crore attributed to companies and Tk 43,662 crore to individuals. This expenditure accounted for 2.91% of GDP for FY2021-22, compared to 3.56% in the previous fiscal year. While all countries experience some level of tax expenditure, the situation in Bangladesh is two-fold: such expenditures often lack time-bound limits, and there is no effort to estimate their benefits or assess whether these incentives have generated additional government revenue.

An analysis by the World Bank (2024a) indicates that Bangladesh faces a significant VAT gap—the difference between potential and actual VAT revenue collected. In FY2019, the VAT gap was estimated at Tk 2 trillion, more than double the actual VAT revenue of Tk 850 billion.[168] This gap is primarily driven by policy distortions, such as exemptions, reduced rates, and high registration thresholds, which accounted for 69% of the total gap, while the remainder stemmed from compliance issues. Bangladesh's compliance gap is notably large compared to other countries, with 42% of potential revenue remaining uncollected, highlighting systemic inefficiencies in VAT collection. A VAT gap analysis (World Bank, 2024a) suggests that if policy and compliance gaps were addressed, Bangladesh could collect more than three times its current VAT revenue.

[167] 59% of TIN Holders in Bangladesh Do Not File Tax Returns. Nearly two-thirds of TIN-holders do not submit tax returns. (The Daily Star). Retrieved from https://www.thedailystar.net/business/news/nearly-two-thirds-tin-holders-dont-submit-tax-returns-3666011

[168] The latest VAT Expenditure Study Report by the NBR indicates that total VAT expenditure amounted to 3.26% of GDP in 2022, a significantly large figure when compared to both NBR and VAT revenue.

Low Non-tax Revenue

Non-tax revenue as a share of GDP declined from 1.5% in FY14 to 0.9% in FY19 (Figure 6.6). It increased in FY20 and FY21, bolstered by a new law allowing the transfer of idle funds from state-owned enterprises to the government exchequer. Despite this increase, non-tax revenue fell back to 0.9% of GDP in FY23, remaining lower than in most comparable countries (Figure 6.7). In Bangladesh, primary sources of non-tax revenue include dividends, profits, interest, tolls, levies, and various administrative and service fees. Preliminary data from the MoF indicate strong growth in non-tax revenue during the first quarter of FY24 (World Bank, 2024a).

Figure 6.6: Non-tax revenue over time (% of GDP)

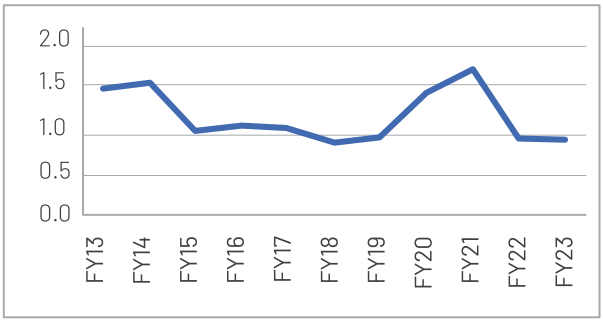
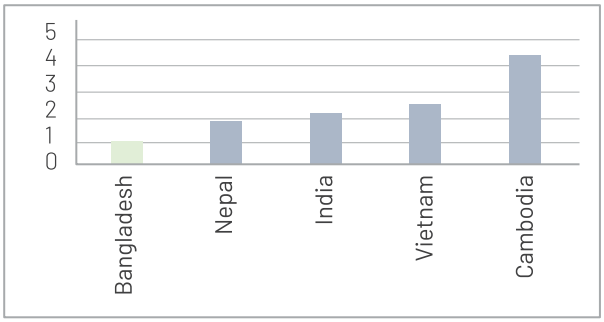


Figure 6.7: Non-tax revenue relative to others (% of GDP)

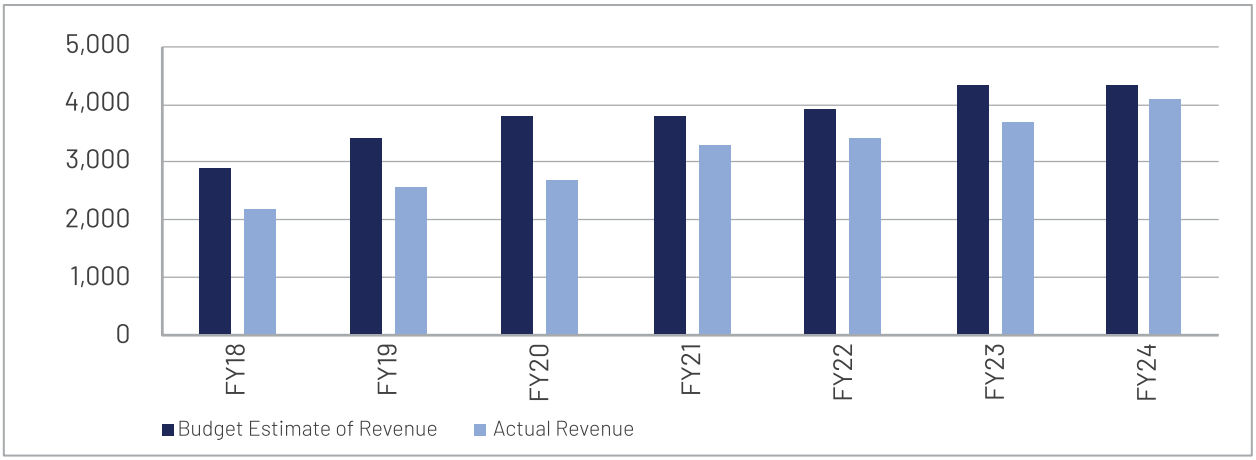


Source: Ministry of Finance data as reported in World Bank (2024a)

Persistent Shortfall in Achieving Revenue Targets

Total revenue collection has consistently fallen short of fiscal year targets. For instance, the NBR was given an ambitious tax target of BDT 4,300 billion for FY24, 22% higher than the provisional FY23 collection. However, revenue collections have regularly fallen below budgeted targets (Figure 8). The average annual shortfall between FY18 and FY22 was Tk 749 billion (2.4% of GDP). The main contributors to these shortfalls are VAT and supplementary duty collections (World Bank, 2024b).

Figure 6.8: Budget estimate vs. actual total revenue collection



Source: Ministry of Finance data as cited in World Bank (2024b)

Additionally, Bangladesh experiences substantial revenue losses due to illicit capital outflows through various channels. This has significant implications for revenue generation, as highlighted in Chapter 20 of the White Paper on illicit financial flows (IFFs).

6.3 What Factors Constrain Domestic Resource Mobilisation?

Bangladesh's stagnant tax-to-GDP ratio, which hovers around 8% despite rapid economic growth, underscores a significant challenge. Although per capita income has increased significantly, tax collection remains far below that of countries with similar income levels. Key factors that constrain DRM include:

Reform Struggles Due to Political and Business Elite Resistance: Despite the inclusion of tax reforms and digitalisation in successive plans, such as the 7th and 8th FYPs, the pace of reforms has been slow. This is largely due to a political economy where powerful lobbies, political elites, and business interests resist changes to the status quo. Notably, the 7th FYP aimed to raise the revenue-GDP ratio from 10.9% (in 2015) to 16.0% by the end of the plan period. However, the drive for digitalisation has been slow, primarily due to these same vested interests. The informal and discretionary tax system benefits these groups, making reform difficult. The success of the 1991 VAT reform contrasts with later failures, highlighting the need for strong political support, technical preparation, and stakeholder ownership in tax reforms.

Fragmented Automation: The partial automation of the NBR's tax collection system significantly hampers revenue generation, deepening inefficiencies and fostering non-compliance. A key issue is the lack of integration between the NBR and other relevant government agencies, which limits the effectiveness of the tax system. Although the NBR has introduced some automated systems for tax filing and payment, these efforts are fragmented and not fully integrated with institutions such as BB, the MoF, and the Registrar of Joint Stock Companies. This siloed approach prevents the NBR from accessing real-time data on individuals and businesses, hindering its ability to track income, monitor business activities, and prevent tax evasion. Without a comprehensive view of a taxpayer's financial activities, the NBR is vulnerable to underreporting, false declarations, and fraud.

Corruption and Weak Governance Undermine Tax Revenue: Low tax revenue in Bangladesh is largely driven by weak governance, widespread corruption, and a lack of public trust in the use of tax revenue. Corruption, particularly in tax administration, leads to widespread tax evasion and poor compliance. The NBR's reluctance to accept development partners' support for digitalisation further exacerbates the issue. Weak local governance and limited fiscal decentralisation hinder public service delivery, which discourages citizens from paying taxes. Despite growing public demand for better services, the centralised system and resource constraints have prevented substantial improvements. While there have been some efforts towards tax reform and public consultation, implementation has been hindered by political and administrative challenges. Strengthening local institutions, improving governance, and enhancing service delivery could improve tax mobilisation.

Governance Issues and Tax Reform Stagnation: Governance problems further impede tax reform and administration, contributing to low tax compliance. Since the introduction of VAT in 1991, major reforms have stalled, with initiatives such as the 2011 Tax Modernisation Plan and the 2012 VAT Law facing implementation challenges. These efforts, influenced by political interests, have lacked the necessary support and technical foundations, limiting their success and leaving the tax system inefficient.

The absence of comprehensive tax reforms has contributed to Bangladesh's weak revenue performance. While the 1991 VAT reform succeeded, subsequent attempts, such as customs duties reform and VAT expansions, faced opposition and were poorly implemented. Efforts like the 2011 and 2012 reforms failed to modernise the tax system, which remains outdated and ineffective in generating sufficient revenue.

Arbitrary Revenue Targets: Revenue forecasting and target setting in Bangladesh lack an evidence-based approach. The Finance Division arbitrarily sets annual revenue targets without meaningful consultation with the NBR. The philosophy driving this approach seems to be that higher targets will lead to higher revenues, though this has not been the case.

Ad-Hoc Changes to Tax Laws: Frequent ad-hoc changes to tax laws through Statutory Regulatory Orders (SROs) undermine transparency and predictability, distorting trade and reducing revenue. The NBR has been compelled to issue SROs in response to directives from the MoF, often influenced by business groups and high-level government officials. For example, many business conglomerates reportedly received tax exemptions based on political considerations. These practices have favoured politically connected groups, weakened the tax base, and enabled corruption. The excessive use of SROs has become a tool for distributing political favours, undermining the effectiveness of Bangladesh's tax policies. While not exhaustive, Table 6.1 provides a brief overview of exemptions granted to selected large conglomerates.

Table 6.1: Income tax exemptions granted to selected large conglomerates

Conglomerate Name	Industry Sector	Tax Exemption Type	Company Name and Beginning year of exemption	Exemption Period	Exemption Amount/ Percentage	Comments/ Additional Info
Summit Group	Liquefied Natural Gas (LNG) Terminal Operation	Income Tax Exemption	Summit LNG Terminal Co (PVT) Limited 2018	15 years	100%	Exemptions on project income, income earned by foreigners, royalties, technical know-how fees, technical assistance fees, capital gains from the transfer of shares, and tax on foreign interest loans, provided the taxpayer maintains accounts and submits income tax returns.
	Power Plant (Operating on non-coal-based fuel) Total 15 power plants in Bangladesh	Income Tax Exemption	1. Ashulia Power Plant I- Sep 1, 2003 2. Chandina Power Plant I-Sep 1, 2003 3. Madhabdi Power Plant I-Sep 1, 2003 4. Chandina Power Plant II-Nov 14, 2006 5. Madhabdi Power Plant II-Dec 16, 2006 6. Ashulia Power Plant II- Dec 3,2007	Each of the 15 powerplants is enjoying tax exemption starting from the Commercial Operation Date	100%	Exemption on income from power generation, income earned by foreigners for three years from their arrival in Bangladesh, tax on foreign interest loans, royalties, technical know-how fees, technical assistance fees provided by the company, and capital gains from the transfer of shares, subject to compliance with the Income Tax Act,

Conglomerate Name	Industry Sector	Tax Exemption Type	Company Name and Beginning year of exemption	Exemption Period	Exemption Amount/ Percentage	Comments/ Additional Info
			7. Ullapara Power Plant- March 2, 2009 8. Maona Power Plant- May 11, 2009 9. Rupganj Power Plant- June 9, 2009 10. Jangalia Power Plant- June 25, 2009 11. Narayanganj Power Plant I- April 1, 2011 12. Narayanganj Power Plant I I- February 29, 2016 13. Barisal Power Plant- April 5, 2016 14. Gazipur II Power Plant- May 10, 2018 15. Gazipur II Power Plant- July 12, 2018			2023, and the Private-Sector Power Generation Policy of Bangladesh.
S Alam Group	Energy	Income Tax Exemption	SS Power I Limited 2019	Ongoing	100%	Exemption on tax on fees arising from loans provided to SS Power 1 Limited by lenders.
	Power Plant (Operating on coal-based fuel)	Income Tax Exemption	Banshkhali Power Plant- September, 2023	15 Years	100%	Exemption on income from power generation, income earned by foreigners for three years from their arrival in Bangladesh, tax on foreign interest loans, royalties, technical know-how fees, technical assistance fees provided by the company, and capital gains from the transfer of shares, contingent upon adherence to the Income Tax Act, 2023, and the Private-Sector

Conglomerate Name	Industry Sector	Tax Exemption Type	Company Name and Beginning year of exemption	Exemption Period	Exemption Amount/ Percentage	Comments/ Additional Info
						Power Generation Policy of Bangladesh.
Walton Group	Refrigerator, motorcycle and air conditioner manufacturer	Income Tax Exemption	Walton Hi-Tech Industries PLC 2009	12 years	95%	Exemption on income from the manufacturing of refrigerators, motorcycles, and air conditioners.
	Hi-Tech Park	Income Tax Exemption	Walton Hi-Tech Industries PLC 2022 Walton Digitech Limited 2021	10 years	First 7 years 100% Next 3 years 70%	Exemption on income from business operations in Hi-Tech Parks.
Beximco Group	Sukuk Bond	Income tax Exemption	2021	Ongoing	100%	Exemption on SUKUK-related income of the Special Purpose Vehicle (SPV), provided the SPV complies with the provisions of the Income Tax Act. Transactions between the originator and SPV concerning SUKUK are exempt from tax withholding, subject to adherence to the provisions of the Income Tax Act.

Source: NBR.

Bangladesh's personal income tax system faces challenges including low compliance, excessive exemptions, and inefficient administration. Despite rising per capita income, personal income tax revenue remains low at just 1% of GDP. Tax evasion is prevalent, particularly among high earners, driven by corruption, political connections, and informal arrangements with tax collectors. Efforts to increase taxpayer registration have had limited success, with burdensome filing requirements, such as wealth statements, further discouraging compliance.

Corporate tax compliance is similarly low, with many businesses, especially small enterprises, operating informally. Tax evasion is widespread, facilitated by political connections and informal settlements with tax officials. The tax system is complex, with varying rates across sectors, and high rates in areas such as tobacco and telecommunications discourage investment. Fear of harassment by tax authorities also compels businesses to remain informal, limiting tax revenue.

The VAT system is inefficient, characterised by low compliance and numerous exemptions. Despite reforms, including the introduction of a new VAT law, the system underperforms, with a compliance rate of only 12%. Administrative challenges, such as multiple registration systems, burdensome audits,

and the absence of a fully computerised system, hinder VAT's effectiveness in generating revenue. Progress in implementing Electronic Fiscal Devices (EFDs) and Sales Data Controller (SDC) units has been slow, with the vendor, Genex Infosys Ltd., selected through political means and bound by a vague agreement. The vendor failed to meet contract terms and was not held accountable for poor execution (see Table 6.2).

Table 6.2: Poor implementation of Electronic Fiscal Devices (EFDs) and Sales Data Controller (SDC) initiative

Terms of contract	Implementation progress
Initially, 20,000 businesses have been registered, with a target to increase this to 60,000 through the installation of EFD and SDC units. By FY23, an additional 30,000 installations are planned, with a further 60,000 installations targeted by FY24.	To set up 60,000 EFD machines, 42,235 BIN (business identification number) information was provided. However, only 11,313 machines have been set up. 4,662 machines are in stock, but 757 shops have closed, and 2,550 businesses have refused installation. The vendor claimed 195 SDCs were set up, but in reality, only 97 were installed. Despite 7,958 machines in stock, none were set up. Machines already installed suffer from synchronisation issues, with only 19% progress made.
Provide a recorded tutorial for future training.	No data was found on recorded tutorials.
Provide training to taxpayers on the proper use of machines.	While some markets held awareness sessions, no formal training was provided as per the list.
Provide training to each device user in six-hour sessions over three-day batches.	No training was provided to device users. Only the installation process was explained.
Human resource development with SMART (Specific, Measurable, Achievable, Realistic, and Time-bound) task completion planning. **Preparation of a vigilance plan for regulating tax collection using EFDs/SDCs.**	Information on human resource development has been provided, showing a total of 144 personnel across various institutions. However, only 106 personnel are responsible for overseeing 11,410 institutions, with one employee for every 79.26 institutions. Vendors lacked the necessary expertise for the assigned work. Additionally, the number of appointed personnel was insufficient, and proper training was not provided to users of the EFDs and SDCs. No SMART planning was conducted for the expansion of the machines, and information regarding the preparation of a vigilance plan to monitor irregularities could not be obtained.
The vendor will handle the preparation and preservation of all team documents, including frequently asked questions, surveys, and reports.	No information was found on FAQs or survey reports.
The vendor will present a plan for supervision and human resource development.	No plan for supervision or human resource development was provided by the vendor.
Using vigilance measures, collect information on tax collection issues through EFD/SDCs and inform the commissioner for legal action.	No such information was submitted to the commissioner. However, the commissioner's office found that representatives from certain organisations had issued numerous challans to businesses. EFDMS data shows that more tax was collected through returns than expected.

Source: National Board of Revenue.

The customs system is better managed compared to other taxation systems in Bangladesh, employing modern tools such as the Automated System for Customs Data (ASYCUDA) and simplified clearance processes. However, tax evasion remains a concern due to collusion between importers and customs officials, leading to revenue losses. High transaction costs and delays at ports further increase business costs, negatively affecting private investment.

The NBR faces substantial capacity constraints, lacking both autonomy and expertise in tax policy analysis. The research and statistics wing is particularly affected, with limited capacity to undertake analytical work. Additionally, traditional job rotation practices hinder institutional memory retention. Frequent leadership changes and the lack of a clear separation between tax policy and administration have impeded meaningful reforms. The NBR's focus on enforcement rather than fostering voluntary compliance has limited the effectiveness of its revenue collection efforts.

The process for appointing the Chairman of the NBR presents significant challenges to effective administration and governance. Historically, NBR Order 1973 required the Chairman to be selected from NBR members. However, in 1979, an ordinance allowed the Chairman to be appointed from government secretaries. Such appointments have created problems within the NBR administration, as the appointees often lack familiarity with the complexities of the institution's operations, hindering their ability to implement strategic reforms. Furthermore, the Chairman's tenure is structured in a way that prioritises short-term objectives, such as quick gains, over long-term, sustainable reforms. This focus on immediate results undermines the potential for meaningful, systemic improvements within the NBR's revenue administration framework.

6.4 Key Messages

For tax reform to succeed, it is not only about policy but also overcoming political and bureaucratic resistance and addressing corruption.[169] Bangladesh's tax collection challenges reflect a deeper issue: reforming the system requires dismantling decades of political influence and a culture of favouritism. The path to greater DRM lies in improved governance and stronger institutions. The key messages from this chapter, which examines the state of DRM, are as follows:

Digitalisation is delayed and fragmented under the current political economy: powerful elites and vested interests block the reforms necessary to modernise the tax system through digitalisation and integration, preventing the realisation of its growth potential.

Integrated digitalisation and automation must be prioritised to modernise tax administration, reduce errors, and streamline compliance. The following actionable measures are suggested:

- ***Investment in Automated Compliance and Enforcement Systems:*** A critical step is allocating funds specifically for the development of a comprehensive, automated tax compliance system within the NBR. This system would automate reminders, penalties, and audit flags for TIN holders, ensuring that all registered individuals and entities comply with tax laws. The budget should earmark funds for automation initiatives, such as electronic Tax Deduction at Source (e-TDS), to streamline tax deductions and improve the accuracy of income tax collection.
- ***Funding for Risk-Based Audit Systems:*** High-risk sectors such as real estate, wholesale trade, and import-export often experience higher rates of non-compliance. The government should allocate funds to implement a centralised, risk-based audit system, enabling NBR to conduct data-driven audits in sectors with higher evasion risks. This audit system should minimise manual interventions, thereby enhancing efficiency and accuracy.
- ***Infrastructure Development for Digital Tax Management:*** Allocating funds for the establishment of an integrated digital tax data management system will enable NBR to centralise taxpayer records and create a unified database accessible across agencies. This system should allow for real-time updates to facilitate tax filing, payment, and compliance monitoring.

[169] Some instances of exemplary tax reform initiatives can be found in Razzaque et. al (2023).

Tax evasion remains widespread. Building digital data-sharing capabilities across government agencies can improve compliance tracking and identify tax evaders. The following measures should be implemented immediately to facilitate inter-agency data interoperability:

- ***Investment in Data-Sharing Infrastructure:*** Allocating funds to support infrastructure for inter-agency data-sharing between NBR, banks, telecom providers, and other entities will improve taxpayer data accuracy. This infrastructure will enable NBR to cross-check taxpayer data with third-party sources, identify non-compliance patterns, and enhance audit effectiveness.
- ***Third-Party Data Integration:*** Funds should also support initiatives that integrate data from third-party sources, such as credit bureaus or mobile payment platforms, enabling NBR to cross-reference taxpayer information with transaction data. This integration will enhance the government's ability to identify tax evasion and expand the tax base.

Policy instability through exemptions hinders revenue collection: Frequent changes to tax laws through SROs benefit politically connected groups, undermining fairness and transparency. Reviewing and rationalising tax exemptions will increase Bangladesh's tax-to-GDP ratio. The following initiatives should be considered:

- ***Establish a Tax Exemption Review Mechanism:*** Allocating funds for a review board within the MoF to periodically assess the effectiveness of existing tax exemptions is essential. This board should conduct cost-benefit analyses to determine which exemptions contribute to economic growth and which can be rationalised.
- ***Gradual Phasing Out of Ineffective Exemptions:*** Using insights from the review board, NBR should propose a phased reduction of exemptions in sectors where they do not meet their intended economic objectives. The revenue saved from these exemptions can be reinvested into sectors that require support, thereby maximising revenue potential.

The NBR's lack of evidence-based decision-making and capacity constraints must be addressed urgently. Revenue targets and tax policies are often set arbitrarily by the Finance Division without consultation with the NBR or reliance on data-driven insights, resulting in unrealistic goals and ineffective tax collection strategies. NBR's capacity constraints, including human resource shortages and the short tenure of its chairman, remain significant concerns. Strengthening NBR's capacity through increased staffing, advanced analytics, and longer leadership tenures will improve administration effectiveness. Immediate action is needed in the following areas:

- ***Staffing and Training Budget for NBR:*** NBR requires additional staff and ongoing training in digital tax systems and compliance enforcement. The upcoming budget should include provisions for hiring compliance officers, auditors, and data analysts, as well as continuous technical training to keep staff updated on emerging best practices in tax administration.
- ***Advanced Analytics and Surveillance Tools:*** Allocate funds for advanced analytics tools, including artificial intelligence (AI) and data analysis software, to support NBR in identifying and monitoring potential tax evasion cases. This technological investment will enhance NBR's ability to detect tax evasion patterns and target non-compliant entities effectively.
- ***Ensure Longer Tenures for NBR Leadership:*** Establishing a minimum tenure of at least three years for the NBR chairman will promote policy continuity, enabling effective implementation of multi-year reform plans and reducing politically motivated leadership changes. This can be achieved by reinstating the 1973 NBR order.

Taxpayer reluctance stems from a lack of trust in the system. Proactive efforts must be directed towards increasing taxpayer education, awareness, and sensitisation. Educational campaigns, delivered through media and local events, can inform taxpayers of their responsibilities, helping to drive voluntary compliance in a cost-effective and scalable manner. Immediate measures to increase awareness include:

- ***Public Awareness Campaigns for Taxpayer Education:*** Taxpayer education is essential to increase voluntary compliance. The forthcoming budget should allocate funds for extensive public education campaigns across media, local events, and digital platforms to inform individuals and businesses about their tax obligations. These campaigns can demystify the tax process and encourage accurate registration and filing.

- ***TIN Registration Expansion Programme:*** Allocate funds to support TIN registration campaigns targeting urban centres and high-income regions. This programme should focus on registering all adults, particularly those reaching the age of 18, with a universal Tax Identification Number. Outreach programmes in major economic zones (EZs) and urban areas will increase the proportion of the population participating in the formal tax system and broaden the tax base.

In addition to the above, various short-, medium-, and long-term recommendations are provided in Annexe 6A to this chapter, while Annexe 6B presents a case study on South Korea's initiatives to enhance domestic revenue mobilisation.

Chapter VII. Public Investment: The Roots of Corruption*

7.1 Introduction: The Critical Role of Public Goods in Bangladesh's Economic Growth

In countries like Bangladesh, ensuring the availability and quality of public goods is essential for sustainable economic growth. Services such as infrastructure, education, healthcare, and clean water are integral to fostering an environment conducive to economic activity and improving citizens' quality of life. At the macro level, public investment promotes economic growth, investment, and aggregate productivity, while at the micro level, it helps reduce poverty and smooth income distribution (Anderson et al., 2006). Ultimately, however, it is the selection of public investment projects that proves crucial to achieving these objectives.

A reliable supply of public goods is fundamental for economic stability and attracting private investment. Inadequate public goods increase perceived risks, deterring potential investors. High-quality infrastructure—such as roads, railways, ports, energy, and telecommunications—facilitates trade and connectivity. Insufficient infrastructure raises costs and causes delays, discouraging business investment. Likewise, a well-educated workforce is vital for fostering innovation and productivity. Public investment in education equips citizens with the skills necessary for the labour market, attracting industries requiring skilled workers. In contrast, inadequate education systems result in skill shortages, hindering businesses' capacity to operate effectively.

In recent decades, Bangladesh has seen a significant increase in public investment, particularly in infrastructure projects such as bridges, roads, electricity, highways, expressways, and urban transportation. These projects have been primarily financed through public debt, including foreign and domestic sources, as well as multilateral and bilateral loans. As a result, Bangladesh's cumulative domestic debt has risen to $155 billion (or ৳17,050 billion), with 60.73% domestic and 39.27% foreign (Finance Division, 2023), translating to a per capita debt of ৳98,554. This substantial fiscal burden raises concerns about the prudence of such public investment in the country's economic development.

This chapter examines the patterns of public expenditure by the GoB over the past decade, exploring the strategies, scale, and roles of government officials, politicians, and other stakeholders in contributing to a corruption crisis that has led to Bangladesh's low ranking on the global corruption index.

7.2 Share of Public Expenditure in Selected Countries

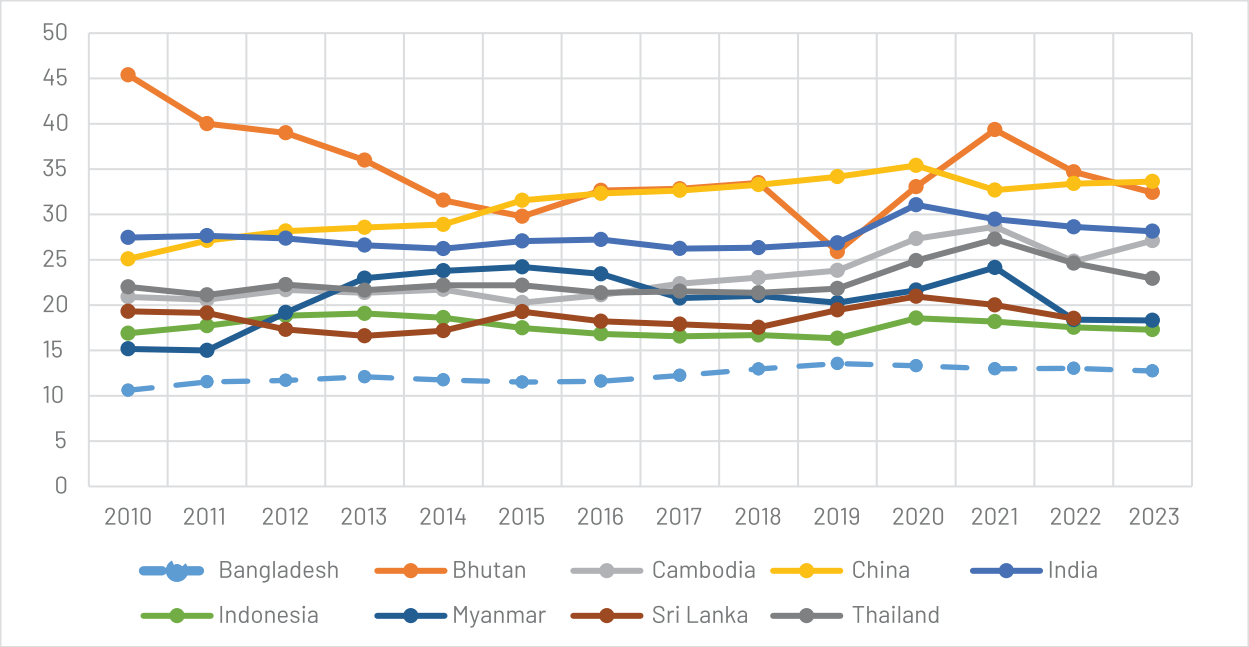
Many believe that Bangladesh has adopted an aggressive strategy to expand its public sector investments in recent years, undertaking mega projects such as the Padma Bridge, a nuclear power station, the Dhaka metro rail, and tunnels in Chattogram. While the country's recent public expenditure growth has often been described as 'breaking historic records', it is important to recognise that Bangladesh's public spending remains significantly lower than that of many of its competitors.

* The chapter was prepared by Professor A K Enamul Haque, Deputy Vice Chancellor, UCSI University, Bangladesh Branch, and Director, Economic Research Group, Dhaka. Data support was provided by Mr Estiaque Bari, Senior Lecturer, Department of Economics, East West University, and Mr Robart Shuvro Guda, Analyst, PwC Bangladesh.

Figure 7.1 illustrates trends in public expenditure across selected Asian countries, revealing that Bangladesh lags behind other major Asian economies. This disparity suggests that Bangladesh's public expenditure is neither excessive nor overly ambitious; rather, it is relatively low, ranking lowest among comparable Asian nations. The country's inability to allocate more funds highlights the importance of managing public expenditure efficiently to maximise returns on limited investments. This approach is crucial for maintaining competitiveness in export markets.

Inefficiencies in public expenditure arise from the misuse and mismanagement of funds, alongside weak and opaque governance, which have likely exacerbated the country's economic challenges. Thus, a thorough analysis and a focus on improving the effectiveness of public spending in Bangladesh are necessary.

Figure 7.1: Trend in the ratio of government expenditure to GDP (selected Asian economies)



Source: World Economic Outlook data, 2023 (IMF).

7.3 Surge in Public Investment, Fiscal Burden and Impact on Private Investment

As Bangladesh's public expenditure surged to unprecedented levels, an analysis of non-development public expenditure reveals a notable increase in salaries and allowances since the fiscal year 2015–16. Many believe that these salary increases were intended to appease the bureaucracy that assisted the government in rigging the 2014 election. However, with a low tax-GDP ratio and escalating public debt, interest payments on loans have risen sharply since 2017–18, surpassing the government's spending on salaries and allowances.

Economic crises and political unrest led to public agitation. Allegations of corruption in public spending grew, prompting the government to adopt restrictive measures. This included limiting the Right to Information (RTI) Act and invoking the Digital Security Act, under which over 7,000 cases were filed between 2018 and 2023 (CGS, 2024), reducing government transparency. These measures concentrated power within the executive, diminishing accountability and fostering corruption. Additionally, requiring the Prime Minister's approval to prosecute government officials under the Anti-Corruption Act further shielded officials from accountability.

A Transparency International Bangladesh (TIB) survey in 2021 revealed rising corruption, with 70.9% of households reporting corruption in public services. Law enforcement, the Passport Office, and the Road Transport Authority were particularly corrupt, with 56.8% of respondents citing judicial corruption and 48.7% in public health. The rise in corruption, from 66.5% in 2017 to 70.9% in 2021, led to bribes amounting to BDT 1.83 billion—5.9% of the 2020–21 government budget—indicating widespread corruption, even within the judiciary (Bertelsmann Stiftung, 2024).

In the 2010s, Bangladesh aimed for robust economic growth, launching its Vision 2021, which set targets of 7.4% annual growth according to the 7th FYP and 8.5% in the 8th Plan. This growth was expected to be driven by infrastructure investments, which would spur private-sector investments. However, rising corruption, the COVID-19 pandemic, and economic slowdowns resulted in stagnation by late 2022. Although GDP growth reached 6.94% in 2020–21, anticipated growth rates for subsequent years were not achieved, leading to slower employment growth and rising unemployment among educated youth.

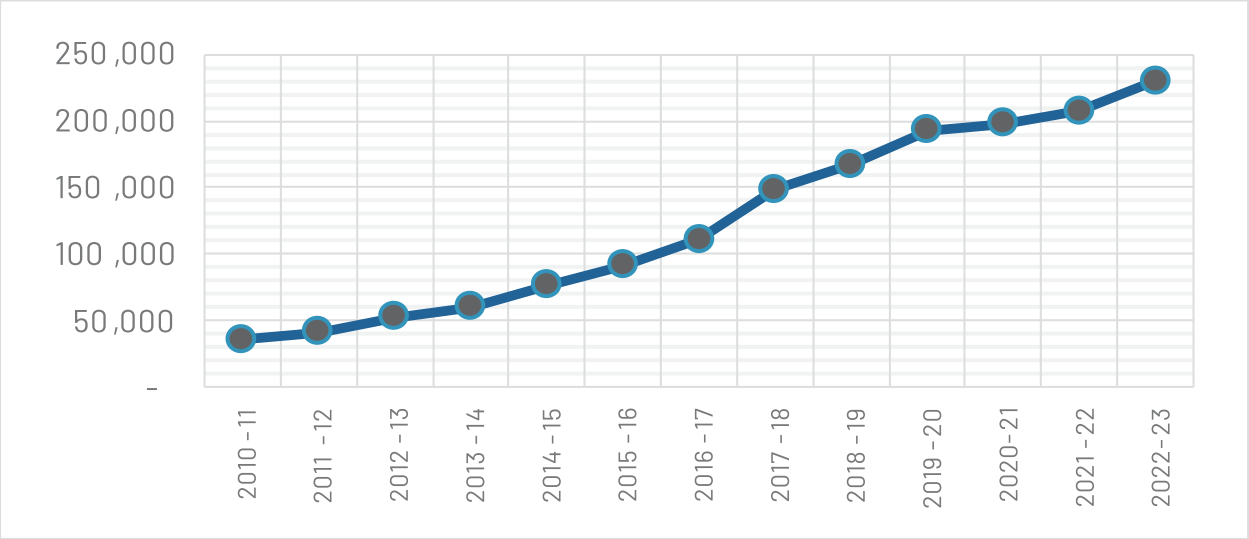
A report highlighted that unemployment among tertiary-educated youth rose from 9.7% in 2013 to 27.8% in 2022 (Star Business Report, 2024), as many struggled to find suitable jobs. This 'jobless growth' was exacerbated by government job quotas that limited opportunities for graduates. Growing discontent led to student protests in July 2024, culminating in the government's ousting. This diagnostic study aims to reassess the state of the economy and propose corrective measures.

Pattern of Public Expenditure and Issues

To address this dilemma, we analyse the trend and pattern of the GoB's development expenditure over the past decade. A prominent theme during this period was the emphasis on large-scale infrastructure projects designed to facilitate development and transition Bangladesh from its LDC status. This focus has formed the central narrative of the government's growth strategy.

As shown in Figure 7.2, public expenditure, in terms of the revised ADP, is presented from 2010 to 2023. It reveals an average annual growth rate of 6.6% in ADP, with the total public expenditure in 2023 being approximately 1.45 times that of 2011. There are, however, two notable peaks: one in 2014, an election year, and another in the 2017-18 fiscal years, prior to the election. A major investment during these years was the Padma Multipurpose Bridge Project, with an actual investment of $3.868 billion, a 222% increase over the original cost of $1.2 billion (Bangladesh Bridge Authority, n.d.). The project was completed in 7 years, starting in 2014.

Figure 7.2: Amount of revised public expenditure (Annual Development Programme) from 2010-2023



Source: Data from selected Budget Documents of the Government of Bangladesh.

Between 2010 and 2023, approximately 7 lakh crore taka were spent on projects across various sectors through the ADP. However, an analysis by the CPD (2024) reveals that in 2016, 38% of projects were financed fully or partially by foreign funds, a sharp decline to just 11% in 2023, indicating a significant decrease in foreign-funded projects. Additionally, nearly 40 projects (3.2%) had allocations of only 1 lakh taka, representing 'ghost projects' without legitimate justification for funding. The analysis also highlights that approximately 31.4% of projects experienced time overruns of 6 to 10 years, with nearly 3% facing overruns exceeding 10 years. These findings suggest issues related to project management, accountability, and the overall effectiveness of public expenditure in Bangladesh.

The revised budget allocates 21.2% to Public Administration, underscoring the importance placed on strengthening the civil bureaucracy, which may be seen as a reward for 15 years of service amid criticisms of democratic backsliding. While substantial investments in transport, rural infrastructure, and power are essential for economic development and attracting FDI, the high levels of corruption in these sectors raise concerns about the effective use of public funds. The five sectors receiving the highest public expenditure—Transport and Communication, Power and Energy, Education, Housing and Community Amenities, and Health—together account for nearly 71% of total expenditure (CPD, 2024).

Further criticisms focus on the 'last quarter syndrome', where a significant portion of the annual budget is spent hastily in the final quarter of each fiscal year, often leading to a near-dumping of funds during the rainy season. Efforts to address this through the introduction of a three-year rolling budget have not been successful. Moreover, many argue that a 'construction bias' in public expenditures contributes to inefficiencies. This phenomenon often leads to projects being designed primarily with construction in mind, neglecting crucial operational components in the ADP. For instance, many school buildings are constructed without accounting for essential furnishings or laboratory equipment.

To address misallocation, mismanagement, and inefficiencies in public expenditure, a clear understanding of the institutional framework is necessary. The following section offers insights into the design, monitoring, and implementation of projects in Bangladesh, which could inform strategies for improvement.

7.4 Method of Inquiry

This White Paper does not aim to identify specific cases of mismanagement or corruption related to public expenditure. Instead, it seeks to promote transparency by documenting instances of resource misallocation or mismanagement over the past 10–15 years, if any, to prevent similar issues in the future. Our research process included the following steps: a) conducting content analysis of public documents, including reports from the Ministry of Planning (MoP), MoF, the government's ADP, FYPs, Implementation, Monitoring, and Evaluation Division (IMED) reports, Annual Reports from the Auditor General, the ACC, and the Public Accounts Committee, as well as reports from Transparency International, Bangladesh, among others; b) interviewing selected government officials; c) holding focus group discussions (FGDs) with specific ministries and their agencies; and d) conducting public hearings in Chattogram, Sylhet, and Rajshahi.

The analysis of these documents, focus groups, and discussions with various stakeholders was carried out independently but in a semi-structured manner to gather information on the management of public expenditure. Data triangulation was employed to ensure objectivity before drawing any conclusions.

7.5 Navigating the Public Expenditure Decision-Making Process

Many in Bangladesh hold the belief that a significant portion of public expenditure over the past decade has been misappropriated by the then-ruling government and its institutions. This perception is deeply entrenched, making it difficult to alter. It prompts the critical question: how did this occur? Specifically, how has such a high level of corruption persisted despite the presence of numerous agencies responsible for monitoring these irregularities? To address this, we must first examine the decision-making process behind public expenditure in government.

Project Selection and Implementation: Processes and Weaknesses

Government expenditures in Bangladesh are categorised into two main areas: (a) recurrent expenditures, which cover salaries, allowances, and consumables required for the ongoing operation of government entities; and (b) development and capital expenditures, which fund investments and the maintenance of public infrastructure. Development expenditures are typically organised into specific projects by various government agencies and undergo rigorous evaluation by several ministries, including the MoP, MoF, Ministry of Environment, Forests and Climate Change (MoEFCC), and Ministry of Women and Children Affairs during the initiation process.

Each project must meet various requirements, including (a) an economic and financial feasibility analysis for projects involving investments exceeding 50 crore taka; (b) environmental clearances from the Department of Environment (DoE) for Red and Orange projects; (c) financial clearances from the MoF for government-funded investments; and (d) gender analysis conducted by the Ministry of Women and Children Affairs. Furthermore, the MoP assesses each project's contribution to poverty reduction. These are in addition to other technical requirements involved in project formulation.

Moreover, each project is developed using Logical Framework Analysis, which outlines its goals, objectives, outputs, and activities to ensure proper design. Once formulated, projects with an Internal Rate of Return (IRR) exceeding 12% (previously 15%)—the social discount rate—are submitted for approval at Executive Committee of the National Economic Council (ECNEC) meetings. However, it is unclear whether this discount rate is based on real or nominal values.[170] If all data in the cost-benefit analysis are in constant prices, a real discount rate should be used.

Upon approval by ECNEC, chaired by the Prime Minister and co-chaired by the Minister for Planning, the respective agencies implement the projects. During the implementation phase, the line ministry of the implementing agency, along with the IMED of the MoP and the MoF, monitors progress on a quarterly basis to ensure timely execution. Project Directors are prohibited from spending beyond the limits outlined in the Development Project Proforma (DPP).

According to ECNEC guidelines, a project document may be revised up to three times to accommodate unforeseen changes in expenses or activities. Each revision requires approval from the relevant government agency (ministry) and may need re-approval from ECNEC if costs exceed 15% of the total allocation. Unfortunately, such revisions often lead to significant increases in both project costs and durations, with actual expenses sometimes rising by up to 400% above the original estimates.

However, revised DPPs, which represent the total expenditure of the projects, do not undergo the same rigorous evaluation as the original proposals regarding return on investment (ROI). In fact, during the revision process, the Net Present Value (NPV), benefit-cost ratio (BCR), and IRR are not recalculated based on updated cost estimates. This lack of thorough scrutiny suggests that many revisions result in investments that are 'uneconomic' and unfeasible.

Finally, upon completion, Project Directors submit a Project Completion Report, which is then evaluated by IMED. Additionally, the CAG reviews each project, including all expenditures, to identify any unlawful practices or irregularities. The CAG's report is submitted to the Public Accounts Committee of Parliament for discussion and further action. The ACC is also responsible for investigating any wrongdoings during the project implementation phase.

Although this expenditure management process is standard in many countries, it is often followed procedurally across project offices in Bangladesh. Despite this system of control and monitoring, there remains a widespread belief that nearly 40% of government expenditures are misappropriated. This concern, raised during our public consultation process, prompted us to examine the spending process and institutional oversight mechanisms.

7.6 Scrutinising Public Spending: Processes and Oversight Mechanisms

Despite initiating major projects such as the Padma Bridge, Karnaphuli River Tunnel, and Dhaka metro rail, Bangladesh continues to face significant infrastructure deficiencies. While the government emphasises the need for infrastructure development, many projects appear to be approved without a thorough evaluation of their long-term economic impacts and are often influenced by political motivations. On average, the government implements nearly 1200–1500 projects annually in the ADP.

Many projects have been part of election campaigns, with symbolic ceremonies—such as laying foundation stones or cutting ribbons—used to 'officially' open them, even when they are not ready for

[170] In theory, the real discount rate excludes inflation. Thus, a 12% real discount rate is relatively high and may result in the non-selection of projects with long gestation periods, introducing bias towards selecting projects with immediate returns.

public use. A prominent example of this is Terminal 3 at Dhaka Airport. This trend is observable even with caretaker governments, which may seem unusual given their lack of electoral incentives. For instance, the Caretaker Government of 2006 inaugurated the Bijoy Sarani flyover in Dhaka before it was fully completed. Consequently, while these projects adhere to the established selection process, they are often implemented hastily, without adequate analysis of their costs and benefits. This results in many projects becoming unviable and ultimately placing a heavy burden on the government budget.

Moreover, there is a widespread perception that many of these projects are designed merely as showpieces to cultivate a false sense of national pride, allowing the ruling political party to present superficial progress. Given the pervasive concerns about corruption expressed by many individuals during our consultation process, we felt it necessary to examine several key documents to uncover the underlying narratives behind these initiatives.

Oversight Mechanisms and Their Limitations

In addition to the line ministries and the MoF, several institutional mechanisms exist to scrutinise public expenditure and prevent misappropriation. These include the Office of the CAG, the Public Accounts Committee of Parliament, the ACC, and the IMED of the MoP, which is responsible for producing evaluation reports. Below, we examine some of their key recommendations.

Comptroller and Auditor General's Observations

In 2022, the CAG's office produced 51 compliance reports after auditing various organisations and ministries. Key observations regarding the causes of irregularities included: (a) violations of government rules by multiple agencies, including regulatory bodies such as BB; (b) expenditures on non-existent projects; (c) embezzlement of funds; (d) non-compliance with public procurement laws and regulations; and (e) violations of government orders or directives from regulatory agencies.

In 2021, the CAG's office noted over 13,000 audit observations involving a total of 1,26,592 crore taka. The highest number of discrepancies came from the Energy and Mineral Resources Division, amounting to 32,946 crore taka, followed by the Ministry of Housing and Public Works (26,089 crore taka), the Power Division (16,214 crore taka), the Ministry of Home Affairs (6,577 crore taka), the PMO (6,111 crore taka), and the Bridge Division (4,372 crore taka), among others (CAG, 2023).

The high number of audit observations reflects incompetencies within the bureaucracy overseeing these projects. A noticeable positive correlation exists between budget allocations for various sectors and the number of audit observations they receive. This situation is concerning. When the CAG reports audit violations amounting to thousands of crore taka—particularly in projects under the PMO—it sends a damaging message to others, undermining trust in the management of public funds.

Public Accounts Committee

In 2022, the Public Accounts Committee (PAC) of Parliament addressed audit observations and resolved 357 of the over 22,000 observations from 2021, amounting to 10,537 crore taka. Of this sum, 4,052 crore taka were recovered or adjusted. Notably, nearly half of the recovered funds were associated with the Ministry of Road, Transport, and Bridges. Despite addressing only 1.6% of the audit observations, the PAC successfully recovered or adjusted nearly 40% of the total value across 357 cases. PAC records indicate that it took over 200 days to resolve these issues. The large volume of audit observations presents a challenge for the PAC in effectively addressing them each year.

Anti-Corruption Commission

The ACC, established by the GoB in 2004, has faced criticism regarding its effectiveness. Despite a brief period of notable performance between 2007 and 2008, the Commission, intended as an 'independent and impartial institution for the control and prevention of corruption', has often been influenced by political authorities.

Public trust in the ACC has diminished, as evidenced by a 29% decline in complaints received between 2019 and 2023 (ACC, 2024). The rate of investigations initiated in response to these complaints remains low at nearly 5%, while cases referred to ministries for action decreased from 17% in 2019 to just 5% in 2023. This erosion of the ACC's capacity to address corruption has contributed to rising corruption levels in the country. Critics argue that the ACC is used to silence political opponents. Despite substantial sums reported as embezzled in various projects, the ACC has failed to take meaningful action against the responsible individuals. This lack of accountability raises concerns about its ability to combat corruption and protect public funds.

Implementation, Monitoring, and Evaluation Division of the Ministry of Planning

The IMED, a key branch of the MoP, oversees development projects and evaluates completed ones. Interviews with IMED staff and analysis of evaluation reports have identified several factors contributing to delays and cost overruns in these projects.

Key issues include: a) challenges related to land acquisition and associated litigation; b) poor-quality feasibility studies and inaccurate cost estimates; c) fragmentation of contracts into smaller packages, leading to inefficiencies often linked to local extortion and political influence; d) rising construction material costs; e) damages from waterlogging due to inadequate drainage systems in road construction; and f) frequent transfers of Project Directors.

Many of these inefficiencies are connected to corruption, even if this is not explicitly acknowledged in IMED reports. For instance, IMED has highlighted inadequate cost assessments and poor feasibility studies since 2012, but there has been little progress in addressing these issues, leading to increasing project costs.

Moreover, persistent inadequacies in drainage designs, despite repeated reports, have caused damage to newly constructed roads, raising maintenance costs. While evaluation reports are meant to inform future projects, this essential practice appears to be lacking within the Ministry.

7.7 Understanding the Roots of Corruption: Systemic Issues and Systemic Failures

Given the trends within institutions tasked with monitoring corruption in public expenditure, it is crucial to assess the scale of corruption in Bangladesh. Many public institutions are ineffective or lack the capacity to accurately identify corruption and misuse of public funds. However, these institutions have indirectly highlighted key bottlenecks, raised concerns about public spending, and identified practices contributing to resource mismanagement.

The lack of institutional oversight on government expenditure, the absence of accountability for wrongdoers, and the failure to impose sanctions on corrupt officials, coupled with extortion at national and local levels, have contributed to the misappropriation of significant public funds.

Additionally, inefficiencies in cost estimation and project design, along with collusion among politicians, bureaucrats, and contractors, have exacerbated the issue.

The cycle of corruption has intensified alongside rising public spending, which can be seen as a reverse causality: the funds enabling corruption have led to the development of increasingly larger projects. As a result, public expenditure has grown, creating a loop where corruption breeds more spending, which in turn fosters further corruption.

This situation mirrors government initiatives aimed at capacity building, where powerful individuals exploit opportunities for personal gain. Many officials travel abroad using public funds, often leaving behind those who would genuinely benefit from such exposure or training—an example of the misuse of public resources. This issue is tied to the hierarchical power structures within the bureaucracy, where opaque decision-making fosters collusion. Various groups participate in 'tour' programmes, travelling abroad without a legitimate need, while those responsible for oversight often become complicit in this misuse, undermining the integrity of capacity-building efforts.

During consultations, it was reported that the NBR developed software for online VAT return submissions, supported by A2I (Access to Information Office),[171] as a step towards reducing business-related hassles. However, users faced a critical issue: one user noted the absence of a 'SUBMIT' button, rendering the software ineffective.

This failure could suggest either a design flaw or, more concerningly, a deliberate attempt by the VAT office to render the software ineffective to profit from the physical submission of VAT returns. The failure to acknowledge or rectify this issue points to a potential corrupt intent within the organisation.

The GoB initiated the 'Leveraging ICT for Growth, Employment, and Governance Projects' between 2013 and 2018, with an original budget of 521.97 crore taka. However, the actual expenditure reached 774.72 crore taka, reflecting a 43% increase. This capacity-building initiative aimed to promote the IT sector and train 30,000 individuals for employment within it.

IMED's evaluation report expressed high satisfaction with the project's success, but inaccurately attributed the benefits solely to the project, overlooking the contributions of training institutions, colleges, and universities. Furthermore, the report failed to assess the marginal impact of training 30,000 individuals on the broader IT sector.

This analytical weakness in evaluating project impacts has led to the continuation of various ICT and other initiatives that lack tangible benefits. It underscores the need for more rigorous evaluations to ensure that future initiatives are grounded in a clear understanding of their actual contributions to the sector.

7.8 Measuring the Magnitude of Corruption in Public Spending

This section provides an estimate of the level of corruption, drawing on secondary research and insights gathered during consultations conducted throughout the study.

Consultations with a broad range of individuals, including public officials, social leaders, local elites, and youths, have led us to conclude that corruption is widespread due to the abuse of authority by bureaucrats, law enforcement agencies, and political powers. This issue is exacerbated by a lack of law and order, as well as the absence of justice. While many individuals find the situation intolerable, they feel powerless to enact change due to the opaque nature of governance in Bangladesh. At all levels, the government lacks accountability to public scrutiny, there are no opportunities for public consultation in

[171] *a2i* is a flagship project under the Prime Minister's Office and was funded by UNDP.

project design, and project costs are often concealed. Several participants in our consultations suggested that nearly 40% of public spending is misappropriated through collusion between project officials, politicians, and businesses, who manipulate the public procurement process.

TIB has been monitoring corruption in the country for years. In its 2024 report on infrastructure projects, it estimated that contractors pay bribes of approximately 5-6% of project costs to project teams, 6-8% to field inspection teams, and a total of 11-14% in bribes overall. The report indicates that in road and infrastructure sectors, up to 10-20% of funds are paid to local politicians, other contractors, and senior officials to facilitate collusion during the bidding process. Additionally, between 2-6% is paid for tender licences, work orders, and other corrupt practices such as extortion or bribery. Consequently, corruption in construction projects is estimated to account for 23-40% of total project costs.

Of all the government's development expenditure, nearly 80% is linked to procurement of goods and services, including construction, land purchase, development, and equipment procurement. The remainder is allocated to capacity building or technical support projects. In response, the government introduced procedural reforms, such as e-procurement via the e-GP portal in 2012 for 10 procuring entities, and the Public Procurement Regulation (2008) to govern purchasing.

Analysis of e-GP data shows that procurement processes have generally been followed within the Local Government Division and the Transport sector. However, despite peak usage of the e-GP system in 2019, its adoption has since declined. Further investigation reveals that, despite e-GP compliance, nearly 70% of contracts were awarded to local contractors (TIB, 2023). This suggests the persistence of local collusion among contractors, making it difficult to disrupt entrenched practices.

These irregularities have led to significant misuse of public funds. Over the past 15 years, approximately 1.6 trillion taka has been allocated for procuring goods and services, including the construction of roads, bridges, power infrastructure, hospitals, and educational facilities. It is estimated that between 368 billion and 640 billion taka has been used for bribes and extortion within development projects. Between 176 billion and 224 billion taka was paid as bribes to government officials, while between 160 billion and 320 billion taka was extorted by politicians and their associates. The remaining funds were spent on collusive payments.

Much of this money is paid in cash or kind, both domestically and internationally, to bureaucrats and politicians, some of whom have family members abroad. This practice enables the laundering of substantial amounts of corrupt funds. Domestically, these funds are often invested in sectors such as real estate, fisheries, agriculture, and transportation, where investments are difficult to trace. This lack of transparency hinders the tracking of the origins and flow of these funds, allowing for the misuse of resources.

7.9 Toward a Solution: Strategies for Addressing Corruption in Public Spending

Although there is no single approach to combat corruption in Bangladesh, certain common themes have emerged from consultations, leading to the following proposed measures.

Professional Approach to Feasibility Studies

One critical shortcoming is the lack of professionalism in conducting feasibility studies, which often results in underestimating project costs and inflating IRR estimates to secure approval from ECNEC.

Although the government allocates funds for efficient project design, these efforts are frequently rushed and lack the necessary professional rigour, especially for projects funded by the GoB, in contrast to those funded by donors. Since 2021, ECNEC has mandated the use of economic analysis for all projects. However, persistent errors in cost estimations may render this requirement ineffective. All project costs and benefits should be assessed at constant prices, and a real discount rate should be applied for economic feasibility analysis.

Ensuring Integrity: Mitigating Political Influences in Project Selection

While project selection often reflects political priorities, it is crucial to ensure that projects do not lead to mismanagement of public funds or create unsustainable debt for Bangladesh. There has been a noticeable bias towards projects that serve as political showpieces for the government. To address this, the Minister of Planning and the Planning Division must maintain professionalism and be staffed by individuals with the necessary expertise. Furthermore, planning units within each ministry should be supported by strong professional teams to ensure sound decision-making and the effective management of public resources. Training should be prioritised to develop these competencies.

Disrupting the Nexus: Breaking Collusion Among Civil Bureaucracy, Contractors, and Politicians

It is widely acknowledged that political powers at both local and national levels engage in extortion. However, it is also clear that a robust nexus exists among civil bureaucracy, contractors, and politicians that facilitates the embezzlement of public funds for personal gain. This alliance is a key driver of corruption and must be disrupted at the national level.

The strength of this nexus enables civil and military bureaucrats to amass wealth through unethical practices, often rivalling politicians and businesses in their own spheres. During public consultations, there was a strong consensus that government officials have increasingly assumed political roles over the past 15 years, mirroring a similar trend among business leaders. As a result, there is growing concern that bureaucrats and businessmen are positioning themselves to occupy parliamentary seats, further entrenching this corrupt system.

Government institutions, such as the ACC, should focus on dismantling the alliance between civil bureaucracy, contractors, and politicians, rather than targeting political leaders whom the ruling party views as primary adversaries in constituencies. By challenging all three elements of this nexus, the ACC can more effectively combat corruption and promote accountability within the system.

Empowering Communities: Ensuring Public Participation in Project Design

The lack of transparency in civil administration, often compounded by corruption, frequently results in withholding information from the public. Local communities, the primary beneficiaries of development projects, are frequently excluded from the planning process. As a result, many high-cost projects fail to deliver meaningful benefits due to poor design. For example, although the Karnafully Tunnel in Chattogram is a technically advanced project, its location has been met with public discontent. Local residents, lacking comprehensive information on its design and objectives, perceive it as unnecessary for either side of the Karnafully River and a misallocation of public funds. Similarly, the Hi-tech Parks in Sylhet and Rajshahi have yet to provide tangible benefits to local residents.

Public dissatisfaction with such projects can hinder their acceptance and effectiveness. To address this issue, many countries mandate public consultations during project feasibility studies—an approach that should be universally adopted. Institutionalising public participation would enhance transparency, improve project design, and foster community support for initiatives aimed at delivering social benefits.

Sensitivity analysis on Internal Rate of Return, Benefit-Cost Ratio, and Net Present Value

Projects with weak cost estimates often experience significant cost escalations during implementation. Additionally, adjustments may be required to accommodate local needs. For example, a highway passing through a local market may cause congestion, necessitating modifications such as the construction of a flyover—leading to increased costs.

To mitigate such risks, conducting sensitivity analysis on all key project parameters, including cost estimates, is essential. This analysis would establish explicit upper-cost limits, ensuring clarity for both project teams and planning authorities. Integrating sensitivity analysis into the planning process would enhance decision-making, enabling adjustments based on realistic assessments of financial and local impacts.

Calls for Transparency: Scrutinising the Offshore Wealth

Significant sums derived from bribery and extortion are often transferred abroad to evade detection. Public officials implicated in corruption frequently resist asset disclosure requirements. However, rising public pressure for transparency has driven civil servants, politicians, and business figures to seek safe havens for illicit funds.

Countries such as Canada, the United States, the United Arab Emirates, Singapore, and the United Kingdom are frequently identified as destinations for such wealth. Many corruption-related transactions occur overseas to bypass domestic scrutiny. To counteract this, government officials, project directors, and ministers should be subject to rigorous public scrutiny regarding their offshore assets, whether held directly or through family members.

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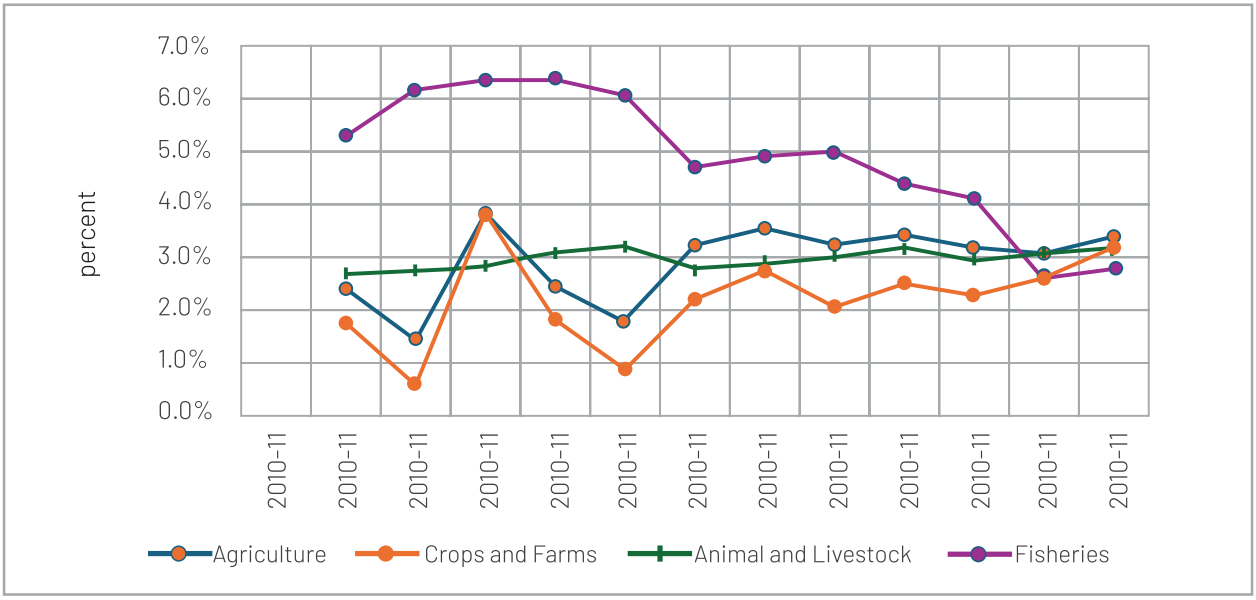
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Chapter VIII. Food security in peril*

8.1 Introduction

The agricultural sector plays a crucial role in Bangladesh's growth and rural development, contributing nearly 14% to the GDP and providing employment to over 40% of the workforce. In addition to its role in employment, the sector is the primary food supplier for the country's 172 million residents. Given the ongoing challenges, including foreign exchange reserve shortages, ensuring a stable domestic food supply is essential for Bangladesh's economic strategy. This objective is also central to the country's pursuit of SDGs, particularly those aimed at poverty and hunger reduction. Consequently, food security has become a cornerstone of Bangladesh's agricultural policies.

Figure 8.1: Growth rates in agriculture and its subsectors



Source: World Bank Databank.

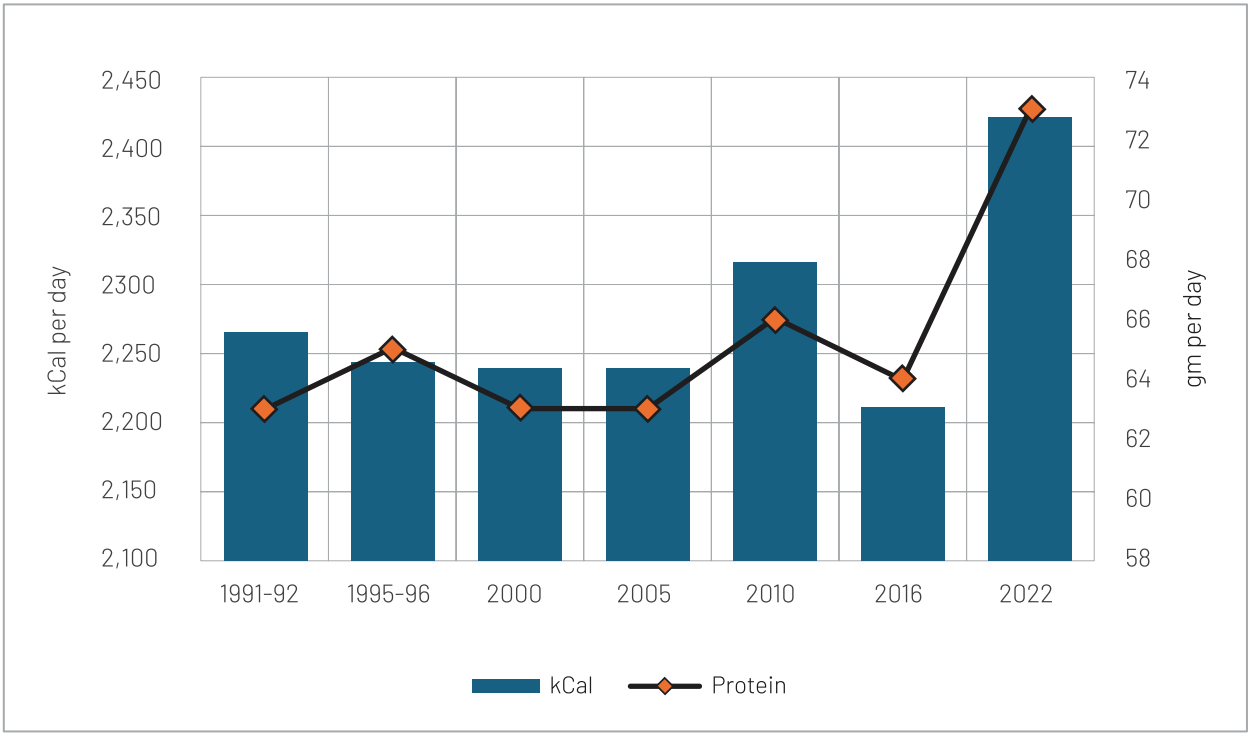
Agricultural production in South Asia, particularly in Bangladesh, relies heavily on inputs such as fertilisers and irrigation, with a focus on staple crops like rice. However, continued growth in this sector faces several challenges, including declining input productivity, resource degradation, and insufficient crop diversification. Given the high population density, expanding agricultural land is unfeasible; thus, improving production efficiency is critical to enhancing benefits for small producers (Bryan et al., 2018).

Figure 8.1 illustrates the growth rates of various agricultural subsectors. For instance, the fisheries sub-sector grew at an average annual rate of approximately 6% between 2010 and 2016 but slowed to 3% by 2023. The crop sub-sector, meanwhile, showed low growth in 2012-13 and 2015-16, spiked in 2013-14, and stabilised at 3% by 2022-23. The animal and livestock sub-sector maintained steady growth at 3% from 2010-11 onwards. The overall performance of the agricultural sector is closely linked to the crop sub-sector, underscoring its importance. This suggests that the sector's potential is constrained by a lack of innovation in crop production. Combined with population pressures and declining agricultural land due to land conversions, these challenges are substantial.

* The chapter was prepared by Professor A K Enamul Haque, Deputy Vice Chancellor, UCSI University, Bangladesh Branch, and Director, Economic Research Group, Dhaka. Data support was provided by Mr Estiaque Bari, Senior Lecturer, Department of Economics, East West University, and Mr Robart Shuvro Guda, Analyst, PwC Bangladesh.

A study by Rahman et al. (2024) reveals that although Bangladesh has made significant strides in food security, challenges remain, particularly in achieving nutritional security. The 2023 Global Hunger Index categorises the country at a 'serious' hunger level. While undernourishment has declined, micronutrient deficiencies, often referred to as 'hidden hunger', remain a significant concern (see Figure 8.2). It is important to note that the HIES 2016 data is not entirely comparable to other years, as it aimed to better represent Bangladesh's districts and involved a significantly larger sample size. This discrepancy raises questions about the technical feasibility of the HIES 2016 estimates.

Figure 8.2: Food intake and protein intake per person over time



Source: HIES Survey of selected years.

8.2 Navigating Food Security in Bangladesh

Since gaining independence, Bangladesh has consistently increased food production. By 2022, the country was close to achieving rice self-sufficiency, with rice output increasing nearly four-fold over the past five decades. However, agricultural land has diminished due to conversion into non-agricultural uses, while the population has grown 2.5 times. Despite these achievements, gaps persist in the production of non-rice crops, including wheat, maize, pulses, oilseeds, and onions. In terms of access, the average daily wage in the agricultural sector now allows workers to purchase approximately 11.4 kg of rice, compared to just 4.8 kg in 2016 (Ahmed et al., 2024).

It is important to recognise, however, that this average does not reflect seasonal fluctuations in employment or the significant wage disparities between men and women. A study examining HIES data from 2010 to 2016 found a substantial gender wage gap, with women earning 22.9% less than men in 2010, rising to 62.2% by 2016 (Mamun, 2024). Further studies suggest that non-farm employment in rural Bangladesh has increased, leading to a gradual shift in the gender dynamics of agricultural labour. This shift is driven partly by rising non-farm job opportunities for men and partly by decreasing income for farming households. This decline in income has been attributed to a policy mismatch, where price controls on rice, coupled with rising farming costs, have led to a steady reduction in the earnings of farming families.

In addition to these existing challenges, Bangladesh faces new obstacles to achieving food security due to climate change and natural disasters. Global conflicts, rising food prices, and political polarisation further hinder progress and negatively affect the nutritional status of vulnerable households. A study by Rezvi (2018) explores the impacts of declining agricultural growth and identifies population growth, urbanisation, and the loss of arable land as key factors contributing to reduced agricultural production. These trends pose significant challenges to food security in Bangladesh.

In conclusion, while Bangladesh has made significant progress in boosting food production and approaching rice self-sufficiency, it continues to face a range of challenges. These include gaps in non-rice crop production, gender wage disparities, and the impacts of climate change, all of which threaten food security and the livelihoods of vulnerable populations.

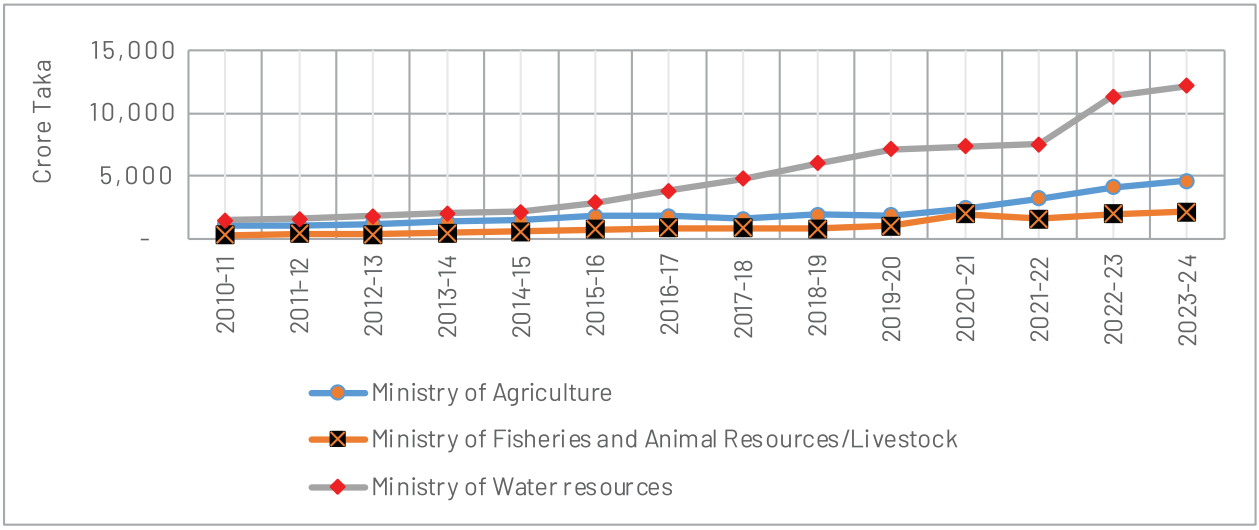
8.3 Annual Development Programme Expenditure in Agriculture

One of the primary goals of the Bangladeshi government is to achieve self-sufficiency in food production and improve farming incomes in rural areas. This policy is particularly important in light of the growing trend of rural-to-urban migration, which creates significant challenges for both urban centres and the agricultural sector. The decline in rural populations often results in labour shortages on farms, which can reduce agricultural output and threaten food security. At the same time, the influx of people into cities can strain urban resources, leading to overcrowding, inadequate housing, and increased pressure on public services.

To realise these objectives, the government allocates resources to various agricultural development activities through the ADP. These investments are essential for building the infrastructure needed to support agriculture, providing advanced training for farmers, and promoting the adoption of new agricultural technologies. Improved infrastructure, such as irrigation systems and transportation networks, allows farmers to cultivate crops more efficiently and access markets more effectively. Strategic investments like these play a crucial role not only in boosting food production but also in improving the living standards of rural households.

The priorities of the government's investment strategy are illustrated by the revised ADP expenditures across key ministries, including Agriculture, Fisheries and Livestock, and Water Resources (Figure 8.3). Examination of the data reveals a significant increase in funding for the Ministry of Water Resources since 2015-16, reflecting a recognition of the importance of effective water management in a country frequently affected by flooding and water scarcity. However, the same level of funding has not been allocated to the Ministries of Agriculture and Fisheries and Livestock. This discrepancy raises concerns about the long-term sustainability of the agricultural sector. Insufficient funding for Agriculture and Fisheries and Livestock could have severe consequences for the sector's health.

Figure 8.3: Revised annual development programme expenditure on Agriculture, Fisheries and Livestock, and Water Resources since 2010-11



Source: Ministry of Finance for selected years.

In summary, it is crucial to critically assess Bangladesh's resource allocation strategies. A balanced approach that ensures adequate funding across all relevant sectors, particularly Agriculture and Fisheries and Livestock, will be essential for fostering sustainable rural development and maintaining food security. Investing in the agricultural sector is not only about increasing food production but also about preserving the social fabric of rural life and ensuring that all farmers, regardless of their size or resources, have the opportunity to thrive.

8.4 Agricultural Value Chain and Prices

Low farm income in Bangladesh is partly attributable to the pricing gap between farmgate and retail markets. An analysis of the agricultural value chain reveals that farmers receive only 7–29% of the total value of rice produced, beyond covering their production costs. Similar patterns are observed in other agricultural commodities, such as potatoes and brinjal (Murshid et al., 2013). Small rice farmers face substantial disadvantages due to factors such as limited access to institutional credit, reliance on tied credit from informal markets, price volatility, and other production risks. Many marginal farmers, who are forced into distress sales of rice and other products during harvest periods, often cite the existence of a 'syndicate'[172] in the market that uses its market power to deny them fair prices. However, Mujeri et al. (2021) identify rice millers as the most powerful group in the value chain, earning a substantial share of the total value generated from the rice trade.

Mujeri et al. (2021) also found that alternative value chains have minimal impact on farmgate prices. While millers produce differentiated rice with specific quality characteristics for supermarket chains, this price differentiation reflects broader categories (e.g. fine, medium, and coarse varieties) at the farmgate level, offering little benefit to farmers. As a result, millers and other downstream participants, including wholesalers, retailers, and supermarkets, are the main beneficiaries. Despite bearing the highest production risks, rice farmers receive the least benefit from the value chain.

[172] The term 'syndicate' in Bangladesh emerged as an alternative to the concept of cartels. These local syndicates often control farmgate prices in local markets, preventing farmers from receiving what they consider a fair price for their products. However, it remains uncertain whether, in the absence of these large buyers, farmers would indeed receive higher prices.

Public Food Distribution System

To address fluctuating prices of essential goods, successive governments have established food distribution channels to ensure that poor households receive necessary commodities at fair prices. These channels are classified into two types: monetised and non-monetised. Monetised channels sell food grains at subsidised prices and include programmes such as Essential Priorities for the armed forces, police, and Rapid Action Battalion (RAB); Other Priorities (OP) for government employees, jail and hospital inmates, and student hostels; and Large Employers for industrial and tea garden workers. OMS and the Food Friendly Programme specifically target the poor.

In contrast, non-monetised channels serve the poor through various food-based safety net programmes, such as Food for Work, Gratis Relief, Vulnerable Group Feeding (VGD), and Vulnerable Group Feeding programmes. While the Ministry of Food manages monetised channels, non-monetised channels involve multiple ministries, including the Ministry of Disaster Management and Relief, the Ministry of Women and Children Affairs, the Ministry of Primary and Mass Education (MoPME), and the Ministry of Local Government, Rural Development, and Cooperatives.

However, Jahan (2013) found that these interventions are neither adequately planned nor sufficient to help rural populations escape the poverty trap. As retail prices of essential products rise, urban dwellers often demand government interventions to control the increasing prices. The GoB has addressed fluctuations in rice prices by utilising OMS during peak price seasons. While this has proven effective in some cases, field investigations suggest that OMS operators have formed cartels, preventing competition from other operators. Many of these sellers are linked to the ruling political parties or are family members of local ward commissioners.

Historically, Bangladesh maintained a reserve of approximately 1.5 million tonnes of food grain to manage emergencies. However, since 1993, government efforts to procure food grains decreased, leading to a drop in stock levels to nearly one million tonnes. This decline was attributed to a reduction in food aid and the increase of large food grain suppliers in the market. The government also allowed private imports of food grain. Consequently, food price fluctuations returned, reversing the stability seen during the late 1970s when the government first introduced public procurement programmes.

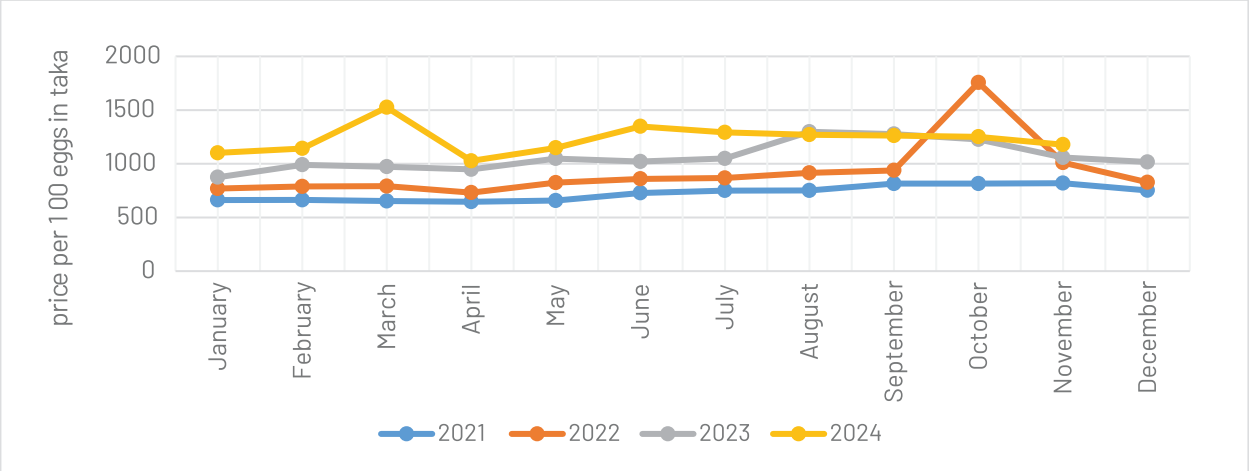
From the famine of 1974–75 until the 1990s, the primary goal of public food grain procurement was to stabilise food prices and ensure better prices for rice farmers. However, by the late 1990s, private operators became the dominant market force. The government's reduced reliance on food grain procurement during this period was due to the fact that the programme primarily benefited millers and traders rather than farmers (A. W. N. Ahmed et al., 2000). In the 1990s, millers, traders, and dealers emerged as significant lobbying forces, influencing the government's restructuring of public food grain procurement programmes. Additionally, studies have highlighted significant leakage in public food distribution programmes, with estimates ranging from 7% to as much as 75% (A. M. M. S. Ali et al., 2008).

As a result, there was a gradual decline in both public procurement and food grain distribution, which had previously protected marginal farmers and vulnerable urban populations from price fluctuations. With powerful private-sector players becoming major stakeholders in the food supply system, the government gradually lost control over market prices.

Egg Market

Recently, egg prices have fluctuated significantly, embarrassing the Interim Government.

Figure 8.4: Wholesale price of eggs (per 100 pieces) from 2021 to 2024 (Nov)



Source: Ministry of Agriculture (2024).

Figure 8.4 illustrates the prices over 12 months from 2021 to 2024. The average price increase was 26% between 2021 and 2022, 20% between 2022 and 2023, and 16% between January–October 2023 and 2024.

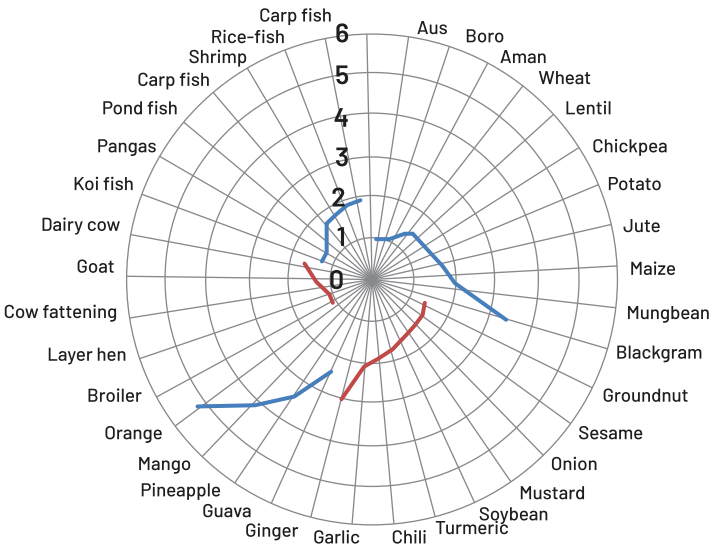
Data from the Department of Agricultural Marketing (DAM) show that price changes in eggs during August, September, and October 2024 were -2%, -1%, and 2%, respectively, despite the historic rise in egg prices since 2010. The continual increase in egg prices points to a growing supply shortage. This warrants a thorough investigation to determine whether the shortage is due to rising demand or declining supply. Unfortunately, no such investigation has been conducted, and the crisis persists, leaving the government in a state of embarrassment.

The Department of Agriculture should have taken corrective measures to increase the supply of eggs and stabilise prices. This failure highlights a lack of coordination between the two departments within the Ministry of Agriculture, signalling a need for significant structural reforms in their operations.

8.5 Enhancing Agricultural Resilience

Figure 8.5 illustrates the BCR of agricultural products in Bangladesh for 2013 (Miah & Haque, 2013). The data reveal that the BCR varies across crops, ranging from nearly 1 for Aus rice to over 3 for blackgram. In the livestock sector, the BCR spans from approximately 1 for broilers to nearly 1.8 for goats. Among nuts and spices, groundnut registers the lowest profitability, while ginger is the most profitable. In aquaculture, catfish (Koi) ranks as the least profitable, whereas carp (Rui) is the most profitable. Fruit production proves especially lucrative, with BCR values ranging from 1.5 for guava to over 5 for orange.

Figure 8.5: Agricultural products and their profitability (by benefit-cost ratio)



This profitability analysis reveals that among field crops—which constitute nearly 44% of agricultural value addition—rice is the least profitable, while blackgram (mashkalai) is the most profitable. Mungbean, garlic, and ginger are also among the most profitable field crops, with a BCR greater than two. In contrast, groundnut, sesame, onion, mustard, soybean, turmeric, and chilli have BCRs below two. Fruits such as guava, pineapple, mango, and orange all have BCRs greater than two.

Commercial agriculture is likely to avoid non-profitable crops, making their markets vulnerable to price fluctuations. Consequently, shortages in these crops are anticipated. Producers may shift away from crops such as onions, chillies, and mustard, which poses significant risks to food security and price stability for staple foods.

Uniform support for farmers will not stabilise markets for crops like rice, wheat, lentils, groundnuts, sesame, onions, mustard, chicken, and eggs. To address the recurring crises in essential crops—such as onions and rice—it is necessary to provide differentiated support to these products, making them more profitable than non-essential alternatives. Past policies have lacked such support, and current policies may not sufficiently encourage the cultivation of these essential crops, leading to neglect and insufficient investment. By revising these policies, the government can incentivise farmers to prioritise onions and chillies, ensuring a stable supply and mitigating future crises.

In the livestock sector, chicken meat and eggs rank among the least profitable products, which could lead to reduced or fluctuating supply if trends continue. Without adequate attention and incentives, supply shocks will likely persist. Establishing better incentive structures, including subsidies or support programmes for poultry farmers, is crucial to stabilising production. By improving the economic environment for these sectors, the government can not only stabilise supply but also enhance the agricultural system's resilience in the face of changing market conditions.

Because agricultural support programmes were not targeted at specific products, producers of less profitable items such as eggs, chicken, rice, and onions did not receive the necessary support to maintain steady production. As a result, supply fluctuations emerged, causing price volatility and creating crises for the government.

8.6 Profitability Declines and Shifting Labour Dynamics

Given the current low profitability of major crops such as rice, onions, and livestock products like chicken meat and eggs—which are essential to the Bangladeshi economy—farm incomes for producers of these products remain relatively slow compared to other sectors. This creates challenges for agricultural workers who rely on these products for their livelihoods.

Additionally, agricultural value addition is declining, while employment in agriculture and dependency on farming remain high. Rising costs for essential inputs, such as water, seeds, fertilisers, and pesticides, further squeeze profit margins. Furthermore, the sector is experiencing a mechanical transition, with increasing reliance on farm machinery. This shift reduces the residual income available to farmers, making it increasingly difficult for them to sustain their livelihoods.

As income from farming erodes, there is a growing disincentive for male workers to remain in the agricultural sector. Consequently, the number of female workers in farming communities is increasing, although at lower wages than their male counterparts. This gender transformation in the agricultural workforce has become an inevitable trend in Bangladesh, as economic pressures alter labour dynamics. The shift may ultimately reshape the agricultural landscape, with women assuming more roles in farming despite prevailing wage disparities. Low profitability has also contributed to a shortage of agricultural workers during peak seasons.

8.7 Mechanisation in Agriculture: Promises, Subsidies, and Corruption

To promote mechanisation in the agricultural sector, the GoB has launched several subsidy programmes, offering discounts of up to 50% (or 70% in coastal regions) on the purchase of specific machinery, such as power tillers, reapers, rice transplanters, and combine harvesters. The government has allocated Tk 30.2 billion for the 'Mechanisation of Agriculture Work through Integrated Management' project, which aims to distribute 51,300 units of agro-machinery across 12 categories between 2020 and 2025. In FY21, the government distributed 2,300 units of agricultural machinery, including 1,762 combined harvesters. However, many of these incentives have been misappropriated by corrupt businesses and officials, leading to a major scandal surrounding the distribution of agricultural machinery.



Scan QR to see the video on corruption scandals on this.

In December 2023, the ACC launched an investigation into irregularities associated with a Tk 3,000 crore project on farm mechanisation, following a report from the IMED. The investigation includes allegations against Premier Bank for embezzling funds related to this project (Ali, 2023).

In FY 2021-22, the government also implemented a monetary policy to reduce the interest rate cap on agricultural loans from 9% to 8%, offering loans at a 4% interest rate for crop and harvest sectors. Additionally, a target has been set for banks to allocate 50% of SME loans to cottage, micro, and small enterprises by 2024 to enhance agricultural production and boost rural incomes. Unfortunately, political leaders and corrupt bureaucracies have exploited agriculture to legitimise their illegal wealth. A notable example involves allegations against a former Inspector General of Police, who reportedly amassed significant wealth and 'legalised' part of it through investments in fisheries, despite receiving the Government's 'Integrity Award' in 2020-21.

8.8 Corruption, Extortion, and Impact on Productivity

Despite being one of the most impoverished sectors of the Bangladeshi economy, agriculture plays a crucial role in feeding the country's 173 million people. It is vital for the livelihoods of the poorest and least educated individuals, who depend on it for survival. However, the sector is plagued by widespread bribery and extortion, which undermines its potential and exacerbates the challenges faced by those reliant on it.

Fertiliser Distribution

Several studies have highlighted the impact of corruption on agriculture and its profitability. Anik and Bauer (2017) found that corruption in fertiliser distribution by government dealers reduces marginal productivity by 59% during the Amon season and by 18% during the Boro season. The study also revealed that marginal farmers are disproportionately affected by fertiliser-related corruption compared to larger farmers, further disadvantaging those already vulnerable within the agricultural sector.

Agricultural Credit and Rice Procurement

A key strategy of the government to incentivise rice production was ensuring that farmers received a fair price for their produce during the harvest seasons for both Amon and Boro rice. Another strategy involved providing subsidised credit facilities to farmers, encouraging them to adopt improved agricultural inputs.

Rahaman et al. (2020) analysed the agricultural credit and rice procurement policies in Bangladesh. In the 2016–17 period, the government distributed nearly 176 billion taka in agricultural credit to farmers. The study revealed that approximately 6.82% of these funds were paid as bribes to bank officials, amounting to nearly 12 billion taka. Additionally, it was found that only about 54% of the credit provided was actually used for agricultural purposes.

In 2009, BB launched the 'Sharecroppers Refinance Scheme', which was extended until June 2018. This credit programme helped reduce sharecroppers' reliance on non-institutional credit sources. The evaluation report of the Research Department of BB on this programme was generally positive, but it was suggested the credit facility be combined with insurance to mitigate risks associated with agricultural production (Bangladesh Bank, 2017).

Regarding rice procurement, several studies have shown positive outcomes for farmers participating in the government's rice procurement programme. However, only 25.8% of rice was sold to the Directorate General of Food (DG Food) in 2019 (Ahmed et al., 2021). A significant factor in this low participation rate was farmers' lack of awareness about the public procurement policy. While research on this topic is scarce, a report by the New Age newspaper indicates that, in 2020, the ACC uncovered evidence of bribery and extortion in the rice procurement schemes in Bangladesh (Daily Star, 2020; New Age, 2020).

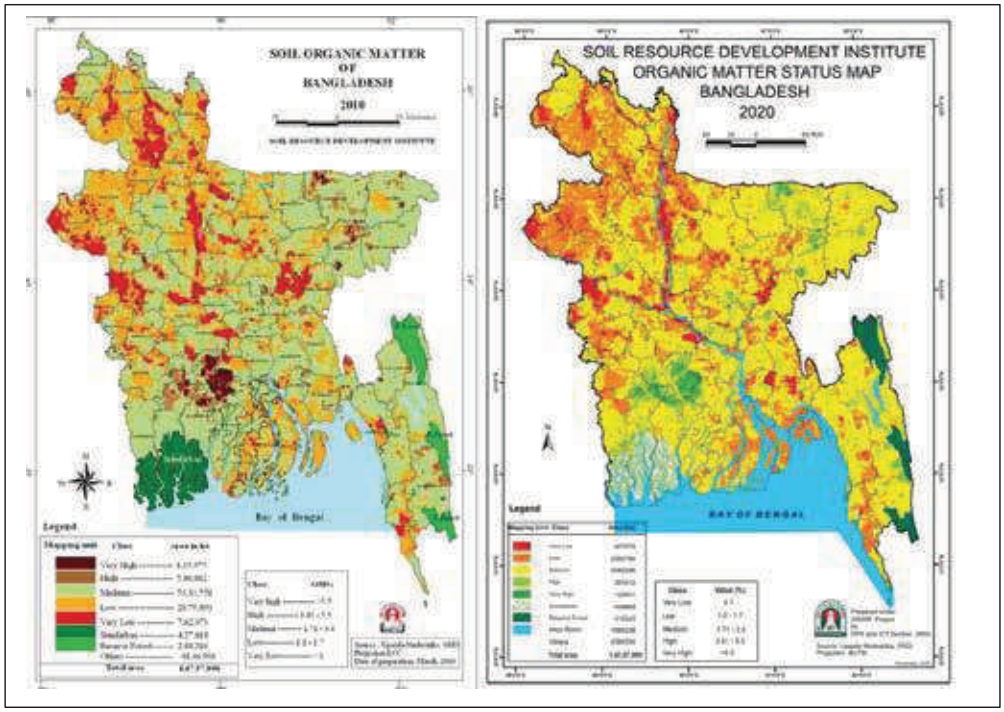
8.9 Impact on Soil Quality

Despite numerous successes in agriculture, Bangladesh faces challenges in diversifying its crop production. The widespread practice of mono-cropping rice has negatively affected soil health and fertility, particularly in terms of soil organic matter and zinc content.

Soil Organic Matter

Soil organic matter is a key indicator of soil health and plays a crucial role in soil fertility management. Overexploitation of soil—such as the removal of crop residues for fuel, animal feed, or other purposes—depletes soil organic matter. This forces farmers to compensate for this loss through increased fertiliser use, raising their production costs (Bot & Benites, 2005). Figure 8.6 illustrates the decline in soil organic matter in Bangladesh from 2010 to 2020, with a marked decrease observed, especially in the northeastern districts.

Figure 8.6: Soil organic matter status map of Bangladesh 2010 and 2020



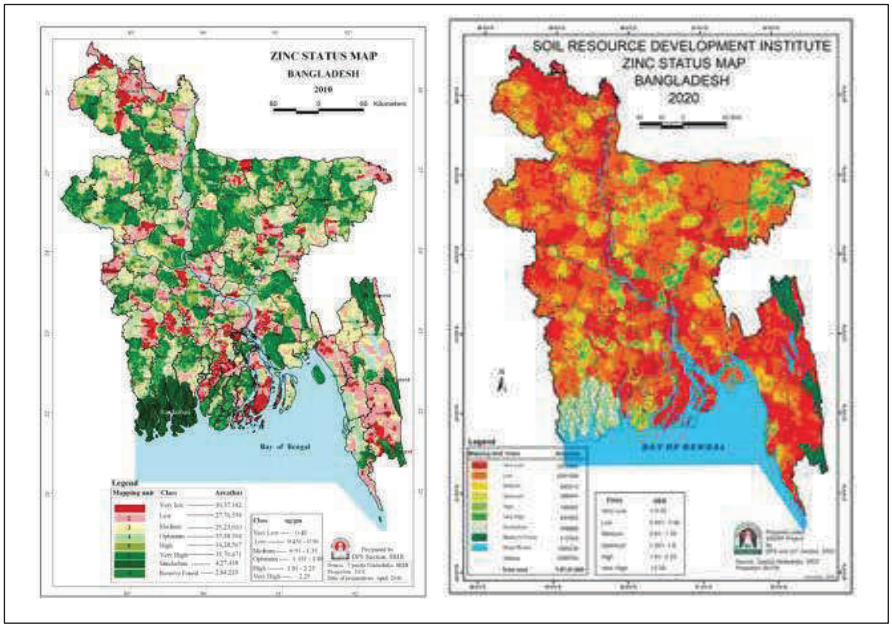
Source: Soil Resources Development Institute, Bangladesh (website)

Zinc Deficiency in Soil

Zinc is an essential micronutrient for plant growth. Rudani et al. (2018) state that zinc deficiency can lead to smaller leaves, delayed maturity, and necrotic leaf tissue, making plants more susceptible to disease and pests. This can result in significant losses in production and grain nutrient content. Zinc deficiency also impedes plant growth, delays maturation, and reduces yields in rice crops.

Figure 8.7 highlights the increase in zinc deficiency in Bangladesh from 2010 to 2020. The data reveals a worrying rise in deficiency levels, which poses a serious threat to food security in the country.

Figure 8.7: Zinc status map of Bangladesh, 2010 and 2020



Source: Soil Resources Development Institute, Bangladesh (website)

8.10 Concluding Observations and Recommendations

Agriculture has been the backbone of survival and livelihood for millions in Bangladesh. Successive governments have allocated resources for research, irrigation, and the distribution of seeds and fertilisers to achieve rice self-sufficiency, the country's staple food. This has included financial support for agricultural subsidies, technical assistance through agricultural extension offices, and the provision of subsidised fertilisers and seeds to farmers through Bangladesh Agricultural Development Corporation officers.

Despite these efforts, the agricultural sector continues to face significant challenges, including (a) marginalised farmers and an uncertain land tenure system, (b) low labour productivity resulting in lower wages, (c) an overreliance on rice production, leading to soil degradation, (d) stagnating agricultural growth, (e) limited access to finance for most landless farmers, (f) inadequate or selective agricultural extension services, (g) corruption in farm mechanisation, and (h) fertiliser shortages.

These challenges highlight that illiterate farmers, who lack access to government structures, are often excluded from the benefits intended for them. In contrast, government officials, politicians, and other influential individuals seem to disproportionately benefit from various government support and subsidy programmes.

Strategies for Sustainable Growth and Food Security

The government can implement several strategies to ensure greater transparency and fairness in agricultural sector interventions.

Mitigating Price Fluctuations: Strategies for Stabilising Essential Goods

- Price fluctuations in essential goods present a significant challenge for governments, often leading to unrest among low- and middle-income households dependent on fixed salaries. To mitigate this, controlling price volatility is essential. One effective approach is to remove entry barriers for middlemen, or 'syndicates', who hold excessive market power.
- The government should consider removing taxes, such as VAT and import duties, on these products at least 45 days before a potential crisis. Moreover, the tariff commission should develop an automatic tax exemption mechanism that allows imports when domestic prices reach a predetermined threshold. This would help maintain reasonable price levels, protect low-income consumers, and incentivise farmers to sustain production growth.

Strengthening Farmer Integration in the Rice Value Chain

- Closer integration of farmers into the rice value chain enhances their market access, reduces dependence on intermediaries, and aligns production with consumer demand, resulting in more stable incomes and improved pricing for their products.
- Direct involvement in the value chain enables farmers to receive training in best practices and quality control, thus improving product quality and enabling participation in value-added activities, such as processing and branding, which can lead to higher profit margins.
- Encouraging cooperative models increases farmers' bargaining power, facilitates resource sharing, and improves access to financing, ultimately promoting sustainable practices and improving productivity.

Fostering Collaboration in the Agricultural Value Chain for Equitable Growth

- The government must encourage horizontal and vertical collaboration throughout the agricultural value chain. Agricultural extension groups or NGOs could support the formation of farmer groups or cooperatives, enhancing resource sharing and bargaining power while reducing costs and improving outcomes.
- Alliances between farmers and agribusinesses, such as processors and retailers, can create a more integrated value chain, improving product quality and market alignment.
- The government should ensure that the Bangladesh Competition Commission takes measures to prevent monopolistic practices, promote fair competition, and ensure equitable value distribution among all participants.

Combating Corruption in Agricultural Mechanisation Programmes

- Given the scandals of corruption in agricultural mechanisation programmes, the government must take decisive action to hold corrupt officials accountable.
- Strict accountability measures should be implemented to ensure that all officials involved in agricultural programmes are held responsible for their actions. This may include transparent investigation processes and the establishment of independent oversight bodies to monitor programme execution.
- Strengthening existing anti-corruption frameworks can help identify and prevent corrupt practices. This could involve developing clear guidelines and policies that define acceptable conduct and the consequences of corrupt behaviour.
- Increasing transparency in procurement and funding processes is crucial. Publishing detailed information on contracts, expenditures, and programme outcomes can discourage corrupt activities and build public trust.
- Introducing robust protections for whistleblowers can empower individuals to report corrupt practices without fear of retaliation, thereby increasing reporting and ultimately reducing corruption within the sector.

Promoting Crop Diversification and Value Addition to Increase Farm Income

- Supporting initiatives that encourage crop diversification beyond rice is essential for improving agricultural sustainability and increasing farmer income. High-value crops, such as fruits, vegetables, and spices, offer greater economic returns and contribute to food security.
- The government and agricultural organisations should promote the cultivation of high-value crops by providing training, resources, and financial incentives to farmers. This diversification reduces dependence on rice, mitigates risks from price fluctuations, and enhances nutritional diversity.
- Implementing better post-harvest practices is crucial to maximise the quality and value of diverse crops. Investments in storage, transportation, and handling techniques will minimise losses and preserve product quality from farm to market.
- Establishing local processing facilities for fruits, vegetables, and spices or linking industries to set up such plants can significantly increase the value added to these crops. By providing local processing opportunities, farmers can capture more profit and create jobs within their communities.

Investing in Rural Infrastructure for Agricultural Development

- Investment in rural infrastructure is crucial for enhancing the productivity and economic viability of smallholder farmers, particularly in remote areas. Key areas of investment include:
- Developing robust irrigation systems to improve crop yields and reduce reliance on rainfall, ensuring consistent production throughout the year. This mitigates the impact of droughts and enhances food security.
- Constructing and upgrading rural roads to improve farmers' access to markets. Better transportation reduces post-harvest losses by enabling timely deliveries and enhances farmers' ability to obtain fair prices for their goods.
- Building adequate storage facilities to minimise post-harvest losses. Proper storage solutions preserve the quality of perishable produce, allowing farmers to sell products at optimal times for maximum profit.
- Implementing effective disease management strategies to maintain healthy livestock and fish populations. Providing farmers with training on preventive measures and treatments can reduce losses and improve yields.
- Promoting environmentally sustainable aquaculture practices ensures that fish farming does not harm local ecosystems. Educating farmers on these practices supports the long-term viability of the fisheries sector.

Enhancing Early Warning Systems and Disaster Response

- Improving early warning systems and disaster response mechanisms is crucial for mitigating the impacts of natural disasters, such as floods, droughts, cyclones, and salinity, on agriculture. Investing in advanced technology for early warning systems relevant to local cropping practices will enable farmers to prepare and take preventive measures.
- Strengthening disaster response protocols ensures a coordinated approach to supporting affected communities. This includes training local response teams and establishing communication networks for swift information dissemination.
- Promoting sustainable land-use practices, such as agroforestry and conservation agriculture, can enhance ecosystem resilience to climatic stresses. By prioritising these initiatives, stakeholders can significantly improve the resilience of agricultural systems, safeguard livelihoods and ensure food security amid increasing climate variability.

Supporting Agricultural Adaptation to Climate Change

- Strengthening the resilience of farmers against climate change requires providing financial support, training, and resources to enable the adoption of adaptive practices. This may include distributing climate-resilient seeds and implementing climate-based insurance schemes that protect farmers from crop losses due to extreme weather events. Extension services focused on knowledge dissemination will equip farmers with the skills needed to implement adaptive strategies effectively.
- Promoting evidence-based policymaking will facilitate the development of targeted adaptation strategies that address the specific needs of the agricultural sector. Integrating climate change considerations into national agricultural policies and development plans will ensure a cohesive and comprehensive approach to mitigating climate impacts.
- Increasing public awareness and education on climate change effects will empower communities with the knowledge and tools needed to implement local adaptation strategies. By prioritising these measures, Bangladesh can develop a more inclusive, sustainable, and resilient agricultural sector that supports rural livelihoods and contributes significantly to overall economic growth and food security.

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Chapter IX. Whither Private Investment*

Key takeaways

- *Improving Bangladesh's business environment requires addressing structural and institutional barriers through comprehensive reforms. This includes enhancing regulatory transparency, combating corruption, and streamlining bureaucratic procedures to create a competitive, investor-friendly climate.*

- *Reforming the tax system to support SMEs and make it fairer and more business-friendly—such as simplifying tax compliance via digitisation—is essential.*

- *Enhancing transparency, investor protection, and institutional investment in the capital market is vital to improving access to capital for enterprises and developing a bond market for SMEs.*

- *Restructuring IPAs and improving their operational efficiency through sector-specific support and stronger monitoring mechanisms will help attract and facilitate investment.*

- *Facilitating access to finance, technical support, and markets for SMEs, along with rationalising customs procedures and modernising port infrastructure, will create a more enabling environment for trade and investment.*

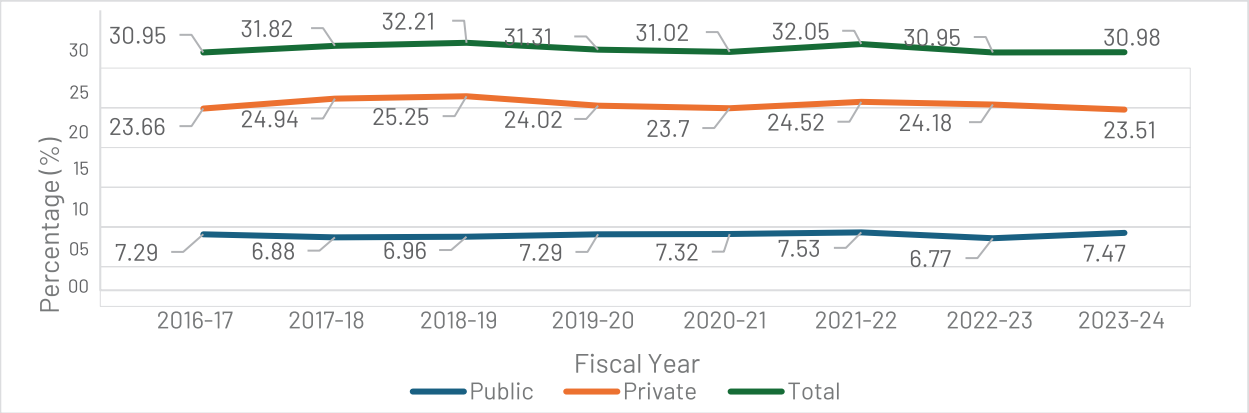
9.1 Introduction

Over the past 15 years, private-sector investment in Bangladesh has stagnated at around 23-24% of GDP (Figure 9.1). Despite ambitious targets for domestic and foreign private investment in successive FYPs (6th, 7th, and 8th), achievements have been limited. Domestic private investment has underperformed, and the country has struggled to attract substantial Foreign Direct Investment(FDI), with FDI as a share of GDP remaining below 1%. By contrast, Vietnam—one of Bangladesh's key competitors—attracts more than US$15 billion in FDI annually, while Bangladesh secures only around USD 3 billion, much of which consists of reinvested earnings (Figure 9.2). Several critical factors contribute to this disparity, including an unconducive business environment, policy unpredictability, a lack of transparent dispute resolution mechanisms, bureaucratic inefficiencies, and institutional weaknesses within the key agencies responsible for promoting investment. These challenges have also hindered the creation of employment opportunities, exacerbating economic conditions. This chapter analyses these factors and offers recommendations for improvement.[173]

* The chapter was prepared by Ms Ferdaus Ara Begum, CEO, Business Initiative Leading Development (BUILD), and Dr Selim Raihan, Professor, Department of Economics, University of Dhaka, and Executive Director, South Asian Network on Economic Modelling (SANEM), with contributions from Professor Mustafizur Rahman, Distinguished Fellow, Centre for Policy Dialogue (CPD).

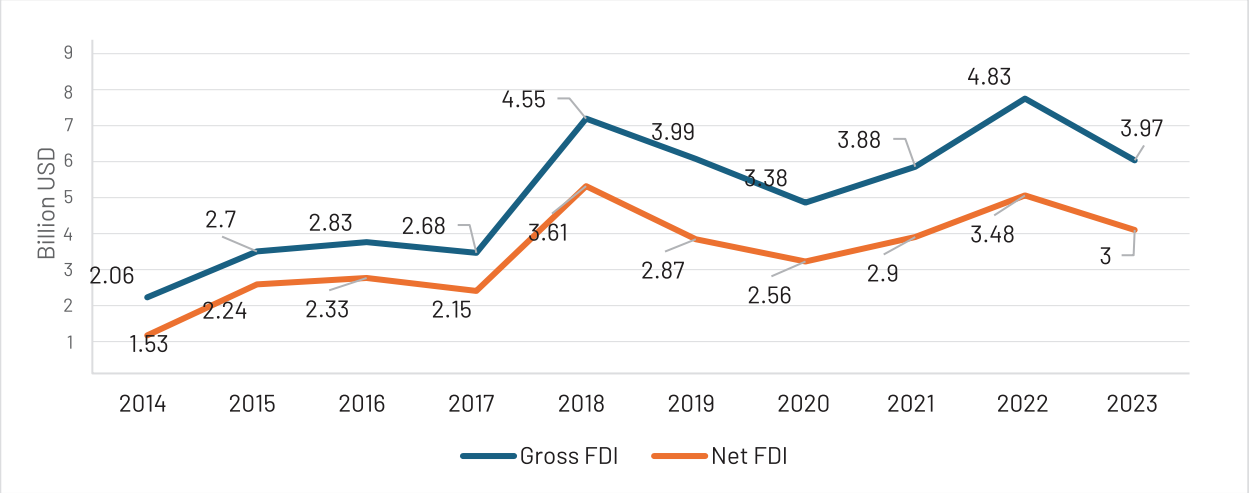
[173] The analysis in this chapter was informed by consultations conducted as part of the preparation for the White Paper Committee Report.

Figure 9.1: Investment as a percentage of the gross domestic product



Source: Bangladesh Bank.

Figure 9.2: Foreign direct investment inflow trend



Source: Bangladesh Bank.

9.2. Business Environment Remained Unfavourable

Despite high rhetoric regarding economic growth and development during the previous Awami League regime, the business environment in Bangladesh remained unfavourable for private investors. Global indices highlight the persistence of deep-seated structural and institutional barriers. For instance, in the World Bank's Ease of Doing Business Index 2020, Bangladesh ranked 168th out of 190 countries, far behind regional competitors such as India (63rd) and Vietnam (70th).[174] This poor ranking reflects barriers such as lengthy bureaucratic procedures, weak contract enforcement, and inadequate property rights protections. Although the government made significant investments in infrastructure and power generation to support industrial growth, these were not matched by comprehensive reforms to improve the regulatory and institutional environment for businesses.

This issue is also reflected in the 2019 Global Competitiveness Index of the World Economic Forum, where Bangladesh ranked 105th out of 141 countries. Inefficient government bureaucracy, corruption,

[174] World Bank. (n.d.). *Doing Business Rankings*. Retrieved from https://archive.doingbusiness.org/en/rankings

and policy unpredictability were identified as major deterrents to private-sector growth. In contrast, Vietnam ranked 67th, benefiting from streamlined government policies and a robust investment climate that attracts substantial FDI.[175]

The 2024 World Bank B-Ready Report ranks Bangladesh 34th out of 50 countries, with a score of 41.64 out of 100 in the public services pillar, far behind its competitors. While Bangladesh performed relatively well on operational efficiency (16th place, score of 70.49), it ranked poorly in the regulatory framework pillar (43rd place, score of 56.99). These rankings underscore the urgent need for improvements in the regulatory environment, as well as greater transparency and ease of doing business.[176]

Bangladesh's performance on the 2023 Transparency International Corruption Perceptions Index further exacerbates the challenge, with the country ranking 149th out of 180 countries.[177] Corruption at various administrative levels has increased the cost of doing business and eroded investor confidence in the legal and regulatory frameworks. In contrast, countries like Vietnam and Malaysia have steadily pursued stronger governance and anti-corruption policies, which have infused their private sectors with greater dynamism. While the past government made significant efforts towards public sector-led development, it failed to create a favourable business environment that could enable private investment to contribute to sustainable economic growth.

9.3 Domination of Crony Capitalism Deprived the Genuine Investors

In the past decade, politically connected business entities in Bangladesh have often enjoyed preferential access to government contracts, resources, subsidised costs, lax regulation, exemptions, and undue concessions in the banking sector. Massive loans were granted in violation of banking procedures, primarily benefiting powerful conglomerates, thereby restricting opportunities for small entrepreneurs and enterprises. Despite a series of incentives announced by the government, most such measures remained ineffective or inaccessible to the majority of businesses.

Although foreign investors expressed interest in Bangladesh's growing sectors, several issues discouraged long-term investment. One of the most salient features of the prevailing crony capitalism was the ability of influential businesses to shape policymaking—often referred to as 'state capture by the powerful'.[178] This phenomenon was particularly evident in sectors such as telecommunications, RMGs, banking, real estate, and energy, where major policy decisions disproportionately favoured a few dominant players. These entities exerted significant influence over policy frameworks, often at the expense of competition and innovation.

This influence undermined equitable development by diverting public policy away from national interests and towards narrow, politically motivated objectives. Critical institutions tasked with promoting investment and ensuring a level playing field were often co-opted by these interest groups. This institutional capture eroded transparency and accountability, discouraging both foreign and domestic investment. Consequently, only a few businesses reaped substantial benefits, while the broader economy and society missed out on the potential for more inclusive growth.

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[175] World Economic Forum. (2019). *The Global Competitiveness Report 2019*. Retrieved from https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

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[178] See White Paper Chapter 21: Institutional Decline Stalling National Development.

9.4 Tax System Remained Unfriendly to Most of the Businesses

Bangladesh's tax regime has disproportionately favoured politically connected businesses, undermining the broader private sector. Large conglomerates often benefit from tax holidays, exemptions, and selective enforcement of tax laws, distorting competition and discouraging ethical business practices. In contrast, SMEs and new market entrants face an over-complicated, opaque, and burdensome tax system. High-compliance costs and inconsistent policy implementation create uncertainty, making long-term planning and investment difficult. This lack of a level playing field stifles domestic entrepreneurship and deters FDI, as international investors perceive substantial risks in engaging with such a system.

The tax policy and complex customs procedures are significant barriers to business and entrepreneurship.[179] The heavy tax burden, including Advance Income Tax (AIT) and Tax Deducted at Source (TDS), can result in an income tax incidence of 40-45% for sectors such as electrical and electronics, clothing, and food, where entrepreneurs import and process raw materials locally. This high tax rate undermines the business environment. In Bangladesh, tax refunds[180] are generally unavailable, despite provisions for such a system. Excess tax payments are typically offset against the following year's tax liability, with around 60% of income tax collected through TDS lacking options for refund or adjustment. The delayed refunds are estimated to impact investment by BDT 81,605 crore in FY 2021-22.[181] While larger businesses may use the funds in subsequent years, smaller businesses often regard it as an additional cost.

Large, well-connected entities thrive in a system of preferential treatment, while smaller businesses struggle to compete, resulting in lower investment in strategic sectors. A heavy reliance on indirect taxes, such as VAT, further burdens businesses and consumers, reducing disposable incomes and domestic demand. This creates a perception of an uneven tax regime, exacerbated by a lack of institutional accountability, which undermines the ease of doing business in Bangladesh. These systemic issues hinder private-sector growth and its potential to drive innovation, job creation, and economic diversification. Tax reforms in Bangladesh should focus on fairness, transparency, and predictability to foster an investment-friendly environment across all sectors.

Many costly projects, such as the VAT Online Project, Income Tax Automation Projects, and Integrated Digitalised Land Management Projects, failed to meet their objectives. As a result, automation initiatives remain incomplete, further burdening businesses. Companies are often required to complete duplicative processes, submitting both digital and physical documents for approvals, certifications, and registrations. This inefficiency undermines the purpose of automation and hampers efforts to streamline regulatory compliance. Despite significant investment in the VAT online project, the VAT refund module remains misaligned with the Integrated VAT Administration System, resulting in no tangible benefits and increased cascading impacts.

Customs procedures also add significant complexity. Frequent discrepancies in the Harmonised System (HS) codes in the Import General Manifest(IGM) cause delays. Furthermore, customs officials often disregard the Customs Valuation Rules 2000, which were designed in accordance with the World Trade Organization's (WTO) Trade Facilitation Agreement (TFA). The NBR is given annual revenue targets for VAT, Income Tax, and Customs duties, which pressures customs authorities to set import duties arbitrarily, ignoring international best practices.

[179] See White Paper Chapter 6: The Illusive Goal of Domestic Revenue Mobilisation.
[180] Under the arrear tax collection section of the law (Section 215 of the ITA 2023).
[181] Calculated from NBR data for 2021-22.

Operational efficiency is further hampered by the lack of essential service status for customs clearance and the absence of Key Performance Indicators (KPIs) at major ports like Chattogram and Dhaka airports. A lack of coordination between hard and soft infrastructure in export and import activities also impedes progress. Investors face congestion at Chattogram Port, limited storage at Export-Processing Zones (EPZs), and unnecessary costs due to the failure to reuse import containers.

Moreover, the rigid distinction between export-oriented and domestic enterprises hinders FDI targeting both markets. Introducing bonded storage facilities, permitting the reuse of containers in EZs, and expanding such practices in Inland Container Depots (ICDs) are essential for improving supply chain efficiency and attracting more FDI. The overall logistics system is inadequate compared to Southeast Asian countries. A National logistics Policy 2024 has been announced for the first time with objectives to reduces costs, increasing efficiencies and establishing coordination among concerned ministries and organizations, but implementation is not adequate.

There are no streamlined guidelines for foreign companies seeking loans from their parent companies, which delays access to financial support. The policies governing profit and capital repatriation, royalties, technical know-how services, and technical assistance are overly complex.[182] In Bangladesh, a Trade License (TL) issued by the agencies under the Local Government Authority (LGD) is a mandatory requirement for any formal business. However, BUILD's analysis of the relevant Acts and Rules reveals that agencies have the authority to collect tax from businesses but lack the authority to issue or renew TLs.[183]

9.5. Weak Capital Market Didn't Promote Private Investment

The capital market in Bangladesh has historically faced numerous issues that have constrained its ability to raise equity. As a result, the private sector remains heavily reliant on bank lending. Foreign participation in the capital market is minimal, mainly due to concerns about corruption and a lack of transparency, particularly regarding the availability of company information. This has led to a market dominated by domestic investors. Currently, the market comprises 677 listed securities, including 360 companies, 37 mutual funds, 20 SMEs, and 236 government securities. However, it is difficult to determine how many of these are genuinely profitable, as there is no reliable and transparent valuation process. This lack of clarity undermines investor confidence and restricts market growth.

The Bangladesh Securities and Exchange Commission (BSEC), tasked with regulating the capital market, has failed to maintain accountability due to vested group pressures. Decisions regarding Initial Public Offerings (IPOs) and secondary market management fall short of regulatory best practices, eroding investor confidence in the system.

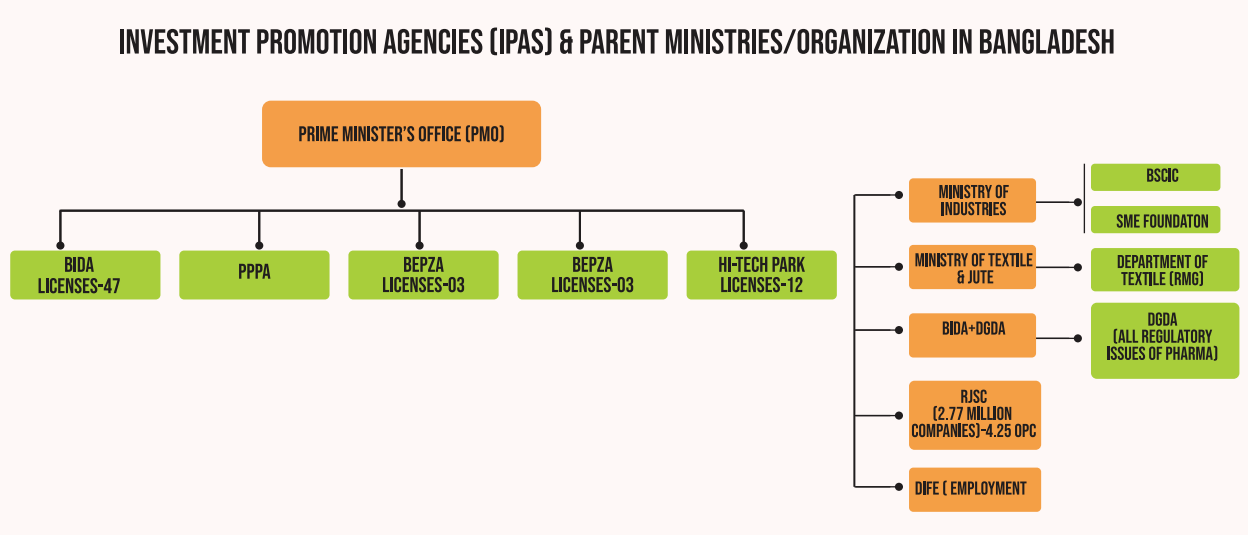
9.6. Investment Promotion Agencies were Made Dysfunctional

The investment promotion ecosystem in Bangladesh is fragmented, with IPAs operating in isolation rather than as a cohesive unit. Figure 9.3 lists the IPAs. Although the Bangladesh Investment Development Authority (BIDA) is designated as the central investment support body, its effectiveness is undermined by inadequate coordination with other IPAs, regulatory bodies, and service providers. Additionally, regional BIDA offices face infrastructural constraints that hinder the full utilisation of the One-Stop Service (OSS) platform, impeding efficient investment processing. In contrast, integrated one-stop investment systems in Malaysia, Singapore, and Dubai enhance transparency, reduce bureaucracy, and build investor confidence—priorities that have yet to be fully embraced in Bangladesh, leaving BIDA's OSS inadequate for both local and foreign investors.

[182] During the discussion with the development partners on 4 November, the issue was also raised.

[183] According to the Ideal Tax Schedule (City Corporation) 2016, approximately 491 types of entities, including sole proprietorships, partnerships, and companies, are categorised, requiring a Trade License for legal operation in Bangladesh. Municipalities list around 316 types of businesses in the Ideal Tax Schedule 2014, while 38 types are listed in the Ideal Tax Schedule 2013 for Union Parishads.

Figure 9.3: Investment promotion agencies in Bangladesh



Policy inconsistencies and procedural inefficiencies further discourage investment. For example, discrepancies between BIDA's work permit guidelines and the residency definition in the Income Tax Act 2023 create confusion. The prolonged work permit process—taking up to 12 months—adds to investor frustration. Streamlining visa and work permit procedures, as practised in India and Thailand, could improve efficiency and attract foreign investment. Automation efforts have also fallen short, as evidenced by incomplete initiatives like the VAT Online and Income Tax Automation Projects, which still require dual submissions for approvals and registrations. Monitoring and evaluation are weak; for instance, BIDA relies on estimated data from the Investor Relationship Management System (IRMS), which is not systematically utilised.

Outdated legislative frameworks, including the Foreign Private Investment Promotion & Protection Act 1989 and the Transfer of Property Act 1882, further complicate the investment landscape. The Bangladesh Flag Vessels (Protection) Act 2019 mandates that 50% of goods be transported via Bangladeshi vessels, but a shortage of national shipping lines causes logistical bottlenecks. Similarly, the issuance of No Objection Certificates (NOCs) remains cumbersome, delaying trade and investment activities.

In the pharmaceutical sector, dependence on imported Active Pharmaceutical Ingredients(API) and new regulatory requirements under the Drugs and Cosmetics Act 2023 add operational challenges. Additionally, weak enforcement of Intellectual Property Rights (IPRs) leaves investors vulnerable. Strengthening IPR protection and training enforcement agencies, such as Customs and the police, is critical to improving investor confidence.

These issues are partly due to inefficient institutions. For instance, the Registrar of Joint Stock Companies(RJSC) holds incomplete and outdated company records, while the Department of Inspection for Factories and Establishments (DIFE) registers factories using disparate processes. Investors are often required to navigate multiple agencies to obtain various licences and permits. A total of 150 different regulatory approvals are needed from 23 government agencies to start an enterprise. Although some licensing processes have moved online, automation remains incomplete, and excessive documentation persists. In contrast to Bangladesh's 44 ministries and authorities overseeing business matters, countries like Singapore streamline investment management through fewer agencies, thus avoiding regulatory bottlenecks.

Data inconsistencies are evident across different IPAs. An analysis of 3,111 industries registered with BIDA (2019–2024) reveals that many investments are below BDT 15 crore, raising questions about the necessity of BIDA registration for such small-scale projects, which could operate with a TL. According to the Standard Operating Procedure (SOP), investments under Tk 100 million do not require a project profile. Moreover, discussions indicate that many industries registered through BIDA's OSS are non-operational. The absence of a centralised Master OSS, initially planned to integrate services from agencies such as the Bangladesh Export Processing Zones Authority (BEPZA), Bangladesh Economic Zones Authority (BEZA), and Bangladesh Hi-Tech Park Authority (BHTPA), hampers data accuracy and coordination. Furthermore, the lack of officials authorised to provide critical services, such as fire safety, taxation, and environmental compliance, across all IPAs complicates the process. Duplication in registrations could be addressed by implementing a unique investor identification system, thereby improving transparency and efficiency.

9.7 Foreign Direct Investment Remains Mostly Based on Retained Investment

FDI in Bangladesh is primarily driven by retained or reinvested earnings rather than equity capital inflows, reflecting the limited attraction of new investments. Data from Bangladesh Bank (BB) indicate that a significant portion of FDI consists of profits retained by existing foreign firms in sectors such as telecommunications, power, and financial services. This suggests that while existing investors find the market sufficiently profitable to reinvest, Bangladesh struggles to attract new foreign investors. The primary barriers include unclear regulations, inefficient bureaucracy, and poor infrastructure, all of which discourage fresh FDI, leaving Bangladesh reliant on reinvestments from companies familiar with navigating these challenges.

FDI in regulated sectors requires clearance, approval, and a No Objection Certificate (NOC) from the concerned sponsor organizations. However, the process is hindered by a lengthy and complex regulatory framework, unclear approval processes, overlapping decision-making procedures, and a lack of transparency in information management, all of which discourage investment. The Industrial Policy 2022 categorises 151 sectors under various headings, such as export diversification industries, special development sectors, and reserved sectors. Managing such an extensive list of categories is impractical for the relevant ministry.

Moreover, the underdeveloped legal environment concerning Intellectual Property Rights (IPR) protection and contract enforcement significantly undermines investor confidence. This creates a barrier to investment in technologically intensive sectors, as investors seek assurances for the protection of their intellectual property. Bangladesh has yet to develop effective mechanisms for safeguarding the IP rights of both local and foreign investors, thus discouraging FDI and hindering technology transfer. IP rights holders usually raise concerns about the ability of the courts to adjudicate the IP cases on time.

The reliance on reinvested earnings highlights deeper structural challenges within the investment climate. With an uncompetitive regulatory environment and insufficient investment promotion, Bangladesh has not become a preferred destination for greenfield investments, unlike regional peers such as Vietnam and Indonesia etc. Complex licensing procedures, poor contract enforcement, and policy unpredictability deter new entrants. To attract new FDI and diversify the investment base, Bangladesh must address these challenges by streamlining processes, improving investor facilitation, and upgrading infrastructure.

9.8 Small and Medium Enterprises Faced Disproportionately More Challenges than Larger Firms in Business Operation and Expansion

Over the past decade, SMEs in Bangladesh have faced more significant challenges than larger firms in terms of business operations and expansion. Major obstacles include limited access to finance, as SMEs often struggle to meet the collateral requirements of banks, which tend to favour larger, more established companies. SMEs also find it difficult to operate in a complex regulatory environment characterised by bureaucratic licensing procedures, inconsistent rule enforcement, and the absence of supportive government agencies, making it challenging to scale up. Furthermore, many SMEs lack the resources to invest in the technologies and innovations necessary to remain competitive in the global market.

In addition, SMEs are more vulnerable to infrastructural deficiencies, including unreliable power supplies, poor transport networks, and inadequate logistics and communication systems. These weaknesses increase operational costs and constrain expansion capacity. While larger firms may be able to invest in alternatives or benefit from preferential treatment, SMEs bear the full impact of these deficiencies, exacerbating the gap between them and larger enterprises. To create a more inclusive business environment, policymakers must address the specific needs of SMEs, particularly cottage industries, in relation to access to finance, infrastructure, and regulatory simplification.

Informal economy is a significant part of the business in Bangladesh, specially focusing the situation of MSMEs. According to the labor force survey(2010), informal employment in Bangladesh is estimated at about 89% of the total number of jobs in the labor market. Bangladesh Economic Survey 2024 revealed that, about 42% of the economic establishment is informal out of 1.18 crore total economic establishments in the country.

Availability of Information can reduce informality in business. Because of complex regulatory system, time, cost and process of acquiring license, registration, permission, approval from the concerned government organizations and regulatory agencies discourage MSMEs to be formal by having a license from the government and sponsor organizations. According to ILO, globally, over two billion people work informally, representing about 58% of global employment while 84.9% of workers, and 89% of businesses operating informally in Bangladesh.

Defining cottage enterprises has long been a challenge. These businesses should not be categorised solely by capital investment or workforce size. Instead, they should be recognised for their use of traditional skills and equipment, as well as their association with specific cultural histories, irrespective of size. These enterprises often hold social and cultural value beyond mere commercial interests and should be classified as special industries, supported by the relevant ministries (e.g. the Ministry of Culture). Most handicraft industries fall into this category. Additionally, E-commerce and ICT-related businesses should be considered special enterprises, as should social solidarity economies, such as cooperatives and group businesses. It would be beneficial to categorise all businesses into three specific segments: cottage enterprises, micro and small enterprises, and medium and large enterprises. This classification would facilitate financing, increase lender accountability, and enable better tracking of progress.[184]

9.9 Trade Facilitation Measures are not Adequate to Encourage Investment

The NBR introduced the National Single Window (NSW) project in 2023 to streamline access to online trade processes. The initiative aims to enhance transparency, simplify procedures, and reduce the time and costs associated with international trade. While the NSW is expected to be fully operational

[184] There is no mention of cottage industries in India's official definition. Cottage industries are promoted by the Khadi and Village Industries Commission (KVIC), Coir Board, Central Silk Board, All India Handicrafts Board, All India Handloom Board, Forest Corporation, and the National Small Industries Corporation (consultation notes from Mr Ali Sabet, CMSE Banking Specialist and Team Leader, BB).

by 2026, its implementation remains uncertain. Despite the launch of the ASYCUDA, Bangladesh continues to face lengthy documentary compliance requirements. Procedures in Bangladesh take over twice as long as in Vietnam and three times longer than in India, underscoring the urgent need for further trade facilitation reforms.

The core reforms under the National Trade Facilitation Committee of the Ministry of Commerce are progressing slowly. Crucial measures, such as the establishment of the Risk Management Unit, Pre-Arrival Processing, and Non-Intrusive Inspection (as outlined in Articles 7.4 and 7.1), are expected to enhance customs efficiency and reduce delays. However, key customs ports, including Chattogram, Mongla, Benapole, and Dhaka International Airport, continue to operate with complex, opaque procedures and inadequate infrastructure. These issues hinder trade efficiency and create opportunities for corruption, with underhand payments often resulting from these gaps. These barriers exacerbate the challenges faced by businesses.

Trade Facilitation (TF) Indicators[185] of 2025 by OECD shows that Bangladesh's score ranged between Moderate (2.5) to Low (1.5) in comparison with Global Best Practices of 3.0 and 3.5. TF indicators of Singapore is very high (4.0), higher than global best practices. Bangladesh needs to improve its TF indicators for supporting investment.

9.10 Lack of Preparation to Face New Challenges

SDG-9 (Industry, Innovation, and Infrastructure) and SDG-12 (Responsible Consumption and Production) highlight the critical role of the private sector in achieving sustainable development. The Bangladeshi government has identified National Priority Targets to guide progress on these SDGs, but the strategic involvement of the private sector remains insufficient.

Textile and clothing exports to the European Union (EU) account for approximately 45-50% of Bangladesh's total textile exports. The EU's circular textile policies, which emphasise efficiency and technological innovation for sustainable consumption and production (SDG-12), will significantly affect the sector. For Bangladesh to remain competitive, it must adopt a National Strategy for Circularity. The EU plans to finance textile production upgrades in collaboration with local banks, providing credit lines for circular economy initiatives. Bangladesh must prepare to navigate these changes to sustain the sector. Although various ministries conduct skill development programmes, many are redundant and focus primarily on low-skill development. Addressing these challenges requires a system that facilitates institutional coordination and ensures active private-sector participation.

A key concern is the lack of preparation to promote private investment, especially in the context of Bangladesh's post-LDC graduation. Transitioning to a developing economy requires addressing outdated regulations, infrastructure gaps, and inefficient processes. A comprehensive strategy to attract and retain private investment, particularly FDI, is essential. Without such a strategy, Bangladesh risks slower economic growth, reduced competitiveness, and difficulty adapting to global market dynamics. Effective policies and robust institutional support will be necessary to overcome these challenges.

[185] Trade Facilitation Indicators Simulator retrieved from: https://sim.oecd.org/Simulator.ashx?lang=En&ds=TFI&d1c=asiap&d2c=bgd&d2cc=mys,sgp,ind,bp(Indicators are; Information availability, Advance Ruling, Appeal procedures, Fees and Charges, Formalities and Procedures, Automation and Procedures, Risk Management, Post Clearance Audit, Border Agency Cooperation, Trade Facilitation Environment)

9.11 Governance in the Private Sector

Chambers of commerce and trade associations play a vital role in fostering investment in Bangladesh by serving as catalysts for business interests. Their main mandate includes advocating for policies that improve trade and investment opportunities, particularly by enhancing international linkages and facilitating dialogue between businesses and the government. However, operational constraints, such as bureaucratic delays and legal uncertainties, hinder their effectiveness. These organisations must promote a transparent, rules-based regulatory environment, which is essential for attracting FDI and supporting economic growth, particularly in sectors such as manufacturing, agro-processing, and IT-enabled services.

Private-sector entities in Bangladesh actively engage in policy advocacy, including requests for tax relief, easier access to finance, and streamlined licensing processes. They have collaborated with government bodies, Financial Institutions(Fis), and ministries to address these issues. However, challenges persist, particularly in the form of crony capitalism, where the interests of a few dominate at the expense of the broader business community. Despite government calls for private-sector contributions to budget proposals and other important policies, many of these recommendations are not reflected in the final decisions.

To address these governance challenges and promote shared prosperity, a robust public-private partnership is required. This partnership should facilitate transparent information sharing and joint decision-making, which has been notably absent. The prevalence of non-competitive elections within business chambers, often dominated by large companies , further undermines their ability to serve the broader business community specially MSMEs effectively.

9.12 Conclusion

Private investment in Bangladesh has stagnated over the past decade, primarily due to an unfavourable business environment marked by systemic challenges that discourage both domestic and foreign investment. To address this issue and reinvigorate the economy's growth potential, a multifaceted policy approach is necessary. Below are key recommendations to stimulate private investment and enhance the country’s economic prospects.

Encouraging a Competitive Business Environment: To improve the business environment in Bangladesh, structural and institutional barriers must be addressed through comprehensive reforms. These include enhancing regulatory transparency, combating corruption, and streamlining bureaucratic procedures to foster a competitive, investor-friendly climate. Crony capitalism, which distorts competition and limits access for genuine investors, remains one of the largest obstacles to investment. The government must implement stricter anti-corruption measures and establish transparent policies governing business operations. A competitive environment can be promoted through the rigorous enforcement of antitrust laws, regulatory improvements, and a reduction in political interference in business decisions.

Tax Reforms for Comprehensive Business Support: The current tax regime favours a select few, while SMEs are burdened by an oppressive system. Reforming the tax system to make it fairer and more business-friendly should be a priority. This includes revisiting corporate tax rates, reducing multiple rates of Taxes(e.g. 8 VAT Rates), streamlining refund policy, introducing tax reliefs for new and innovative investment and businesses, and offering tax relief for SMEs and start-ups. Additionally, simplifying the tax compliance process through digitisation would improve the ease of doing business.

Developing the Capital Market: The underdeveloped capital market is a significant barrier to private investment, as it limits enterprises' access to capital. The government should implement measures to promote the capital market by enhancing transparency, increasing investor protection, and encouraging institutional investment. Furthermore, the development of a bond market, especially for SMEs, would provide additional sources of funding for expansion.

Reforming IPAs: Although IPAs play a crucial role in attracting and facilitating investment, they have failed to meet the needs of both local and foreign investors. These agencies should be restructured to offer targeted support for specific sectors, along with capacity building to improve operational efficiency. A dedicated task force could identify bottlenecks and provide clear guidance on the incentives available to businesses.

Strengthening Monitoring Mechanisms: Monitoring and evaluation of IPAs, particularly the BIDA, remain weak and infrequent. Although BIDA introduced the Feedback from Relationship Management System (IRMS) and the OSS in 2019, it should implement more robust monitoring mechanisms to track progress. There is a notable discrepancy between registered and actual investments (Annexe-A).

Addressing SME Challenges: SMEs face significant operational challenges that hinder their growth. Policymakers should facilitate a more enabling environment for SMEs, particularly in terms of access to finance, technical support, and domestic and international markets. Special programmes to reduce regulatory burdens would empower SMEs. Additionally, given the size of the informal economy, efforts should be made to formalise it. The definition of informal industries in the Industrial Policy 2022 would need to be streamlined. Availability of information on process, costs and times for regulatory requirements, licenses, certificates would reduce informality. The cottage industry should be defined separately from industrial classifications, based on activities involving cultural and traditional skills rather than capital investment.

Enhancing Trade Facilitation: Trade facilitation measures are crucial, as current inefficiencies negatively impact investment and international trade. Customs clearance score of Bangladesh is 2.5 against 4 in Singapore, 3.5 in Malaysia and Thailand and 3 in Vietnam and India(Ease of Doing Business Report 2020). Rationalising customs procedures, modernising port infrastructure, and developing logistics networks would foster an enabling environment for trade and investment. Special attention should also be given to digitising customs procedures, reducing trade barriers, and improving the efficiency of export-import operations. Automation Initiative by NBR so far has not been successful, however comprehensive digital transformation to provide all tax-related services through a unified platform, advanced data analytics with real time monitoring system, improved transparency to foster greater accountability among taxpayers and tax officials alike would improve the situation.

Building Capacity to Face New Challenges: Bangladesh must prepare for emerging challenges such as climate change, technological disruption, and shifts in global trade dynamics. Innovation, research, development, and the adoption of new technologies are key to enhancing business competitiveness in a rapidly changing global economy. The government must invest more in developing human capital to meet modern, technology-driven demands.

The Role of Chambers of Commerce and Trade Associations: Chambers of commerce and trade associations in Bangladesh play a vital role in investment promotion, policy improvement, international linkages, and facilitating dialogue between business and government. However, several challenges hinder their effectiveness, including crony capitalism, bureaucratic delays, and an uncertain legal environment. Strengthening public-private partnerships and ensuring fairness in representation within the chambers are essential to attracting FDI and promoting inclusive growth.

In conclusion, to overcome the stagnation in private investment, Bangladesh must foster a transparent, competitive, and inclusive business environment. These policy reforms will enable the government to create an investment climate conducive to economic growth, innovation, and job creation. By doing so, the country will unlock its full potential and attract both domestic and foreign investors to drive development.

Annexe-A: (Registered and Actual Investment in the Year 2024)

Agency	Proposed Investment (BER 2024)	Actual Investment	Remarks
BIDA (Following several discussions as per data and information by BIDA)	$4.55[186] billion (FY24 July-Feb) (BER 2024) **According to BIDA: In FY 24 (OSS info)** • Local registration (936), with proposed Investment- **$10.96 billion**	• Local Actual Investment (70% proposed) FY 24: $ 7.67 billion • FY 24 (Jul-Mar) Non-EPZ, EZ FDI inflows: $1.90 billion[187] (Bangladesh Bank)	• The actual local investment amount reflects a tentative percentage of the proposed investment (followed by getting Feedback from the Investor Relationship Management System (IRMS) of BIDA.
BEZA	$28 billion (total investment initiative taken) Initiative taken	$5.97 bn[188] In FY 24 (Jul-Mar) FDI inflow- $7.84 million[189]	BEZA in process-29, Public EZ (6), Private EZ (13), in production (8), actual investment: 5.97bn
BEPZA	$6.65B (up to February 2024) **$6.68 billion** (450 industries running, 103 under process-discussion with BEZA, 12/09/2024)	In FY 24 FDI inflow is USD 351million	Seems OK
BHTPA	.....	USD **0.2 billion** in 10 parks Govt Investment ($200m) Private Firms (6) Investment: USD **5.78** million FDI **USD 8.41 million**	BHTPA in Sylhet[190] and similar other areas are not working
PPP	$42.20 billion (Possibility of investment)	USD **12 billion** is almost close to realisation in six projects - discussion with PPP office (12/09/2024)	Trying their best for the completion of six large projects
BSCIC (Cumulative up to 2022-23, p-107 BER)	$3.78 billion	$1.045 billion Cumulative up to 2023-24 USD 8.001 billion[191]	BSCIC could not do good in attracting SME investors
Department of Textile (DoT)	.....	$324.45 million/$0.32bn (FY 2022-23) DoT Annual Report[192] Pg-27	Textile Act 2017 made it mandatory for textile and apparel companies to register and obtain licences from DoT
Total	**$85.18bn**	**$ 29.47 bn**	

[186] Converted to US dollars using an exchange rate of $1 = BDT 120.
[187] Foreign Investment & External Debt (FIED) Management Cell, Statistics Department, Bangladesh Bank.
[188] Total actual investment scenario, White Paper inputs from BEZA, 26 September 2024.
[189] Foreign Investment & External Debt (FIED) Management Cell, Statistics Department, Bangladesh Bank.
[190] Consultation in Sylhet on 2 October 2024.
[191] Focal Point BSCIC
[192] https://dot.portal.gov.bd/sites/default/files/files/dot.portal.gov.bd/page/593d4efb_60a9_4b79_9d20_5e20b6b5b230/2023-10-12-11-25-47d4f95a24e71a5b641d4eb03d3a8e2c.pdf

Chapter X. The Banking System—Deep into a Blackhole*

Key takeaways:

- *As of June 2024, distress within the banking system reached over 31% of total bank loans, equivalent to 13.5 Dhaka metros and 22.5 Padma bridges. This is a conservative estimate, as it excludes distressed assets from NBFIs. Major players have extracted significant funds from various parts of the financial system.*
- *Financial regulations were designed and implemented to ensure the impunity of politically connected oligarchs, shielding them from financial scams, fraud, and loan defaults. The repeated rescheduling of large loans to the same borrowers, combined with extended forbearance since the pandemic, has exacerbated the distress.*
- *A 'Dhaka consensus' exists on how an organised network of business conglomerates, bureaucrats, and politicians has captured the corporate and regulatory governance of FIs. Fundamental reforms are required to restore confidence, broaden outreach, and enhance financial intermediation.*

The interim government has inherited a financial sector in severe distress, particularly within banks and stock markets, which are undercapitalised and suffer from a lack of trust. The sector, once a bright spot in Bangladesh's development, has faltered. Loan defaults, fraud, scams, and unethical banking practices have proliferated amid policy reversals and regulatory capture. Safeguards have failed, financial repression has resurfaced, and cronyism has become entrenched.

This chapter focuses on the banking system,[193] whose macro-critical role cannot be overstated in a bank-centric financial system such as Bangladesh's. It examines the solvency and liquidity of banks, delving into their balance sheets to assess the depth of insolvency, liquidity shortfalls, and distressed assets. The sector's challenges have been consistently diagnosed by various stakeholders, leading to an unwritten 'Dhaka Consensus' on how the banking system reached its current crisis and the steps needed to resolve it.

10.1 Macro Criticality of Banking

Scheduled banks in Bangladesh are the central financial intermediaries. Their assets total Tk 25,462.60 billion as of June 2024, constituting 47% of GDP. Loans and advances account for 66% of total assets, while the remainder is invested in government securities and cash. Total deposits in the banking sector, excluding interbank deposits, amounted to Tk 18,412.38 billion at the end of June 2024, or 34% of GDP. A vibrant set of privately-owned FIs emerged following broad-based financial liberalisation in the early 1990s.[194] The corporatised SOBs initially performed better until they were undermined by predators.

Growth model-based studies indicate that private credit growth became increasingly significant over time. The correlation between private credit growth and GDP growth nearly doubled from 2001 to 2019.[195] Financial deepening, as measured by the ratio of broad money to GDP and private credit to GDP, surged, supporting private investment, foreign trade, and GDP per capita. A flexible, market-based interest rate regime since the early 1990s has served Bangladesh well.

* The chapter was prepared by Dr Zahid Hussain, former Lead Economist, World Bank Bangladesh.

[193] The balance between selectivity and comprehensiveness is not particularly challenging in a bank-dominated financial system like Bangladesh's. Annexe II assesses the state of the share market.

[194] World Bank. (2019, April). *Bangladesh Financial Sector Assessment* Program.

[195] Beyer, R. C. M., & Hussain, Z. (2021). *Validating GDP Growth Estimates in Bangladesh.*

However, progress faltered in the past decade. The relationship between the credit impulse (the change in the private credit-to-GDP ratio) and real activity has weakened, indicating growing resource misallocation. Abrupt and ad-hoc changes to financial policies since the mid-2010s have increased regulatory uncertainty. Directed credit expanded in the early 2010s, followed by regulatory easing in the mid-2010s. The generosity of loan rescheduling and restructuring increased, providing borrowers multiple opportunities to delay repayment.[196] A 9% retail lending rate cap was introduced in April 2020, and loan repayment moratoriums, initially introduced in response to the pandemic, became a longstanding feature.

In May 2024, BB returned to a market-determined interest rate system after briefly experimenting with a crawling interest rate regime labelled SMART.[197] BB's moral suasion had kept retail rates below a 14% ceiling as part of its regulatory strategy under the IMF programme. In July and August, BB's new leadership swiftly signalled a change in regulatory conduct. Retail lending rates are now presumably left to market forces, guided by bank-customer relationships.

Real lending and policy rates have been negative for too long. Retail rates have risen in response to increases in the policy rate and liquidity stresses in the system, ranging from 11% to 16% depending on the bank and sector.[198] The policy rate has increased by 525 basis points since May 2022 and is expected to remain at 10% until inflation data signals the need for adjustment. Despite increases in nominal rates, both the real policy rate and the real weighted average lending and deposit rates have remained negative. However, treasury bill rates have outpaced inflation in the past 12 months.

Aggregate indicators conceal more than they reveal. The advance-to-deposit ratio stood at 80.2% at the end of FY24, below the regulatory limit of 87% for conventional banks. Deposit growth was hindered by negative real deposit rates, eroded confidence due to large-scale fraud allegations, and the growth of NPLs. The quality of loans has deteriorated to the point where the banking sector is on the brink of breaching solvency standards. Increased cash holdings by the public and government borrowing from commercial banks have further tightened liquidity, beyond what is reflected in the formal financial disclosures of private and SOBs.

10.2 Solvency and Liquidity

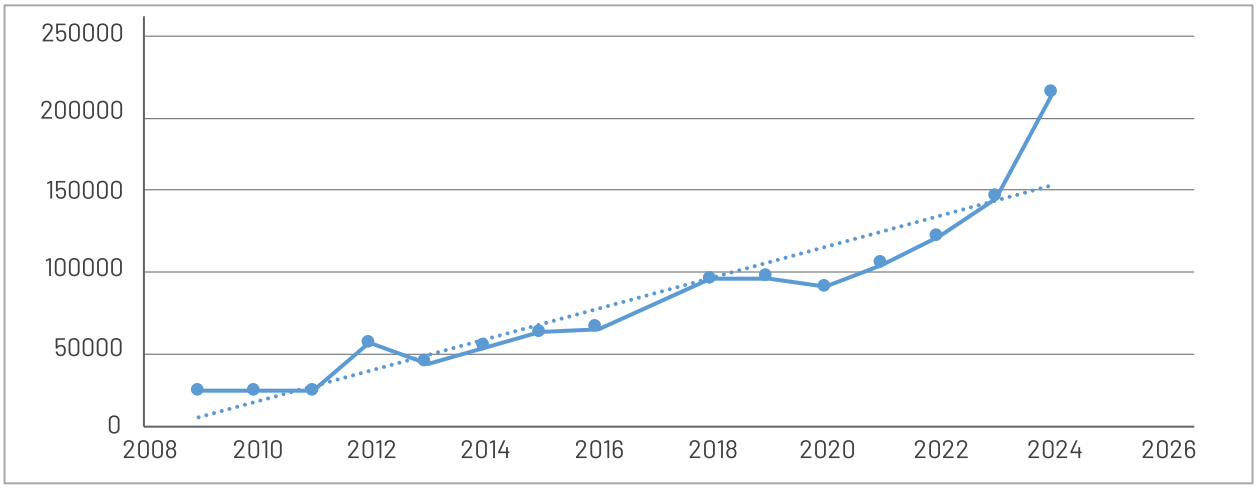
Capital levels are insufficient for comfort. The capital adequacy ratio (CAR) stood at 10.64% in June 2024, barely above the minimum regulatory requirement of 10%, down from 11.64% in December 2023.[199] SOBs, Specialised Development Banks, and several Private Commercial Banks (PCBs) are perilously close to insolvency. The aggregate CAR falls short of the 2.5% capital conservation buffer (CCB) that banks are required to maintain as a safety net against adversity. When the CCB is below the prudential limit, banks are expected to limit dividend and bonus payments.[200]

The buffer is less substantial than it appears. The reported increase in CAR over recent years was driven by higher net profits in the banking sector, even as asset quality deteriorated.[201] Net profits were overstated due to lax regulatory standards and manipulation of accounting practices.

[196] Bangladesh Bank. (2022, August). *Master Circular.*
[197] Six Month Average Rate on Treasury.
[198] In July 2024, the weighted average interest rate was 11.57%, the weighted average deposit rate was 5.68%, and the interest rate spread was 5.89%, according to the BB note prepared for the White Paper.
[199] CRAR is a measure of how much capital banks hold relative to their loans and other assets, adjusted for the likelihood of defaults. Data source: Bangladesh Bank, *Financial Stability Report*, 2023.
[200] The information here is from Bangladesh Bank note, September 26, 2024.
[201] In 2022 relative to 2021.

In 2022, under-provisioning against NPLs accounted for 77.3% of the reported profits. The provisioning shortfall grew dramatically in the previous two years and has yet to be addressed.[202]

Figure 10.1: Recognised non-performing loans 2008-24 (Tk in crores)



Source: BB data.

Loan defaults have undermined solvency. Recognised NPLs surged to over 12% in June 2024, up from 7.9% in June 2021, reaching a record high of over Tk 2.11 trillion (Figure 10.1).[203] These NPLs are dominated (over 88%) by the most severely classified loans, referred to as 'Bad Loans' (BL).[204] SOBs are present in all categories of classified loans, with a significant share of both assets and NPLs. However, they no longer hold a monopoly on opaque disclosures.

The banking industry is teetering on the edge of illiquidity. Liquidity varies significantly across banks, with Islamic PCBs facing the most severe shortfalls. Foreign Commercial Banks are the most liquid, followed by SOBs and a few conventional PCBs. The industry maintained the required Cash Reserve Ratio and Statutory Liquidity Ratio until December 2023. Since then, liquidity has been declining, particularly in SOBs and Islamic PCBs. The local currency reserve shortfall for the banking system has recently ranged consistently between Tk 8,000 to 9,000 crores daily.

Several private banks are financially unstable. They significantly overstate their net worth and liquidity. The Annexe illustrates the cases of 10 weak private banks, which together hold 33% of the market share in loans and 32% in deposits. Following adjustments for asset recoverability and liquidity, these banks shift from positive net worth to large negatives in all cases, and their liquidity becomes problematic in eight out of 10. It is particularly ironic that many of these banks operate on Shariah-compliant models, attracting depositors based on religious ethics. However, scams, fraud, and misappropriation of funds have been exposed in these institutions, with owners profiting unethically from the religious sentiments of their depositors.

10.3 Depth of Distress

The unseen is over three times the seen. The portion of NPLs that is 'window-dressed' consists of loans that have been rescheduled or restructured after turning bad and amounts written off

[202] BB acknowledged over two years ago that 'the current level of CRAR... may not sustain if the central bank withdraws the accommodative provisioning stance...' (FSR 2022, p. 59).
[203] Part of the sharp increase in the last quarter of FY24 may have resulted from unedited disclosures of unrecovered loans that were previously classified as regular through various concessions. More such spikes are likely in the near term as default recognition criteria are tightened.
[204] Loans overdue for 36 months or more.

because they have remained on the balance sheet as BL for too long.[205] All these categories have increased over time (Figure 10.2). By adding the stock of written-off loans (net of recoveries) and the non-classified portion of rescheduled loans to the recognised NPLs, the incidence of 'distressed' assets stood at 31.7% of total bank loans by the end of June 2024.

Figure 10.2: Distressed assets in banks

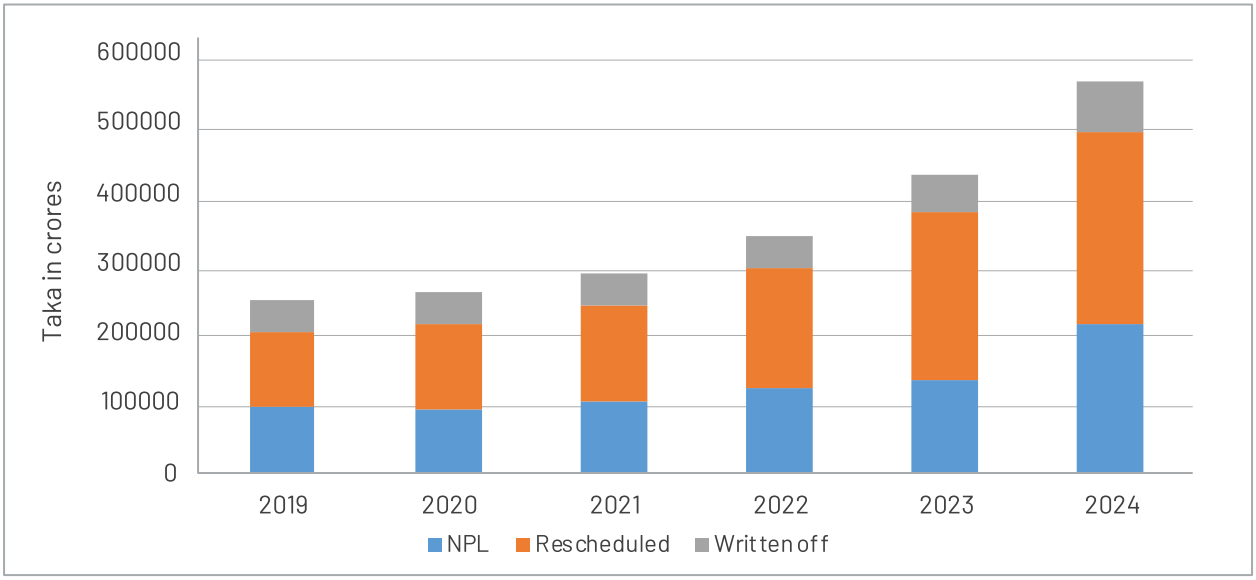


Figure 10.2 does not include loans tied up in court proceedings, which, according to BB data, increased from Tk 1,66,688 crore at the end of December 2022 to Tk 2,07,361 crore in March 2023.[206] Furthermore, loans in Special Mention Accounts, which are overdue by 60 days or more, are likely to be distressed.[207] SOBs and some PCBs hold a disproportionate share of loans in this category. These loans are included in the total distressed asset calculation in Table 10.1.

Table 10.1: Depth of banking blackhole

(End-June 2024)

Source of distress	Tk in crores
Recognised NPL	2,11,391
Rescheduled and restructured	2,72,856
Outstanding written off	75,389
Special Mention Accounts	39,209
Under a court stay order	76,185
Total stress	6,75,030
Equivalencies	
Nos. of Dhaka Metro	13.5
Nos. of Padma Bridge	22.5

Source: Based on Bangladesh Bank data.

[205] The write-off waiting period was previously more than three years. This was reduced to two years in May 2024.
[206] The New Age, August 19, 2023. The *Dhaka Tribune* reported the same figures, citing BB data on August 20, 2023.
[207] BB. (2024, June 30). *Classified Loan and Provisioning (Consolidated CL-1)(DBU+OBU).*

By the end of FY24, the depth of the banking black hole exceeded Tk 6,75,000 crore. This amount is equivalent to 13.5 Dhaka Metro systems or 22.5 Padma Bridges. The banking crisis did not arise from isolated incidents or a few mismanaged institutions; rather, the fragmented regulatory system provided multiple avenues for malfeasance. The banking system remains inadequately provisioned to cope with such severe stress. At the end of June 2024, the recognised provisioning shortfall amounted to just Tk 19,261 crore. The disparity in actual provisioning is troubling. BLs, which require 100% provisioning, stood at Tk 1,67,889 crore by June 2024, yet the actual provision was only Tk 89,355.8 crore, far below the required level.[208] Generous provisioning deferrals and alleged nepotism in certain banks contributed to this significant mismatch.

The extent of distress is further compounded by the poor performance of NBFIs. At the end of June 2024, the 35 NBFIs in Bangladesh had Tk 24,711 crore in NPLs, representing 33.2% of their total loans,[209] compared to 25% in September 2022. Notably, People's Leasing and Financial Services and International Leasing and Financial Services were embroiled in high-profile scams and irregularities, yet the regulator largely failed to take substantial action, instead targeting only minor offenders.

10.4 Deep Determinant of Stress

The primary culprits within the banking system are major players whose influence extends throughout the sector. NPL concentration mirrors loan concentration, with the fastest-growing sectors, such as manufacturing, accounting for 49% of loans and 55% of NPLs.[210] Disproportionate default rates are particularly evident in the RMG, textiles, shipbuilding, and ship-breaking sectors. There is a significant overlap between loan concentration, default propensity, and the types of banks (in terms of ownership and generation). Capture by dominant business interests has undermined safeguards in the system, contributing to the current dire state. Operational and allocational inefficiencies have stifled growth and financial inclusion, particularly by excluding innovative entrepreneurs who lack tradable collateral and political connections. The use of forbearance and regulatory directives has generated rents for lawyers, accountants, auditors, bureaucrats, and supervisory authorities.

The same influential players have also eroded confidence in the stock market. Market manipulation is widespread, with several powerful investors and institutions inflating stock prices through illegal trades.[211] The book-building process has been systematically manipulated, and IPO valuations, often deliberately underpriced, benefit sponsors at the expense of general investors in the secondary market. Fraud, manipulation, placement shares, and deceit have been prevalent in IPO processes involving powerful entrepreneurs, issue managers, auditors, and certain investors. Stock market intermediaries faced bankruptcies, with negative equity totalling Tk 13,000 crore, of which merchant bankers accounted for Tk 7,000 crore and brokerage houses for Tk 6,000 crore.[212] Annexe II provides a more detailed account of the stock market and regulatory failures.

[208] BB, ibid.
[209] BB, Financial Stability Report, Second Quarter, 2024.
[210] BB, Financial Stability Report 2023.
[211] According to a report in *The Business Standard* (September 2024), the Dhaka Stock Exchange (DSE) identified several beneficiary investors involved in scams perpetrated during January–March 2022. However, the report was never published.
[212] Bangladesh Securities and Exchange Commission data.

Safeguards Do Not Guard

Regulatory safeguards were deliberately disabled. Collusion between BB insiders and powerful outsiders reached unprecedented levels between 2015 and 2024.[213] The relationship between the BB and political leadership shifted, with fiscal and political dominance finding a receptive audience within the BB. The most evident example of this coalition of interests is the Bank Company (Amendment) Act 2023, passed on 21 June 2023. This amendment extended the tenure of bank sponsor directors to 12 years. Previously, the Bank Company Act 2013 was amended in 2018 to allow directors to hold directorships for up to nine years. In 2023, for purely cosmetic reasons, the number of family members allowed on a private bank's board was reduced from four to three, still above the two allowed under the 1991 Act, which was amended in 2018 to permit up to four family members. The 2023 amendments undermined the Bangladesh Corporate Governance Code, which mandates that listed banks, NBFIs, insurance companies, and statutory bodies must have between five and 20 directors, with at least one in five being independent or non-executive. The 2023 amendments, however, allowed boards to have as few as two independent directors.

The amendments also introduced the distinction between wilful and non-wilful defaulters, with the former ambiguously defined as those who 'do not repay, though they have the capacity to do so', leaving room for judicial interpretation. The amendment allowed sister concerns of defaulting companies to bypass ineligibility for new loans, subject to BB's discretion. Penalties for wilful defaulters included travel restrictions, denial of trade license, or new company registrations in capital markets—measures that amounted to little more than symbolic gestures. Furthermore, board members or their relatives were permitted to borrow against collateral, bonds, or securities. Together, these changes marked a decisive shift from the rule of law to the law of the rulers.

Enforcement of regulations was lax and uneven. A shortage of independent directors on overpopulated boards served to rubber-stamp the will of the sponsors.[214] The composition of boards in several banks, both state-owned and private, reveals little attention to relevant skills or experience. Internal and external auditors were not necessarily selected for their technical competence or impact. Biased enforcement by the BB facilitated serious misconduct in both private and SOBs. The BB failed to monitor the evolving risk profile of banks effectively and did not adjust its supervisory constraints according to movements in capital ratios. Furthermore, the MoF maintained broad regulatory authority over SOBs, which were frequently non-compliant with prudential requirements but were not subject to meaningful sanctions.

The licensing process was transactional, with political patronage enabling predators to easily bypass regulatory barriers. The current system fails to establish a robust corporate governance framework or to assess the suitability of major shareholders based on 'fit and proper' criteria.[215] Licensing of PCBs has become a tool for political patronage, with ownership often concentrated among politically connected individuals, despite concerns from external stakeholders about its economic rationale. The MoF's politically motivated involvement in bank licensing exemplifies the extent of policy and regulatory capture.[216]

[213] Several cases have been reported. A typical example, as reported in *The Business Standard* on September 8, 2024, involves the creation of numerous shell companies for under-invoicing exports and over-invoicing imports. These entities opened Letters of Credit (LCs) for imports in sourcing countries. To obscure their identities, they used shell companies to open LCs in Singapore and Dubai. Bangladesh Bank afforded preferential treatment to these parties.

[214] World Bank (2022). *Change of Fabric.*

[215] The *Bank Company Act* of 2023 introduced some improvements to the licensing procedures. Bangladesh Bank had drafted a new licensing guide in 2022, but it has not yet been operationalised.

[216] Hassan, M. M., Bidisha, S. H., Mahmud, T. I., & Raihan, S. (2024). *Political Economy of Private Bank Governance in Bangladesh: Part II – Six Challenging Institutional Areas.* Published online by Cambridge University Press, 10 January 2024.

Capture by Dominant Groups

Large actors siphoned substantial amounts of money. Embezzlement of significant sums from various banks by multiple groups, often through fictitious companies or without proper documentation, became a privilege reserved for major borrowers.[217] The CPD documented 24 instances of malfeasance, including forgery, embezzlement, fraud, theft, money laundering, misappropriations, and other irregularities, based on published reports from 2008 to 2023.[218] The perpetrators include prominent entities such as the Hallmark Group, Bismillah Group, AnnonTex, Regent Hospital, and NRB Global Bank. The total value of these 24 cases amounted to Tk 922.6 billion, or approximately $32 million per case, equivalent to 3.86 billion BDT. To put this into perspective, the average per capita income in Bangladesh is about $2,600, according to official estimates. If an individual earns this amount annually for 50 years, with a 10% annual growth rate, they will accumulate approximately $310,000 over their lifetime. The stolen amount per case is nearly 105 times this estimate.

Related parties capitalised on relations. Related-party lending, a form of regulatory capture, is pervasive among banks controlled by individuals or entities with significant stakes in non-financial firms.[219] Restrictions on related-party transactions have proven ineffective. Directors of one bank, for example, are permitted to borrow from other banks. Unsurprisingly, related-party lending has surged. By the end of 2023, reciprocal loans among directors from eight banks had reached Tk 45,000 crore.[220] These banks circumvented rules and norms under the oversight of regulators. The contribution of these directors to the lending banks' paid-up capital was only 5% of the loans they received from each other.[221] Definitions of 'controlling interest', 'ultimate beneficial ownership', and 'related parties' fail to account for intricate familial relationships, thus obscuring the true scale of related-party lending. Regulatory enforcement concerning these transactions has been lax, allowing such breaches to go unchallenged.

Technocratic explanations have no clothes. Explanations that focus solely on organisational capacity deficits or deviations from international best practices fail to address the root causes. A more convincing narrative involves the alignment of interests between bank owners, regulators, politicians, and bureaucrats. Patronage through regulatory and policy capture precipitated a collapse in both regulatory and corporate governance, with influential government members and bank owners facilitating the process. In 2017, a single conglomerate gained control over seven PCBs. Reckless credit underwriting practices led to a sharp rise in NPLs across several third-generation conventional PCBs. The owners and boards of these banks faced no consequences. Politically exposed persons and large business group owners frequently held seats on the boards of multiple banks, and independent directors failed to perform their intended roles. Business magnates invested heavily in lobbying to ensure that corrupt practices went unchallenged by the political establishment and the bureaucracy.

10.5 Dhaka Consensus

The interim government has inherited a consensus concerning the state of the financial system, particularly the banking sector.

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[217] The S Alam Group allegedly took approximately BDT 200 billion from the banks. *Bank Plunderers to be Tracked Down: Bangladesh Bank Governor, The New Age,* August 25, 2024.
[218] CPD, *State of the Bangladesh Economy in FY2023-24: First Reading,* IRBD, December 23, 2023.
[219] The banking sector does not adequately disclose related parties' information and often disregards international standards. See Rahman, M. M. (2018). *Compliance with IAS-24, Related Party Disclosure in Listed Commercial Banks: Evidence from Bangladesh. Journal of Banking and Finance Management,* 1(3), 19–27.
[220] Exim Bank, Islami Bank, Social Islami Bank, National Bank, IFIC Bank, First Security Islami Bank, Union Bank, and Global Islami Bank.
[221] *The Daily Star*, August 17, 2024.

The system is undercapitalised, illiquid, and beset by malfeasance. The extent of undercapitalisation and illiquidity is unclear, as capital adequacy and liquidity indicators have been inflated. Over the past decade and a half, distressed assets in both state-owned and private banks have increased substantially, encompassing conventional and most Shariah-compliant banks. Other financial sectors, such as NBFIs and insurance companies, are similarly on the brink of collapse. The stock markets have devolved into a hub of financial misconduct, with company fundamentals largely irrelevant to market valuations—unlike the bull and bear markets seen in developed economies.

Foul play rather than the economy largely accounts for the dire state. The state of the system cannot be attributed to economic disruptions, financial crises, or political instability alone. While economic factors such as trade, remittances, investments, inflation, commodity prices, exchange rates, and interest rates are often cited, they do not explain the persistent deterioration of balance sheets or the erosion of trust in market actors and regulators. Instead, an organised network of business conglomerates, bureaucrats, and politicians has exploited the financial system to extract public funds through corporate and regulatory capture. Laws and regulations have been tailored to serve the interests of this nexus in the local and foreign currency markets. Although de jure accountability systems exist, they are largely inoperative in practice. As a result, the public's trust in the institutions designed to regulate markets, adjudicate disputes, and allocate resources has been severely undermined.

A few pockets of sound banking and the expectation of bailouts have prevented panic-driven withdrawals. The oligarchic powers that dominate the sector rely on financial growth to maintain depositor and investor confidence, ensuring the continuation of their exploitative practices. These groups must allow professional bankers to operate according to the rules, enabling them to navigate adversity. Islands of excellence in conventional banking, microfinance, and mobile financial services persist, supported by a shared belief that no current government leadership will risk allowing the system to collapse entirely. This has kept depositor concerns below the thresholds that might induce a full-scale run on the banks. While the crisis is not yet terminal, it is severely debilitating. Financial stability and the capacity of the banking sector to support inclusive and sustainable growth are under significant threat.

An opportunity to contest oligarchic power in banking. Views on how to reform the system and mitigate risks diverge, primarily due to differences in understanding the practical details and political economy of change. However, there is broad recognition of the opportunity created by recent political developments to challenge the entrenched banking oligarchy. The oligarchic powers that have rendered SOBs and several PCBs a persistent threat to financial stability are currently on the back foot, but they have not yet been removed from the field. Reforms, which should have been enacted long ago, must ensure that new oligarchs do not consolidate their power and perpetuate the corrupt practices of their predecessors.

Mitigating systemic risk is currently the overarching priority. Mitigating systemic risk remains the foremost priority. Recent shock therapies must be followed by well-considered reforms that aim to create lasting change. Initial steps, under the IMF programme and the World Bank's budget support, have begun to address deviations from international norms and standards. However, these reforms alone will not alter the culture of impunity. The BB has taken some necessary steps, including reconstituting bank boards after the exodus of their owners and directors from positions of power. The path forward will be long and challenging, testing the political will to transform the banking system from one characterised by corruption and impunity to one that is fair and accountable.

Annexe-I
How Bad Are the Balance Sheets?

We selected 10 distressed banks to assess their solvency and liquidity. Among these, two are state-owned institutions, primarily affected by scams over the past decade. The remaining eight include weak Sharia-based and conventional PCBs. For confidentiality reasons, the names of these banks are not disclosed. All 10 banks are classified as 'distressed' by regulators, the media, and the public. The combined loans and deposits of these banks represent 33% of the total loans and 32% of the total deposits in the banking sector. Some of these banks are considered domestically systemically important banks (D-SIBs).

Most of these banks did not disclose the fair value of their assets in their financial reports. We identified hidden toxic assets based on expert judgement, supported by indirect disclosures from the banks' annual reports, regulators, and various media articles published over the past few years (specific references are provided at the end).

The assessment covers the audited balance sheets for December 2023, examining each asset category: Cash & Balances with the BB, Balances with Other Banks, Money Market Placements, Investments, Loans & Advances, Fixed & Other Assets, etc. After estimating the value of these assets, we adjusted their reported values. The adjusted capital is derived as the difference between the adjusted asset and liability values. Similarly, we assessed the quality of liquid assets to determine the ratio of adjusted liquid assets to total assets. This ratio reflects the intrinsic liquidity available to meet depositors' demands.[222]

Beneath the Balance Sheets

In evaluating the balances held with other banks, we considered the *credit profiles of the counterparties* (other banks and FIs) to estimate necessary adjustments. The adjusted total assets are 37% of the reported value. For example, one large bank reported balances with other banks and FIs of Tk 6,652 crore as of December 31, 2023. A detailed breakdown showed that around Tk 2,000 crore could not be recovered. The bank also held Tk 584 crore with NBFIs, of which 80% was deemed irrecoverable. Similarly, another large bank reported Tk 10,158 crore, of which approximately Tk 8,000 crore was tied up in five distressed banks, according to media reports.[223]

This issue is also apparent in other financial placements, such as Money at Call and investments in government securities. Several banks made significant placements with other institutions that subsequently lent to related parties from whom recovery is unlikely. Investments in government securities, quoted and unquoted shares, and bonds were adjusted by only 10%. Government securities could not be valued on a mark-to-market basis, as there is no publicly available data on the amount, tenor, or yield of each investment. Unquoted shares were adjusted based on the credit profile of the investee, particularly their holdings in subordinated bonds (mostly issued by distressed banks).

Accurate valuation of the loan portfolio would require in-depth on-site due diligence, including the review of each credit file, loan statement, and loan documentation. However, this ideal assessmentis constrained by data limitations.[224] *Data mirroring the portfolio* quality is indicative.

[222] This exercise focused primarily on the valuation of assets, hence liabilities were not valued.
[223] *পাঁচ প্রতিষ্ঠানে আটকা ইসলামী ব্যাংকের ৮ হাজার কোটি টাকা*;Prothom Alo, September 6, 2024.
[224] Relevant notes on the financial statement, auditor's special comment (if any), approval from Bangladesh Bank for the deferral of loan loss provisions (if any), a list of large borrowers and their credit profiles (where available), information on restructuring/rescheduling of loans (where available), loans under writ petition (where available), news reports, etc.

For instance, a bank reporting a 5% NPL ratio should not have a negative balance with BB. Considering available data suggests that combined loans and advances should be reduced by 64%.[225]

All 10 banks are technically bankrupt and illiquid. The combined adjusted value of their assets is 52% of the reported value, resulting in a negative net worth. Liquidity, measured by the ratio of liquid assets to total tangible assets, indicates that eight out of the 10 banks are illiquid.[226]

All banks are rated 'Very Weak'. Fundamentally, a bank's financial health depends on profitability, NPL ratio, capital structure, and liquid assets. Solvency and liquidity are interrelated. We assessed each bank's assets, capital, and liquidity after making the necessary adjustments, using the following ordinal scale: VS=Very Strong; S=Strong; M=Moderate; W=Weak; VW=Very Weak (Each rating can be adjusted up [+] or down [-] by one notch).

All 10 banks received a rating of 'VW-', the lowest possible grade. They are extremely weak in terms of assets and capital. Two banks have moderate liquid assets, while the remaining eight are nearly illiquid. Most of these banks appear to have defaulted on their obligations and have been denied support from the market. Their support from the central bank has also been exhausted. Currently, they are relying on the BB's Guarantee Scheme and/or Emergency Liquidity Assistance to remain operational.

The precarious condition of these banks is well known to the public. Their reported financials, along with frequent media coverage, reveal significant investments in delinquent non-financial corporations, insolvent FIs, and entities with no real existence. Consequently, the substantial discrepancy between the banks' reported and actual financial situations is not surprising.

[225] Based on the following sources: 'S Alam Group Took More than Half of Total Loans from Islami Bank: Chairman'; *Prothom Alo*, September 5, 2024; 'BDT 500 billion of Islami Bank in S Alam's Pocket'; *Prothom Alo*, August 14, 2024; 'Islami Bank's Loan Discrepancies: Khatunganj Branch Alone Granted S Alam Group BDT 670 billion'; BD News 24, August 18, 2024.

[226] We do not count balances held with distressed banks. Even balances held with Bangladesh Bank can be illiquid if they are special drawings. One bank reported its required reserve under the Statutory Liquidity Ratio (SLR) as BDT 25.13 billion, maintaining a reserve (including Cash Reserve Ratio) of BDT 27.77 billion. It reported a surplus of BDT 2.64 billion as of December 31, 2023. However, as of January 18, the negative balance in the current account of Bangladesh Bank for the same bank was BDT 74 billion. Source: 'Nine Banks Face Over BDT 18,000 crore in Liquidity Crisis'; *The Business Standard*, September 24, 2024; *'তীব্র অর্থ সংকট: নতুন করে সহায়তা চায় গ্লোবাল ইসলামী ও পদ্মা ব্যাংক'*; BD News 24 Bangla, September 11, 2024; 'Bangladesh Bank Prints Money to Feed S Alam's Banks', *New Age* BD, January 22, 2024.

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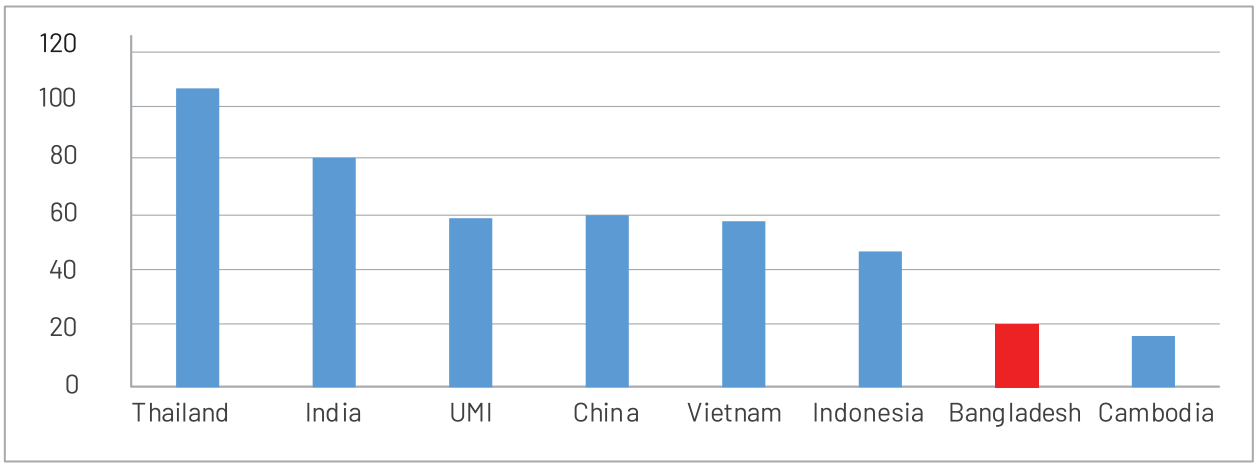
Annexe-II

The Stock Market

Forever Shallow and Vulnerable

The depth of capital markets in Bangladesh has remained low. Financing through capital market instruments is limited and decreasing relative to the size of the economy. The number of listed issues has stagnated at around 650, and market capitalisation is the lowest among regional peers, except for Cambodia (Figure A-II.1).[227] Over time, market capitalisation has declined. The corporate debt securities segment is nearly non-existent. Liquidity in the capital markets is primarily driven by bank funds. Banks, often with affiliated merchant banks and brokerage wings, invest through margin loans and direct portfolio investments. The legal framework has evolved through amendments to the Securities and Exchange Commission Act 1990 and the Securities and Exchange Ordinance 1969. The Demutualisation Act, passed in 2012, led to the demutualisation of the Dhaka and Chittagong Stock Exchanges. In 2015, the Financial Reporting Act established an independent Financial Reporting Council.

Figure A-II.1: Stock market capitalization to GDP, 2019



The brazen impunity of manipulators unravelled the worst of markets. After the Awami League government assumed power in 2009, the stock market surged, only to crash in January 2011. The main Dhaka index fell by nearly 50% from its December 2010 high. By October 2012, the loss was equivalent to 22% of GDP, wiping out $27 billion in market capitalisation and triggering widespread social unrest.[228] Some investors even committed suicide. The resulting liquidity crisis heightened solvency risks. In both 1996 and 2010, the index's rise and fall were driven by collusion between institutional investors, high-net-worth individuals, and brokerage firms, who collectively controlled the majority of trading volumes. Retail investors bore the brunt of these manipulations.

The government formed an investigative committee, which highlighted the limited enforcement of regulations by the BSEC and the excessive involvement of commercial banks in stock market investments. The committee, led by veteran banker Mr. Ibrahim Khaled, identified issues such as placement trading, irregularities in the IPO process, suspicious transactions under omnibus accounts, and the roles of influential businessmen, brokers, and market players. The report also named companies whose share prices surged abnormally by 300% to 900% in 2009 and 2010.

[227] Figure A-II.1 is from World Bank (2022). *Change of Fabrics.*

[228] Shah, S. A.-M. H. (2016). *Capital Market Development in Bangladesh*. ADB South Asia Working Paper Series, October 2016.

The government had previously ignored the findings of the 1996 stock market crash investigation. This time, it sought reform by restructuring the BSEC. However, subsequent BSEC leadership undermined these reforms, bringing the market close to further crises.

Market manipulation remains endemic. Powerful investors and institutions artificially inflate share prices through circular trading, where related parties buy and sell shares among themselves to create the illusion of active trading. This practice violates securities laws and distorts market integrity.[229] The book-building process is similarly manipulated, failing to reflect the true valuation of companies. IPO anomalies, particularly underpricing, disproportionately benefit sponsors over general investors in the secondary market.

Vested interests have taken control of major mutual funds. Allegations of embezzlement have been levelled against the top two institutions in the closed-end mutual fund sector, yet the BSEC failed to intervene. The Khairul Commission exacerbated the issue by extending the duration of all closed-end mutual funds by an additional 10 years, further eroding investor confidence.

Regulatory interventions have often been reactive and ineffective. As the index rose, regulations were introduced to increase the margin loan ratio, fuelling further market speculation. The BSEC prioritised maintaining the index, often disregarding stock price surges, yet intervened only when prices declined. The controversial floor price system severely damaged the market's international reputation. It effectively halted trading in stable companies while encouraging manipulation, as penalties for misconduct remained disproportionately low compared to potential profits.

The Dhaka Stock Exchange Index (DSEX) is the most widely followed market indicator. In January 2024, following the removal of the floor price, the Dhaka Stock Exchange excluded 83 listed companies for allegedly failing to meet minimum turnover criteria in the previous month. This decision overlooked the fact that low turnover resulted from the floor price restrictions. The excluded companies, spanning 10 sectors—including Walton, Ifad Autos, IDLC, IPDC, Summit Power, ACI, and Dutch-Bangla Bank—accounted for over 19% of total market capitalisation. The index is rebalanced annually, often with the aim of inflating its value. According to an analyst, the DSEX, which closed at 5,114 on 24 October 2024, could have dropped to 4,338 had these 83 stocks remained in the index.[230]

Low-performing or 'junk' stocks often appear among the top gainers or top turnover lists, attracting investors despite the high risk. The BSEC occasionally investigates manipulations but imposes only light penalties, thereby encouraging those with ulterior motives to exploit the system. Most listed firms are family-run, and investors lack confidence in their financial reporting.

The inconsistent floor price system stifled trading. To halt the market's decline, the BSEC set a floor price for every stock in March 2020. The floor price was lifted for 169 companies in December 2022, only to be reinstated in March 2023. These frequent changes created an environment of speculation. The floor price restriction hampered liquidity, as trading below the floor price was prohibited. Investors were stuck with worthless stocks for months, unable to exit, and leveraged investors faced interest costs on margin loans. Meanwhile, price manipulation of weak stocks continued. Foreign portfolio investors avoided the market, as asset managers are prohibited from investing in countries with such restrictions.

[229] According to a report in *The Business Standard* in September 2024, the DSE identified several beneficiary investors involved in scams perpetrated between January and March 2022. However, the report was never published.
[230] Based on *Why DSEX Still Looks Fine While Most Stocks Are Falling, The Business Standard,* October 25, 2024.

The capital market has suffered from an adverse selection of players. Trillions of takas have allegedly been embezzled through fraud, manipulation, and deceit in the IPO process. Excessive government interference has hindered market development, while vested interests have maintained an entrenched status quo of gambling and swindling. Laws and regulations have often been inadequately enforced. Weak and substandard companies have entered the market through IPOs,[231] while a major network of manipulation involving influential entrepreneurs, issue managers, auditors, and investors has flourished. In some cases, regulatory officials have exploited legal loopholes or provided concessions.

The growth of the equity market has been impeded by poor market infrastructure and a cumbersome IPO process. The current market systems are not conducive to efficient functioning. IPO valuations give sponsors an advantage over general investors in the secondary market. Settlement delays raise interest rates and increase price fluctuation risks. Liquidity is also affected by the lengthy IPO cycle. The lack of central counterparty clearing, interoperable IT infrastructure, and adequate trading platforms has hindered transparent market-making and trading by brokers and clearing houses.

Investor confidence remains low. Public perception is shaped by memories of manipulations going unpunished, despite credible reports from investigative committees. A 2023 study by the CPD[232] found that 50% of businessmen believe suspicious trading is prevalent in the secondary market, 53.1% think BSEC enforcement is weak, 50% find financial reporting anomalous, and 56.3% believe that poor companies enter the market through IPOs. These concerns have remained unchanged since 2022.

[231] According to a *Bonik Barta* report, over the past fifteen years, 149 companies have raised more than BDT 110 billion from the stock market through IPOs. Many of these companies are now financially weak, and several have gone out of business.

[232] CPD, *Bangladesh Business Environment Study 2023: Findings from the Executive Opinion Survey*, January 2024.

Chapter XI. Power and Energy Sector- A System Designed for Corruption*

11.1 Analysing Policy Missteps and Corruption

Bangladesh is a Low-Emitting Energy Poor country, with a per capita energy consumption of just 465 kWh[233] per year, far below the global average of 3,000 kWh. The Awami League government has often claimed significant achievements in the power sector from 2009 to 2024, highlighting an increase in generation capacity from 5,719 MW to 32,000 MW. However, the country continues to face frequent load shedding and severe gas shortages. The reliance on imports, alongside economic challenges, has resulted in a critical fuel deficiency. Tariffs for gas and electricity have also been substantially raised, worsening the hardships faced by citizens. While electricity access has reached 99% of the population, the supply remains intermittent, costly, and unreliable, impeding the achievement of the SDGs. The industrial sector is particularly affected by the poor quality of power supply and insufficient gas availability. These issues stem from poorly designed policies and pervasive corruption in the sector, necessitating a comprehensive analysis of past decisions and current realities.

The reliance on gas as the sole fuel source for electricity generation, coupled with shortages and inadequate capacity in 2007, led to a severe power crisis. This crisis prompted the government to seek quick fixes, resulting in the rapid construction of oil-based rental generation units in 2010. This, in turn, increased dependence on oil-based IPPs.[234] Unfortunately, during this period, no significant efforts were made to enhance local supplies of gas, coal, or renewable energy. Expanding coal-based power generation was particularly challenging, as the government had previously opposed the establishment of a coal power station in Fulbari while in opposition. Additionally, delays in the development of baseload power plants reliant on Liquefied Natural Gas (LNG) and imported coal made the entire sector vulnerable to fluctuations in international energy supply and prices.

Furthermore, despite forecasts in the 2010 and 2016 Power System Master Plans (PSMP), which projected peak power demand to be 33,700 MW and 27,100 MW respectively, the government inflated the targets for 2030 and 2040 to 40,000 MW and 79,000 MW (later revised to 60,000 MW) under the 'Revisiting PSMP 2016' plan (Figure 11.1). This revision was justified by the government's expectations of ambitious economic growth.[235] The revision resulted in a tailored plan that facilitated the unchecked expansion of generation units, paving the way for corruption and misallocation of resources through the Quick Enhancement of Electricity and Energy Supply (Special Provisions) Act 2010 (QEEES).

In the power sector, a significant mismatch between demand and supply has emerged. The government's ambitious forecasts disregarded professional projections, leading to an installed capacity that exceeded actual demand. At the same time, this strategy exposed the sector to the global energy market due to the import of LNG and coal. Critics argue that the revision of demand forecasts was motivated by unscrupulous interests, leading to allegations of corruption within the sector.

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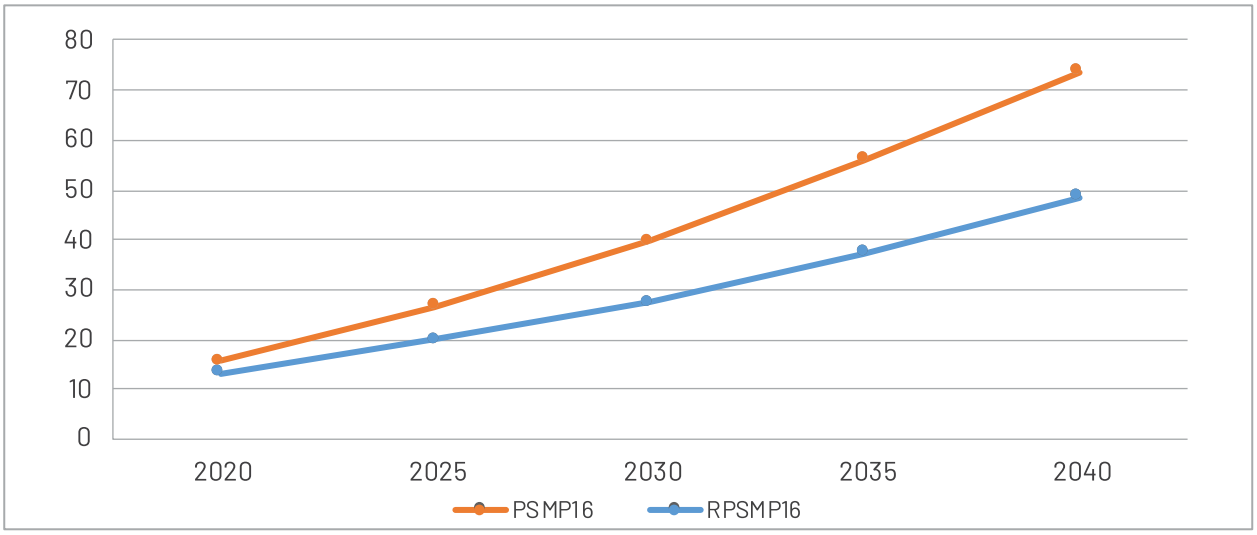
The chapter benefited from discussions with Professor Dr Ijaz Hossain, Former Dean of Engineering, Bangladesh University of Engineering and Technology (BUET); Ministry of Power, Energy, and Mineral Resources; Bangladesh Power Development Board; IPP Cell, Petrobangla; Bangladesh Petroleum Corporation; and Rupantarita Prakritik Gas Company Limited (RPGCL).

[233] https://www.newagebd.net/article/225415/power-consumption-drops-further-in-2023

[234] Tamim, M. (2012). 'The Cost of Inefficient Planning', Energy & Power, 12(1), 16 June 2012. http://ep-bd.com/online/details.php?cid=32&id=17550

[235] https://powerdivision.portal.gov.bd/sites/default/files/files/powerdivision.portal.gov.bd/page/4f81bf4d_1180_4c53_b27c_8fa0eb11e2c1/Revisiting%20PSMP2016%20%28full%20report%29_signed.pdf

Figure 11.1 Peak load forecast (Base case, GW)



11.2 Current and Projected Power Generation Capacity

Currently, Bangladesh has an effective generation capacity of 26,700 MW (Table 11.1),[236] with just 893 MW sourced from renewables, including a 230 MW hydroelectric plant. This figure excludes the 3,700 MW from oil-based rental and IPP plants that have been decommissioned after their contracts ended. An additional 6,000 MW of generation capacity, including 2,400 MW from nuclear energy, is expected by 2030. The agreements for all Combined Cycle Gas Turbine (CCGT) plants are for 22 years, while coal plants have 25-year contracts. If older plants owned by the Bangladesh Power Development Board (BPDB) are decommissioned and some IPP contracts expire, the country is expected to reach around 30,000 MW of power generation capacity by 2030, primarily from fossil fuels. Furthermore, over 25,000 MW of contractual obligations extend into 2040 and beyond.

Table 11.1 List of power plants currently in operation (23/10/2014)

Sl No		Number of Plants	Capacity (MW)
1	**Category: Dual Fuel (Gas/HSD) Power Plants (10)**		
	BPDB	1	336.00
	Government Companies	5	1,294.00
	IPP Power Plants	4	1,551.79
	Total Capacity	10	3,181.79
2	**Category: Gas-Based Power Plants (53)**		
	BPDB	18	3,403.00
	Rural Electrification Board (REB)	12	236.00
	Government Companies	9	2,560.70
	IPP Power Plants	7	1,892.00
	Commercial Power Plants	2	72.00
	Rental & No Electricity No Payment Basis	5	282.00
	Total Capacity	53	8,445.70
3	**Category: HSD-Based Power Plants (03)**		
	BPDB	3	60.00
	Government Companies		-
	IPP Power Plants		-
	Rental & No Electricity No Payment Basis		
	Total Capacity	3	60.00

[236] BPDB

Sl No		Number of Plants	Capacity (MW)
4	**Category: HFO-Based Power Plants (59)**		
	BPDB	10	742.00
	Government Companies	6	599.36
	IPP Power Plants	41	4,411.34
	Rental & No Electricity No Payment Basis	2	150.00
	Total Capacity	59	5,902.69
5	**Category: Coal-Based Power Plants (07)**		
	BPDB	2	399.00
	Government Companies	3	3,628.40
	IPP Power Plants	2	1,531.00
	Total Capacity	7	5,558.40
6	**Category: Renewable Energy-Based Power Plants (15)**		
	BPDB	3	238.00
	Government Companies	3	149.00
	IPP Power Plants	9	506.00
	Total Capacity	15	893.00
7	Power Import	6	2,656.00
	Total Capacity	**153**	**26,697.58**

Excess Capacity and Economic Strain

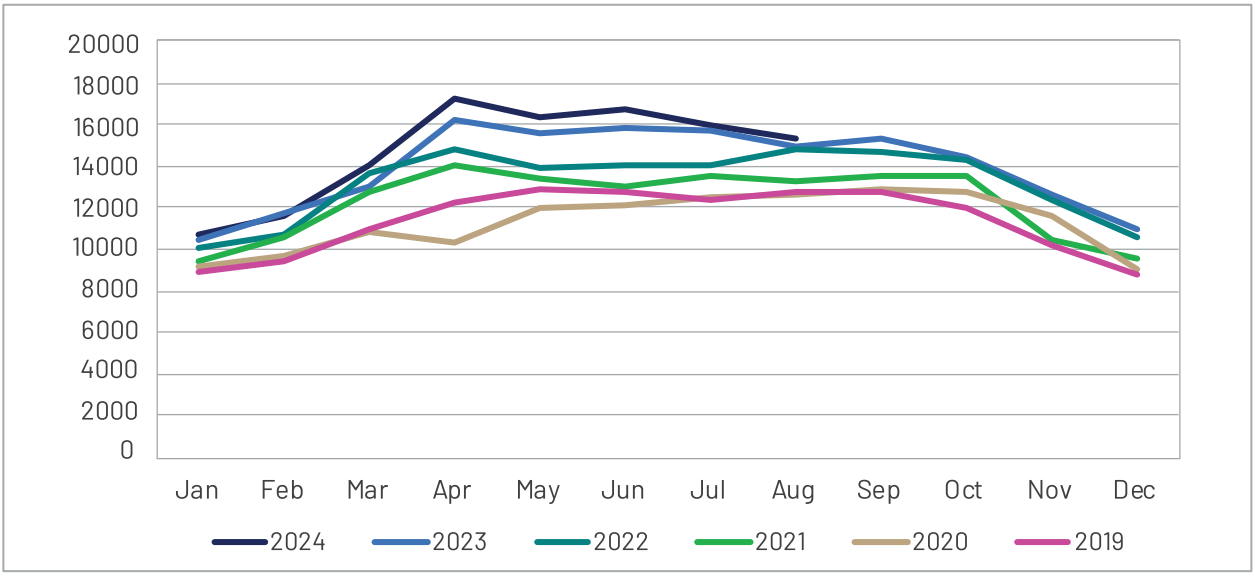
Until the recent retirement of rental plants and certain IPP facilities, Bangladesh claimed an installed capacity of nearly 32,000 MW. However, due to ageing infrastructure, this capacity was derated to approximately 30,000 MW. During peak summer demand in 2024, the highest recorded electricity demand reached 17,000 MW (Figure 11.2), while production peaked at 16,477 MW.[237] If 10% of capacity is reserved for standby and another 10% allocated for maintenance, the total required generation capacity is 25,500 MW. Thus, Bangladesh has maintained approximately 5,000 MW of excess capacity, 20% more than necessary, leading to significant capacity charges that burden consumers.

With installed capacity far exceeding actual needs and the sector's heavy reliance on imported fuels, the entire economy faces risks, especially as Bangladesh struggles with foreign exchange shortages needed for critical imports. The Energy Regulatory Commission, tasked with overseeing producers and protecting consumers, has failed to address these issues. Instead, it has justified successive power tariff hikes, imposing a significant fiscal burden and increasing the cost of living and production. This raises concerns about the competitiveness of the RMG sector.

Simultaneously, the sector's excess investment, approximately $4.48 billion, has heightened Bangladesh's exposure to global credit markets. As most private IPPs are owned by Bangladeshi entrepreneurs, these investments were secured by sovereign guarantees, further exacerbating the country's economic vulnerability to global credit risks.

[237] Provided by BPDB to the committee

Figure 11.2 Evening peak in MW



Operational Challenges and Political Influence

To maintain a stable power supply during peak and off-peak periods, coal and nuclear plants typically serve as baseload sources, while most gas and dual-fuel plants are CCGTs primarily used for baseload generation. Peaking and intermediate gas turbine plants are limited. Oil-fired plants have been relied upon to meet both baseload and peak demands. With a sufficient gas supply, CCGTs can adjust their output for intermediate and peak loads, replacing oil plants and reducing costs. Solar energy can also offset oil use during peak daylight hours, reducing dependency on oil and lowering production costs. However, the emphasis on meeting peak demand, combined with the rushed installation of baseload plants, indicates poor planning. Many contend that political interference, where non-professional groups influenced the types and locations of power plants, has led to operational strain and increased costs. Allegations of political connections between power plant owners and the ruling government further substantiate these claims.

Fuel Requirement and Its Burden

The evolving fuel mix in the power sector has impacted the country's foreign exchange reserves. The gas-based capacity, including dual-fuel plants, stands at 11,300 MW, requiring 1.8 billion cubic feet per day (Bcfd) of gas to operate at full capacity, which totals over 650 billion cubic feet annually. Approximately 60% of this gas is procured from International Oil Companies (IOCs) under production-sharing contracts, with payments made in foreign currency based on the equivalent price of crude oil in the Singapore spot market, within a specified minimum and maximum range set by the production-sharing contract.

Excluding the Adani power plant, the annual coal requirement for operating 5,670 MW is approximately 18 million tonnes. For oil-based power plants, the private sector imported 2.84 million tonnes of heavy fuel oil (HFO) in 2022-2023 and 1.09 million tonnes in 2023-2024. During the same period, the Bangladesh Petroleum Corporation (BPC) procured 0.43 million tonnes and 0.66 million tonnes of HFO. BPC plans to import 0.55 million tonnes of HFO and 0.1 million tonnes of diesel for power plants from October 2024 to June 2025, at an estimated cost of 3,000 crore taka.[238] Since 2018, Bangladesh has purchased a total of 1,360 million MMBTU of LNG from Qatar, Oman, and the spot market, amounting to 164,000 crore taka, including 17% VAT and AIT.

[238] Provided by BPC to the committee

[239] Imported LNG now supplies approximately 25% of the country's total gas needs. Consequently, the power sector not only faces the burden of overinvestment but also the additional costs associated with operating these plants and paying the annual capacity charges.

Transmission and Distribution Limitations

All large baseload coal power plants in the south, along with three new CCGT plants in the Meghnaghat area, cannot operate at full capacity due to limitations in transmission and distribution (T&D) capacity and fuel shortages. Furthermore, transmission lines required to evacuate power from the nuclear plant remain incomplete, which could delay the commissioning of the Rooppur power plant. This represents another instance of a mega plant being developed without proper consideration for the necessary infrastructure to integrate it into the national grid. From 2026 onwards, Bangladesh will be required to pay $500 million annually for the amortisation of the loan related to this project. In several areas, many 400/132 kV and 230/132 kV transformers are overloaded, necessitating local oil generation to maintain stability and balance on the 132 kV line. If these oil plants, critical for stability, and other power plants were fully supplied with fuel, they could meet the country's energy demands. In 2023-2024, T&D system losses were recorded at 10.06%. However, addressing the remaining instances of pilferage and upgrading the grid could reduce these losses to single digits, highlighting the link between inadequate planning and the increasing financial burden on the economy.

Renewable Energy

Various plans and agencies state differing objectives for renewable energy. The 8th FYP aims to add 3,700 MW of renewable capacity by 2025, while the Delta Plan 2100 seeks a minimum of 30% renewable energy by 2041. The Mujib Climate Prosperity Plan 2022-2041, the most recent plan, aims for 30% renewable energy by 2030 and 40% by 2041. In contrast, the PSMP 2016 and Perspective Plan 2021 did not include renewable energy targets for 2041, though they did provide scenarios for 10% and 20% renewable energy alternatives. The new Integrated Energy and Power Master Plan (IEPMP) 2023 is cautiously optimistic about both onshore and offshore wind, though its projections for solar power in 2041 are less favourable. Consequently, researchers, investors, and policymakers often select numbers that align with their preferences, while climate and environmental activists set ambitious goals, further confusing the public.

According to engineers from the BPDB and the Power Grid Company of Bangladesh, the existing power grid infrastructure can accommodate 4,000 MW of renewable energy across different zones. To ensure smooth operation, particularly with the introduction of nuclear power, substantial spinning and non-spinning reserves (including battery storage) will be required to maintain stable frequency and voltage. With system upgrades, the grid could integrate an additional 6,000 MW of renewable energy.[240] *Currently, only 600 MW of renewable energy is connected to the grid, highlighting the previous government's neglect of renewable energy over the last decade.*

Nuclear Power

In May 2016, Bangladesh finalised a deal with Russia worth $12.65 billion to construct two 1,200 MWe VVER nuclear power plants at Rooppur. Russia is providing $11.385 billion as credit, at an interest rate of LIBOR plus 1.75%, capped at 4%. Bangladesh will repay the loan over 28 years, with a 10-year grace period. The total cost of the project, including an initial expense of $550 million, amounts to $13.2 billion. Some critics argue that this is an overpriced deal, making it one of the costliest nuclear projects. For comparison, the 4th and 5th units of the Kudankulam Nuclear Plant in Tamil Nadu, India, built by Rosatom, cost $6.7 billion for 2,000 MWe.[241] Even after adjusting for capacity, the cost of the

[239] Provided by RPGCL to the committee
[240] Provided by PGCB to the committee
[241] https://pib.gov.in/PressReleasePage.aspx?PRID=1605939

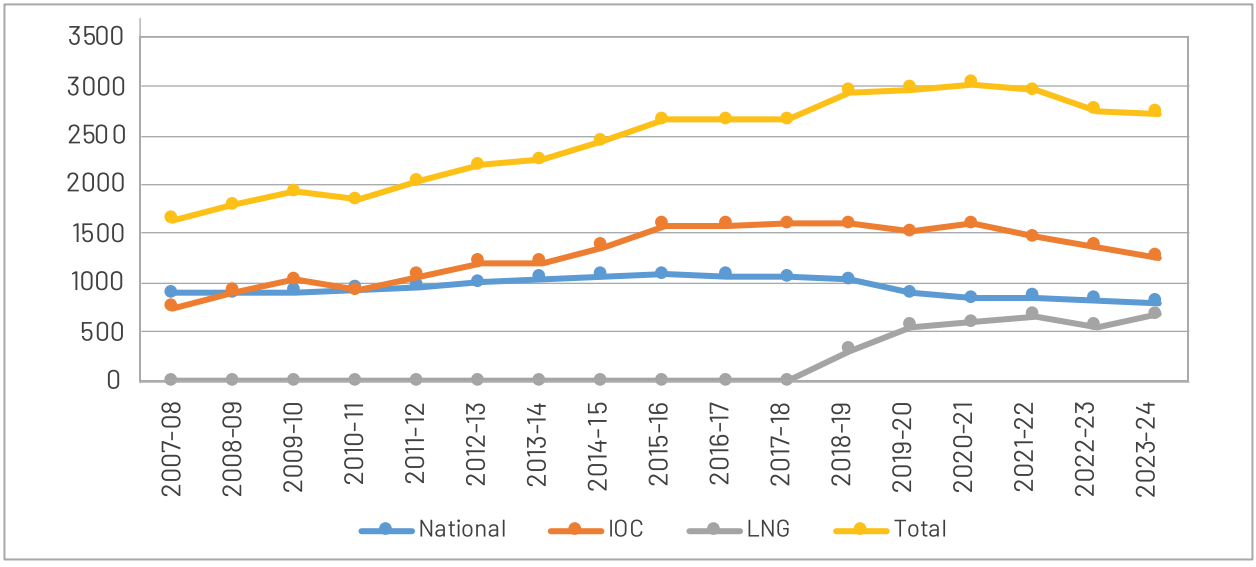
Rooppur plant exceeds that of Kudankulam by $5.2 billion. On the other hand, Rosatom is also constructing a 4,800 MWe plant in Egypt at an estimated cost of $30 billion.[242]

Several factors, including the engineering, procurement, and construction contract, availability of local expertise, logistics, geological surveys, and other considerations, significantly affect the cost of a nuclear power plant. Countries with a domestic nuclear industry and trained personnel typically benefit from lower costs. In comparison, India's unit cost stands at $3,350/kWe, while Rooppur's unit cost is $5,500/kWe, suggesting a higher price.[243] In addition to the high cost, the readiness of the national grid to operate a nuclear power plant is inadequate, particularly without an independent National Load Dispatch Centre and its automation. This could present major operational challenges and delay the plant's commissioning. *The choice of nuclear power as a means of fuel diversification appears to have been a misadventure on several fronts: infrastructure, trained manpower, local support, and cost. With the same investment, 6,000 to 8,000 MW of renewable, gas, or coal power plants could have been installed.*

11.3 Gas Shortages and Mismanagement

The gas shortage that began in 2007 with a 300 million cubic feet per day (MMcfd) shortfall has never been resolved. Today, the deficit is estimated at 1,000-1,500 MMcfd. In 2009-10, Petrobangla recognised the impending shortage and proposed plans to explore new reserves and enhance existing production, including a 500 MMcfd LNG import in its annual report. By 2010, the first LNG regasification plant proposal was made, with a projected delivery date of 2012. In 2009, the combined production of Petrobangla and IOCs was approximately 2,000 MMcfd, peaking at around 2,650 MMcfd between 2015 and 2019 (see Figure 11.3). Since then, Petrobangla's production has declined, while IOCs continued to produce 1,200-1,500 MMcfd of gas with dwindling reserves.

Figure 11.3 Gas supply in million cubic feet per day



Simultaneously, despite its declining production, Petrobangla largely abandoned its plans for the exploration and development of domestic gas resources. Since 2018, Petrobangla has relied on LNG imports to fill the supply gap. Currently, Petrobangla, along with IOCs, supplies about 2,000 MMcfd from domestic reserves and an additional 500-700 MMcfd from imported LNG. However,

[242] https://www.enerdata.net/publications/daily-energy-news/russias-rosatom-starts-building-egypts-first-nuclear-power-reactor.html
[243] https://www.thedailystar.net/op-ed/economics/the-economics-the-rooppur-nuclear-power-plant-1369345

LNG supply has been sporadic, either due to high prices or technical issues with the Floating Storage and Regasification Units (FSRU). The current demand for natural gas is at least 4,000 MMcfd. Interestingly, of the remaining producible 2P (Proven + Probable) gas reserves, which total 8.66 Tcf (trillion cubic feet), IOCs hold 2.62 Tcf, while Petrobangla manages the remaining 6.04 Tcf. Petrobangla's decision to continue importing LNG under the controversial QEEES Act of 2010 has exposed Bangladesh to volatile international spot markets, causing supply interruptions due to high prices. Critics argue that importing LNG at a premium while neglecting the development of Petrobangla's available reserves constitutes a misuse of public funds.

If production enhancement from existing reserves is not achieved, or new fields are not discovered, indigenous gas supply will decline sharply within the next five years, necessitating a higher import of LNG. The economy is highly dependent on natural gas, and switching to alternative fuels would be both expensive and time-consuming.

Petrobangla's gas demand projection for 2029-30 varies between 3000 MMcfd and 6600 MMcfd under three different scenarios (see Table 11.2). The most likely demand is approximately 5000 MMcfd, which would meet the entire demand of the power sector. The supply projection, however, indicates a deficit, heavily reliant on imported LNG. The Gas Development Fund, initially intended for enhancing local gas production, has instead been used to import LNG, thus impeding exploration efforts. BAPEX's new production enhancement plan anticipates an additional 300 MMcfd from workovers and a potential 810 MMcfd from new discoveries. A total of 100 wells—54 exploration, 15 development, and 31 workover—are planned to be drilled by 2028, an ambitious goal. It is worth noting that only 93 exploratory wells have been drilled in Bangladesh since exploration began in the early 1950s. Nine shallow and 15 deep-sea blocks were included in the 2024 offshore bidding process, but despite seven IOCs purchasing bid documents, none submitted offers. This lack of interest could be attributed to several factors, including the prevailing political uncertainty, declining oil prices, and limited prospects. The government must investigate the underlying reasons for this nonresponse before proceeding further.

Table 11.2 Gas demand-supply forecast (Petrobangla, July 2023)

	Demand (MMcfd)			Supply (MMcfd)			
Fiscal Year	Scenario1	Scenario2	Scenario3	Onshore	Offshore	LNG	Total Supply
2023-24	4734	3883	2788	2179	0	850	3029
2024-25	4956	3965	2498	2427	0	980	3407
2029-30	6655	5092	3091	2122	100	2130	4352
2034-35	7399	6072	3785	1238	880	3555	5673
2039-40	7758	6986	4890	874	820	3555	5249

Note: Scenario 1 is the gas distribution demand, Scenario 2 includes the Power division demand, and Scenario 3 is the IEPMP 2023 demand.

Locally produced gas and LNG are transmitted throughout the country by the Gas Transmission Company Ltd (GTCL). GTCL has a total capacity of 4000 MMcfd, yet currently only transfers 2100 MMcfd,[244] leaving nearly 50% of its capacity unused, resulting in financial losses. A few distribution companies and Petrobangla operate some transmission lines, which handle approximately 30% of the gas.

[244] Provided by GTCL to the committee

The expansion of gas transmission lines without proper demand-supply analysis is concerning, as many decisions are driven by political motivations. For instance, *gas transmission lines were extended to Rajshahi, Khulna, and Saidpur for political reasons, with the promise of LNG imports. These pipelines remain almost empty, causing financial losses for the company and increasing the fiscal burden on the government.*

Oil Import for Power

Both BPC and private-sector power producers import HFO for oil-fired power plants. The government allowed private HFO imports in 2011 for a select group of operators. Subsequently, most private HFO power plant operators were permitted to import HFO with an additional 9% service charge. This charge was attractive, as total transport costs, taxes, and losses did not exceed 5%. Since 2021, however, private imports have been subject to a 34% tax, which had previously been waived. The imposition of this tax has increased the cost of HFO-based power production. The average cost of HFO imported by BPC between 2021 and 2024 ranged from $500 to $600 per metric tonne. Table 11.3 shows HFO imports by BPC and the private sector, reflecting their correlation with oil-based power production. The discontinuation of oil-based rental plants and some IPPs has considerably reduced HFO and diesel imports.

Table 11.3 Heavy fuel oil (HFO) imported by Bangladesh Petroleum Corporation (BPC) and the private sector in the last five years (Financial Year) and cost incurred

Financial Year	Importer	BPC	Private Power Plant
	Products	HFO	HFO
2019-20	Imported Quantity (Tonne)	175693.95	Data is not available
	Cost (million USD)	81.31	-
	Cost (Crore Taka)	687.04	-
2020-21	Imported Quantity (Tonne)	47923.72	3797717.00
	Cost (million USD)	17.69	-
	Cost (Crore Taka)	151.41	-
2021-22	Imported Quantity (Tonne)	316086.19	4037940.00
	Cost (million USD)	192.73	-
	Cost (Crore Taka)	1710.86	-
2022-23	Imported Quantity (Tonne)	435592.39	2847282.00
	Cost (million USD)	204.47	-
	Cost (Crore Taka)	2146.07	-
2023-24	Imported Quantity (Tonne)	660856.76	1089103.30
	Cost (million USD)	370.89	-
	Cost (Crore Taka)	4102.61	-

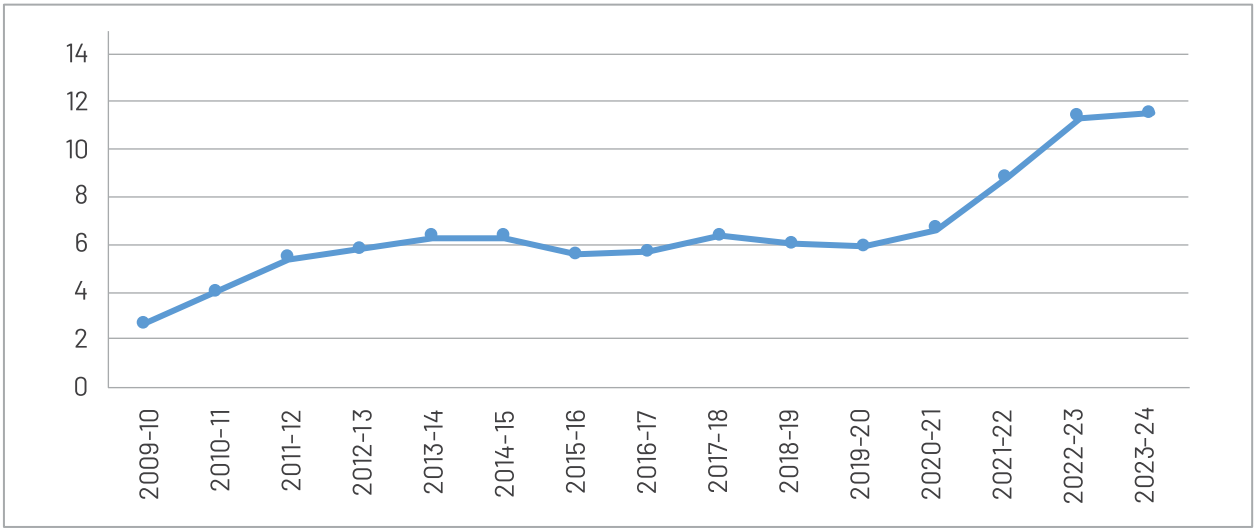
N.B: HFO is imported only for power generation as required by PDB.

11.4 Cost and Pricing

Power

The continuous use of liquid fuels with low capacity utilisation (diesel plant factor under 10%) and the increasing share of imported fuel (currently around 65%) has caused the generation cost to rise from Tk. 6.61/kWh in 2020-21 to Tk. 11.51/kWh in 2023-24 (see Figure 11.4). Due to rising LNG imports, Petrobangla increased the gas price for the power sector from Tk. 4.5/m^3 to Tk. 15.5/m^3, significantly affecting generation costs. Additionally, the devaluation of the Taka against the dollar (from 85 to 120) further exacerbated production costs. The use of dollar-denominated contracts, despite the absence of FDI, remains unclear. The average bulk selling price to distributors was raised to Tk. 7.04/kWh, but this still results in a loss of Tk. 4.47/kWh. Since 2008-09, BPDB has received a cumulative subsidy of 144,450 crore taka. In the past two years, the annual subsidy has reached approximately 30,000 crore taka, making it unsustainable.

Figure 11.4 Power Production Cost (Tk/kWh)



The outstanding dues owed to IPPs, public companies, and power imports currently total Tk. 39,752 crore. Despite receiving a subsidy of Tk. 33,000 crore in 2023-24, BPDB has accumulated a loss of Tk. 25,420 crore, in addition to outstanding dues. *To reduce the subsidy, a combination of reduced import dependency, increased operational efficiency, and tariff adjustments over a specified period is necessary.*

Energy

LNG imports are facilitated by two FSRUs, each with a capacity of 3.6 million tonnes per year, established under the Special Provision Act of 2010. The first LNG shipment arrived in 2018. Since 2019-20, approximately 550 to 675 MMcfd of LNG has been supplied to the national grid. Consequently, the average gas selling price increased from Tk. 9.7/m^3 in 2019-20 to Tk. 22.87/m^3, more than doubling the rate. The current average purchase cost of gas—including domestic gas, IOC gas, and LNG—is Tk. 24.38/m^3, resulting in an estimated annual loss of Tk. 3,000 crore.[245] As an aggregator, Petrobangla purchases its own gas at Tk. 1.0/m^3 (Tk. 4/m^3 from BAPEX), IOC gas at Tk. 8.612/m^3, and LNG at approximately Tk. 55/m^3. As LNG constitutes a growing share of the gas mix, overall costs are expected to continue rising.

The cumulative outstanding dues for LNG and IOC gas purchases are $223.14 million and $182.6 million, respectively. Additionally, Petrobangla owes Tk. 19,700 crore to the NBR for VAT and supplementary duties on IOC gas purchases and LNG imports, along with Tk. 15,136 crore for VAT and taxes on other operations.

As of October 2024, total outstanding dues in the energy and power sectors amount to approximately Tk. 50,000 crore ($4.16 billion),[246] excluding liabilities to the NBR. In 2023, the government reported an investment of $30 billion in power generation between 2009 and 2022.[247]

[245] Provided by Petrobangla to the committee
[246] https://www.tbsnews.net/bangladesh/energy/govt-faces-tk50000cr-power-and-energy-dues-plans-special-bond-payment-relief
[247] https://www.tbsnews.net/bangladesh/energy/power-sector-fetches-30b-foreign-investment-last-13-yrs-nasrul-649318

11.5 Contracts and Policy

Reforming Power and Energy Sectors: Addressing Monopoly and Enhancing Competitiveness

Both the power and energy sectors require substantial administrative and structural reforms. The current organisational framework has proven susceptible to political influence and the control of interest groups. Centralising authority within the BPDB and Petrobangla, as aggregators and policymakers, fosters monopolistic conditions in each sector. Energy is a vital input for production, directly influencing industrial competitiveness. Therefore, the Boards of Directors of these organisations should include independent directors who represent consumer interests, with representatives from the Ministry of Commerce and the Ministry of Industries. These directors should possess the technical and economic expertise necessary to analyse energy production and usage. Additionally, the pricing of petroleum products and electricity should remain outside the purview of these boards. This necessitates the empowerment of the Bangladesh Energy Regulatory Commission (BERC), granting it the autonomy to make independent decisions, akin to other monopolistic regulatory authorities. Political appointments of civil bureaucrats and cronies, aimed at exerting political control over energy sector decisions, should be avoided.

Bangladesh Power Development Board

The BPDB is responsible for power sector planning and execution and functions as the sole buyer in the market, determining tariffs and contracts. Under the previous government, demand forecasts were inflated using fictitious data, leading to the approval of numerous generation plants. The types and locations of these plants were often politically motivated, rather than based on system requirements. The primary aim appeared to be rewarding political cronies with contracts, creating opportunities for corruption. BPDB and the Power Division approved several power plants without securing a stable fuel supply, particularly LNG, demonstrating a lack of coordination with the energy division. Many power plants were commissioned without the timely completion of transmission lines, resulting in significant capacity payments (e.g. Payra, SS Power, Matarbari). The risks associated with import dependency for fuel became evident during the post-COVID recovery and the Ukraine war. The neglect of integrated system components—such as T&D, load management, primary energy supply, and fuel import infrastructure—has allowed monopolistic control, enabling governmental manipulation of the system.

To address these issues, a national-level independent body (rather than a utility-level body) should be established to oversee demand/supply projections, T&D requirements, renewable energy integration, resource allocation, and other aspects of Integrated Resource Planning. The BPDB should operate according to the directives of this body.

Petrobangla

All companies under Petrobangla, especially BAPEX, should operate independently, free from ministry interference. BAPEX should focus solely on exploration and development, with its production responsibilities transferred to the two dedicated production companies.

Petrobangla, based on uncertain future LNG regasification projects, approved at least five LNG-based CCGT power plants. These plants, totalling 3,000 MW, remain largely idle due to insufficient LNG supply, resulting in costly capacity payments. Petrobangla must be held accountable for this irresponsible decision. No power plant should be licensed without a firm fuel supply contract.

Petrobangla, a technically sophisticated organisation, has been led by frequently rotating bureaucrats, which has undermined its long-term planning capacity. *The absence of stable technical*

leadership has reduced what was once a formidable corporation to a caretaker entity. Competent professional leadership is essential for the energy sector to thrive.

Moreover, the production, transmission, and distribution of power and energy are interconnected; actions in one area affect the others. Therefore, a national-level, independent body should be established to formulate policies and plans, including investment strategies, resource allocation, and demand analysis. Both Petrobangla and the BPDB should adhere to the guidelines set by this body. Furthermore, these organisations must possess the technical expertise necessary to ensure that technology choices align with the country's economic needs.

Rural Electrification Board

The Rural Electrification Board (REB), which is the largest recipient of grid power, has successfully achieved 100% electrification of the country. Despite this success, only 13 of the 80 Palli Bidyut Shamitis (PBSs) generate surpluses. A duality of authority exists between the REB and the PBSs, and a mechanism for enhanced cooperation and trust is needed. While it is not expected that every PBS should generate a surplus, a framework should be developed to enable cross-subsidisation through effective reforms.

Bangladesh Energy Regulatory Commission

Strong, independent regulation is essential for protecting both businesses and consumers. Energy pricing has long been contentious in Bangladesh. Whenever oil, gas, or electricity prices rise, the justification often centres on international price increases, with little transparency regarding the rationale behind these hikes. When the authority to determine gas and electricity tariffs was removed from BERC,[248] the last vestige of consumer protection was effectively eliminated. This action exposed the weaknesses of energy governance and circumvented accountability. The arbitrary increase in oil prices on August 5, 2022, triggered a surge in inflation in Bangladesh. BERC must be reinstated with full operational independence, as per the BERC Act of 2003. Its powers may even be further strengthened to enhance its efficacy.

Quick Enhancement of Electricity and Energy Supply (Special Provisions) Act 2010 and Corruption

The QEEES (Special Provisions) Act 2010 is one of the most controversial laws in the energy and power sector. Initially enacted for a four-year period to address an emergency supply situation, it has been repeatedly extended, leading to widespread corruption and arbitrary decision-making. Despite numerous protests, the Act has not been legally challenged in court and is currently on hold. It should be repealed.

Even before the Act's enactment, 17 rental plants were awarded contracts through 'negotiation' in 2010, circumventing the Public Procurement Rules (PPR). The reference capacity payments for these plants were excessively high—up to $30.69 per kW-month for gas (Aggreco, Ashuganj, 80 MW) and $21.14 per kW-month for HFO (DPA Power, Pagla, 50 MW)—while the lowest tendered offer was just $8.70 per kW-month for HFO (RZ Power, Thakurgaon, 50 MW). These contracts violated legal procurement rules, resulting in substantial capacity payments to the government and excessive profits for the companies. Despite this, the contracts were renewed, even though the companies had recouped their full investment during the initial period. These actions contributed to the rise of crony capitalism, with companies benefiting from government patronage and facilitating wealth transfers out of Bangladesh.

[248] https://www.thedailystar.net/environment/natural-resources/energy/news/berc-amendment-bill-passed-parliament-3233741 ast-13-yrs-nasrul-649318

Gazprom, despite being a government agency, was also engaged under the Special Provisions Act 2010 to drill 20 wells for BAPEX, Bangladesh Gas Field Company Ltd, and Sylhet Gas Field Ltd, rather than through a government-to-government (G2G) deal. The average drilling cost for Gazprom was about $22 million per well, excluding VAT and taxes,[249] while BAPEX completed similar drilling for approximately $10 million. A competitive bidding process could have secured much lower drilling costs, saving Bangladesh millions.

In total, 41 IPP contracts were awarded under the Special Provisions Act of 2010, with a combined capacity of 6,308 MW.[250] All contracts signed under this Act should be subject to thorough scrutiny. The capacity payments varied significantly among these contracts, with some set at the highest rates obtained through the Open Tender Method (OTM), enabling substantial profits for unsolicited offers.

Capacity and Energy Contracts

Capacity contracts are often compared to monthly data packages in telecommunications, as opposed to the pay-as-you-use structure of energy contracts. Regardless of total usage, a fixed payment is assured in a capacity contract through a Power Purchase Agreement (PPA). This payment ensures the availability of full capacity at all times. Exploiting this guaranteed payment, the capacity market became oversupplied due to widespread corruption. The average annual plant factor, or capacity utilisation, for oil-based rental plants has remained below 50%. These plants, typically designated for peaking power supply, were frequently used as underutilised baseload plants, leading to expensive operations and increased generation costs. The capacity payment thus became a burden on the public finances.

In 2018, six HSD-based IPP plants, with a combined capacity of 1000 MW, were awarded contracts for five years. The reference capacity payments for these plants were approximately $20/kW-month. However, none of these plants operated more than 10% of their capacity on average throughout the contract period. This meant that 90% of the capacity payment was made for unused capacity. These plants were only used in extreme situations, which could have been handled by HFO plants. The awarding of these contracts appears to have been driven by political considerations and underhand dealings, fostering crony capitalism.

Estimating the excess capacity payment is challenging. Between 2010–2011 and 2023–2024, the total capacity/rental payment to the private sector amounted to approximately 115 thousand crore taka.[251] The overall plant factor of the entire system, which reflects the percentage of full capacity utilisation, ranged from 42% to 46% in the past five years, indicating a highly inefficient system. A 65% plant factor is achievable by minimising maintenance, reducing standby capacity, and ensuring full fuel supply. From 2014–2015, HSD and HFO plants under the Special Provision Act received capacity payments of Tk. 15,551 crore and Tk. 9,100 crore, respectively.[252] In the last five years, the average plant factors for these HSD and HFO plants were only 32% and 9.22%, respectively.[253] Assuming a more reasonable 65% plant factor, the oil-based power plants under the Special Provision Act were overpaid by approximately Tk. 10,000 crore in capacity payments. The rental plants awarded in 2010–2011 made profits as high as 35%, compared to the standard 15%, resulting in a windfall of no less than Tk. 10,000 crore. Taking into account the underutilisation of other plants (gas, coal), the total excess capacity payment over the last 15 years is estimated to be no less than Tk. 36,000 crore.

[249] Provided by BAPEX to the committee
[250] Provided by BPDB, IPP division to the committee
[251] Provided by BPDB to the committee
[252] ibid
[253] ibid

Tariff Setting

The tariff-setting process is inconsistent and varies according to ownership and the awarding process. For public companies and joint ventures, tariffs are calculated based on costs. The non-escalable component of the capacity payment comprises two parts: the loan component, which is set at the actual rate, and the equity component, which provides a return of 12% for government investments and 16% for joint ventures. For instance, the Rampal project had an 18% return on equity. Higher capital costs lead to higher Reference Non-Escalable Capacity Prices, and consequently, higher capacity payments. The contracts also contain provisions for inflating the costs of imported equipment and overvaluing land development.

The escalable component includes fixed and variable operation and maintenance costs, with both dollar and taka components. The escalable capacity payment is subject to inflation-based indexation.

For IPPs and rental plants, the tariff is 'negotiated', unless awarded through an OTM. Regardless of the investment, tariff negotiations are typically based on previously tendered tariffs or other negotiated deals. This allows for favourable rates, terms, and conditions for political and business allies of key officials, such as the PMO, advisers, state ministers, and secretaries. In addition to excess profits, there is suspicion that many of these projects facilitated money laundering through overvalued project costs. The tariff-setting process must be standardised and benchmarked to ensure consistency and fairness across all projects.

Other Common Malpractices

Corruption in the awarding of power plants, particularly in the form of commission payments, has been a major issue. Although there is no formal documentation of such transactions, a 10% commission on the project cost is considered a conservative estimate. Given the $30 billion investment in generation since 2010, at least $3 billion is believed to have been paid as kickbacks.Corruption and nepotism at the highest levels have permeated every project. Some of the common dishonest practices include:

- Hiring individuals without advertisement, often through illegal financial transactions.
- Awarding contracts to the same group of individuals under different company names, with or without tenders, to facilitate corruption.
- Favouring individuals with political connections (e.g. ministry officials, decision-makers, or company board members) in awarding jobs or subcontracts.
- Selling items (e.g. ash from coal plants) at prices far below market value, either directly or through sham tenders.
- Purchasing items (e.g. prepaid metres)[254] at inflated prices through collusive tenders involving limited suppliers under different company names.
- Changing contract conditions after awarding (e.g. the Summit Meghnaghat 335 dual-fuel power plant switched its fuel from HFO to HSD, citing fuel specification issues, without adjusting capacity payments or heat rate).
- Granting special terms to favoured groups (e.g. United Power receives gas at the IPP rate of Tk. 15.75/m^3 instead of the captive rate of Tk. 30.75/m^3, selling power at the commercial rate to Dhaka and Chittagong EPZ, thereby accruing abnormal profits;[255] the 200 MW unsolicited Teesta solar plant of Beximco, awarded in 2016, was granted a tariff

[254] Consumers Association of Bangladesh (CAB)
[255] https://unb.com.bd/category/Special/united-group-power-plants-getting-gas-at-concessional-rate-but-selling-electricity-at-commercial-rate-to-epzs/142201#google_vignette

of $0.015/kWh[256] in 2023, whereas all other plants offered $0.010/kWh due to reduced panel costs and improved efficiency).

The scale of corruption in the power sector warrants thorough forensic scrutiny to assess its depth and impact on the system.

Liquefied Natural Gas

Since September 2020, Rupantorito Prakritik Gas Company Limited has purchased 74 LNG cargos through 100 tenders.[257] Although 23 companies met the PPR requirements, only 12 companies received orders, with three companies receiving 59 cargo orders, indicating preferential treatment or potential collusion. Even a small increase in the unit gas price can result in millions of dollars in illicit gains for the parties involved. By August 2024, 69 cargos, amounting to 225.4 million MMBTU of LNG, had been imported from the spot market at an average cost of $16/MMBTU, totalling $3.6 billion.[258] A 50-cent overpricing per MMBTU would generate more than $100 million in kickbacks. The preference for importing LNG and a total lack of exploration and local gas productionindicates a corrupt interest.

For the two FSRUs, Bangladesh signed a long-term LNG contract for the import of only 4 million tonnes per year, leaving an additional 3.2 million tonnes per year available for spot purchases. In a situation of supply deficits, a higher proportion of oil-indexed long-term contracts would have mitigated the risk of price shocks.

11.6 Way Forward

The power and energy sector in Bangladesh has become a hotspot for corruption, primarily due to the lack of accountability created by the Special Provision Act of 2010. The immunity granted to government officials and political leaders has intensified greed, as many key stakeholders fear potential consequences in the absence of political connections. This has led not only to inflated energy prices in Bangladesh but also to a competitive disadvantage for export industries. Furthermore, several individuals, fully aware of the ramifications of their actions, relocated abroad and renounced their Bangladeshi citizenship well before the government's downfall on August 5, 2024. This has resulted in significant fiscal burdens and wealth transfer, creating a dual crisis for the Bangladeshi economy.

The economic crisis, depreciation of the taka, and rising international energy costs have further compounded the pressure on the system, leading to fuel shortages, high generation costs, and load shedding. Consequently, the government must urgently plan for the next five years.

Power Production Needs

The projected peak demand for 2030 is approximately 26,000 MW, based on an assumed annual growth rate of 7%.[259] This demand can be met with the existing fossil fuel-based generation capacity. Moreover, incorporating renewable energy will address daytime peak demands. However, the current and projected generation capacity will fall short of meeting the summer evening peak demand from 2029 onwards, creating a five-year window for the government to devise a solution. The anticipated shortfall is estimated to range from 1,500 MW to 2,500 MW. If nuclear power is integrated into the grid and new single-cycle gas-based plants or renewable energy systems with batteries are

[256] https://www.beximco.com/news/beximco-groups-teesta-solar-limited-has-commenced-power-generation-and-transmission-national-grid
[257] Provided by RPGCL to the committee
[258] ibid
[259] Provided by the BPDB IPP cell

not developed, 4,500 MW of HFO plants will be required to meet the evening peak demand. This would demand daily coal and gas requirements of 40,000 tonnes and 1.8 Bcf/d, respectively. *Therefore, there is an urgent need to increase local gas supply, or else the current LNG import infrastructure must be upgraded to meet the power sector's demands.*

Cost Reduction

Reducing production costs is a significant challenge, particularly given the energy and power contracts signed by the government between 2010 and 2024. However, if local gas can replace imported LNG, and if BAPEX is incentivised to increase drilling activities, costs could be reduced. In parallel, further offshore exploration drilling is essential for ensuring a sustainable long-term energy supply. Moreover, increasing the number of single-cycle gas-based plants or renewable energy systems with battery storage could reduce reliance on HFO to 5% of the total energy mix. Additionally, reducing technical losses, upgrading infrastructure, and promoting combined heat and power generation will help lower costs.

Gas System Loss

Total T&D losses in the gas sector reach 10-12% during peak supply periods, indicating at least 7-8% pilferage. This amounts to over 200 MMcfd of unaccounted-for gas, costing nearly $1 billion in LNG import terms. Merely cutting illegal connections will not resolve this issue; policy reforms in allocation and pricing are necessary. Metering domestic gas at import parity prices could eliminate illegal connections.

Cross-Border Trading

The import of electricity from Indian exchange has benefited Bangladesh, and the recently signed hydropower import agreement with Nepal also holds promise. By sourcing more power from these two countries, costs can be reduced. In the future, additional renewable energy can be imported from Nepal, Bhutan, and India. The PPA with Adani was a cross-border government-to-business (G2B) deal, a highly unusual arrangement that likely required political intervention. Given Adani Group's conviction on corruption charges in the US, this contract warrants scrutiny, particularly as it was negotiated hastily. Measures must be implemented to prevent similar agreements in the future.

Political Nexus in the Power and Energy Sector

The PMO is the most influential political institution in the country. During the tenure of the previous government, the Ministry of Power, Energy and Mineral Resources (MPEMR) lacked a full-time minister, with the Prime Minister herself assuming the additional role of MPEMR minister in 2009. Under her leadership, members of the ruling party, lobbyists, private businesses, and IPPs became major stakeholders in the sector, bypassing due process. The Energy Adviser, the State Minister, and the Power Division served as conduits for corruption. Every deal, from small solar plants to mega projects like Adani, was approved by the PMO.

Private-sector owners also exerted significant influence. Smaller plant owners, often inexperienced, sought the continued use of rental plants by the government, while wealthier investors preferred larger privately-owned IPP projects.[260] Although initial projects involved small oil-based plants (less than 100 MW), later projects were dominated by large coal and gas-based IPP plants. For example, groups like Summit, Reliance, and United were selected for 350+ MW gas plants, while newcomers like the S. Alam Group were awarded a 1,320 MW coal plant contract.

[260]Tamim, M. (2016, August). 'A Study on the Political Economy of the Electricity Sector in Bangladesh'. *The World Bank*, restricted distribution available with permission from the Bank.

Many of these plants lacked firm gas supply commitments and are now burdened with stranded capacity, escalating costs, debt, and subsidies, further prolonging public suffering.

Similar to the manipulation of foreign exchange reserve figures, the previous government politicised power generation statistics by misleading the public. The target of 24,000 MW for 2021 was based on inflated figures, including non-grid captive power of 3,000 MW and 450 MW of Solar Home Systems, which were later excluded from grid capacity. Misinformation and data manipulation were rampant in this sector.

The previous government portrayed an optimistic economic future, with inflated growth figures suggesting energy security based on imported fuel. However, 65% of primary energy now needs to be imported at an annual cost of $10 billion, a figure expected to rise to $20 billion by 2030.[261] This will place immense pressure on foreign exchange reserves.

Transition Planning

The erratic growth of the power sector has been criticised in articles, seminars, and conferences, though not often by the general public. Issues such as oil dependency, the misuse of the Special Provision Act, a preference for LNG imports over local exploration, capacity payments, and overcapacity have been raised by non-beneficiaries. Without significant public opposition, the autocratic government ignored these concerns and persisted with its strategy. The only notable exception was the Rampal coal-fired power plant, where sustained protests aimed at protecting the Sundarbans drew international attention. However, local political opposition did not capitalise on this moment, and the protests eventually subsided, aided by a government campaign and support from pro-government journalists. Even protests against tariff hikes for electricity, oil, or gas were weak under the repressive regime.

A system must be established where public aspirations are incorporated into the planning, implementation, and operation of energy services. The global shift towards renewable energy and the need to reduce fossil fuel dependency is critical not only for the environment but for sustainability. The power sector master plan and the new IEPMP were drafted by foreign consultants, who based growth targets on the FYPs—plans that were never fully realised—resulting in inflated production targets. This strategy led to unrealistic growth projections compared to historical trends.

Moreover, the government set ambitious economic growth targets to demonstrate their achievements, prompting the power division to initiate investment plans. These factors culminated in significant excess capacity in generation, but T&D infrastructure remained underdeveloped. The outcome has been an over-ambitious investment strategy, leading to higher energy costs. Finally, the immunity granted by the Special Provision Act of 2010 facilitated the distribution of favours to political allies and financiers of the ruling party, resulting in the misallocation of public funds. To prevent future misallocations, it is crucial to involve local experts in energy projections and planning.

[261] https://thefinancialexpress.com.bd/trade/bds-energy-import-bill-to-double-to-20b-by-2030

Chapter XII. Trapped External Trade*

Key takeaways

- *Implement policies to support non-RMG sectors through reduced tariffs, tax incentives, and technological upgrades to enhance productivity and competitiveness.*
- *Promote diversification within textiles, invest in technological advancements, and support sustainable practices. Enforce labour standards and collaborate with global organisations to uphold ethical practices.*
- *Reform high-tariff regimes to eliminate the 'anti-export bias' and adopt a strategic tariff policy.*
- *Improve data collection and validation by integrating technology at the EPB and BB, enabling real-time export tracking and enhancing accuracy.*
- *Strengthen trade monitoring to prevent capital flight and negotiate strategic FTAs with key trading partners to secure favourable trade terms post-2026.*

12.1 Introduction

Bangladesh's external trade faces significant challenges, including a decline in trade orientation, limited export diversification, concerns over capital flight, issues in the RMG sector, obstacles to tariff liberalisation, and insufficient participation in FTAs. These pressures will intensify with the country's graduation from LDC status in November 2026. Addressing these challenges requires comprehensive policy reforms, strategic investments, and stronger international engagement. The previous government's failure to effectively address these issues has left Bangladesh's external trade sector vulnerable, hindering progress toward sustained and diversified growth.

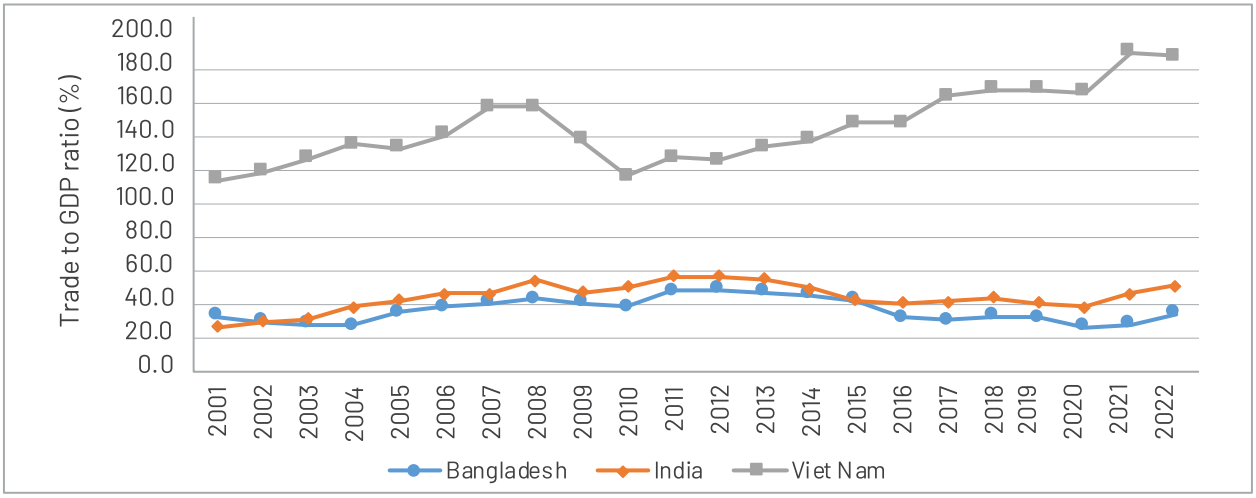
12.2 Seven Structural Concerns

Gradual Decline in Trade Orientation

Figure 12.1 illustrates Bangladesh's declining trade openness, with a consistently low and decreasing trade-to-GDP ratio compared to Vietnam and India. While Vietnam's ratio exceeds 150%, reflecting strong integration with global markets through its export-driven industrial strategy and significant FDI, Bangladesh's ratio has remained around 30%. This indicates limited trade integration and reliance on a narrow export base, primarily the garment sector. More concerning, Bangladesh's trade-to-GDP ratio fell sharply from 48.1% in 2012 to 33.8% in 2022.

* The chapter was prepared by Dr Selim Raihan, Professor, Department of Economics, University of Dhaka and Executive Director, South Asian Network on Economic Modeling (SANEM).

Figure 12.1: Bangladesh's trade-to-GDP ratio in a comparative perspective

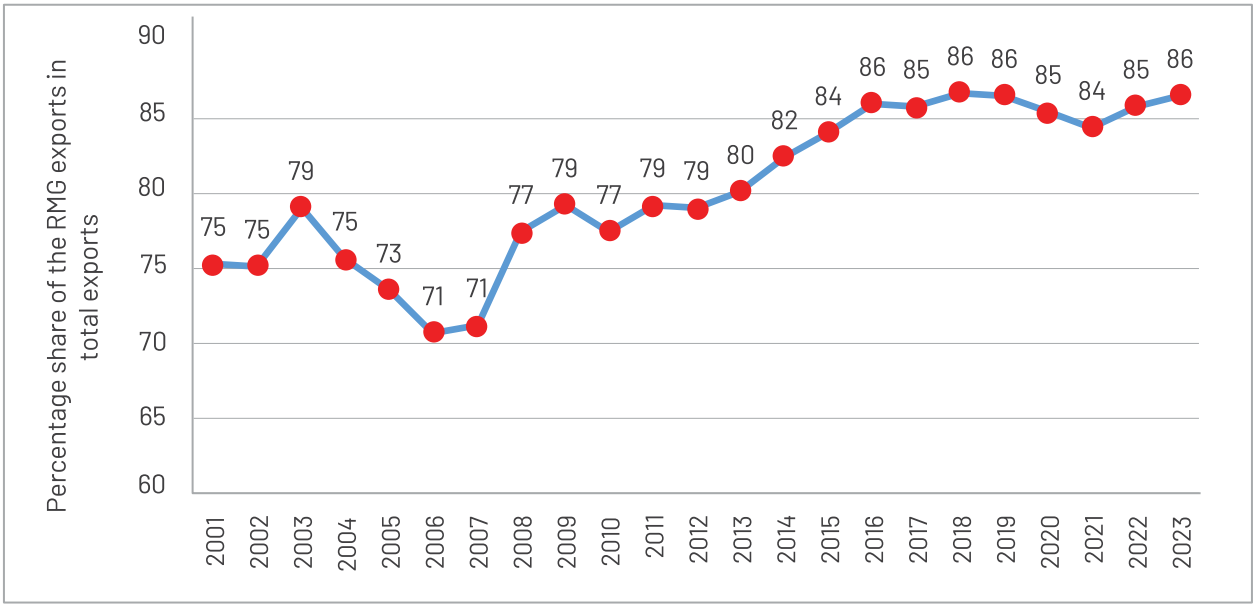


Note: The dotted red line shows the declining trend of the trade-to-GDP ratio of Bangladesh between 2012 and 2022
Data source: World Bank, World Development Indicators.

Export Basket Remains Highly Concentrated

Bangladesh's economy heavily depends on the RMG sector, which accounts for over 85% of export earnings. While this sector has driven economic growth, dependence on a single industry exposes Bangladesh to significant risks, particularly from external shocks like the COVID-19 pandemic or geopolitical disruptions. Since the early 2010s, the RMG sector's share of total exports has risen from 77% to 86% by 2023, demonstrating limited success in diversification (Figure 12.2).

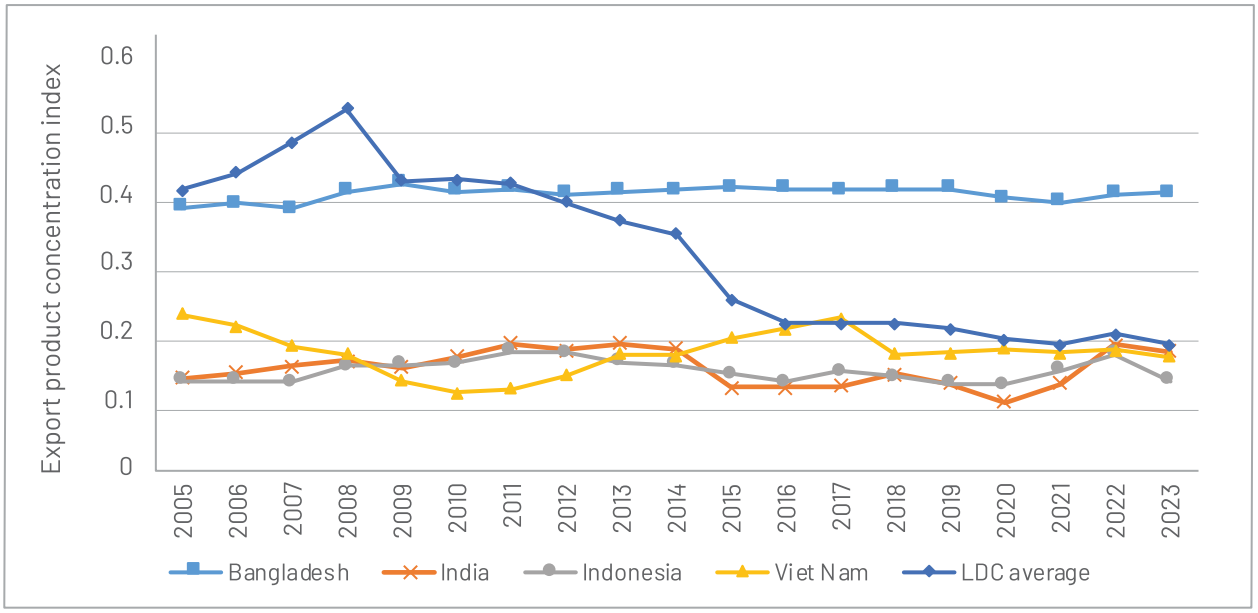
Figure 12.2: Concentration of Bangladesh's export basket: Percentage share of ready-made garment exports in total exports



Data source: ITC TradeMap.

Figure 12.3 compares Bangladesh's export product concentration index with those of its regional counterparts. Between 2005 and 2023, Bangladesh consistently had a concentration index more than twice that of India, Indonesia, and Vietnam and the average for LDCs. While these countries successfully reduced their concentration index in the last decade, Bangladesh's index remained high and rising.

Figure 12.3: Bangladesh's export concentration index in a comparative perspective



Note: Export product concentration index is derived from UNTADSTAT. The higher the index value the higher the concentration.
Source: https://unctadstat.unctad.org/datacentre/

Despite efforts to promote other sectors, such as leather, agro-processing, and light engineering, these industries have faced considerable challenges and remain underdeveloped. The leather industry, which contributes 3-4% of exports, struggles with environmental compliance and a shortage of skilled labour. Similarly, the agro-processing sector is hindered by supply chain inefficiencies, insufficient technology adoption, and high tariffs on capital machinery, all of which impede growth.

Key barriers to diversification include high tariffs, complex customs procedures, anti-export and anti-FDI biases, and an overvalued exchange rate. These issues are often tied to the interests of political and economic elites, while the government's focus on large infrastructure projects has overshadowed the specific needs of other sectors. Furthermore, high business costs, outdated customs practices, and inadequate trade facilitation have disproportionately impacted non-RMG industries. Addressing these structural and policy-induced challenges requires substantial investment and political commitment, which has been lacking, thereby delaying progress in diversification (Raihan, 2024). Table 12.1 summarises the challenges faced by most non-RMG sectors in Bangladesh.

Table 12.1: Summary of the challenges faced by non-RMG exporters in Bangladesh

Challenges	Description
Infrastructure issues	Poor transportation, inadequate port facilities, and power shortages increase logistics costs and delays.
High logistics costs	Limited options for shipping and high transportation costs reduce competitiveness in the global market.
Access to finance	Difficulty in securing loans, high interest rates, and limited access to financial instruments.
Lack of product diversification	Heavy reliance on a few sectors, making them vulnerable to market fluctuations and limiting growth potential.
Bureaucratic red tape	Lengthy administrative processes, excessive paperwork, and delays in obtaining necessary permits.
Inadequate support for SMEs	Small and medium enterprises struggle with limited resources, lack of incentives, and insufficient government support.

Challenges	Description
Skilled labour shortage	Shortage of skilled labour in certain industries affects production quality and efficiency.
Regulatory compliance	Compliance with international standards and regulations is challenging and costly.
Exchange rate mismanagement	Exchange rate mismanagement impacts export earnings, making it difficult to plan and price products competitively.
Lack of technology adoption	Limited use of advanced technology and innovation hinders productivity and efficiency.
Marketing and branding challenges	Difficulty in establishing a strong international presence due to limited branding and marketing capabilities.

More critically, the dominance of crony capitalism over the past decade has stymied the growth of non-RMG sectors. Access to credit, tax benefits, subsidies, and other incentives was often determined through deals favouring political cronies rather than a rule-based system, creating an uneven playing field that disadvantaged non-RMG industries (Raihan, 2024).[262] Despite numerous diversification efforts, the outcomes have been largely unsatisfactory, as shown in Table 12.2.

Table 12.2: Examples of diversification projects

Name	Duration	Partners	Focus	Status of the project
Export Competitiveness for Jobs (EC4J) Project	2017–2024	World Bank	Enhance the competitiveness of key non-RMG (Ready-Made Garments) sectors, such as leather, footwear, plastics, and light engineering. The project aimed at skill development, infrastructure improvements, and market access.	Slow progress. The Daily Star in April 2023 that the project failed to meet its deadline and became costlier due to slow implementation.[263]
Bangladesh Economic Zones Development Project	2016–ongoing	World Bank, Japan International Cooperation Agency (JICA)	Establishment of special economic zones (SEZs) to attract foreign direct investment (FDI) in diverse sectors like ICT, pharmaceuticals, food processing, and electronics. The aim is to create export-oriented clusters beyond traditional sectors.	Only a few SEZs have become operational at varying scales. They haven't been able to attract substantial FDI yet.[264]
National Industrial Policy Implementation with a Focus on Export Diversification	2010–2023	Various UN Agencies (UNIDO, UNDP)	Policy reforms to encourage the growth of non-traditional export sectors, particularly ICT, pharmaceuticals, and light engineering. Supported the development of SMEs with export potential.	Challenges remained in implementing industrial policies due to a lack of ownership and coordination among line ministries and various stakeholders.[265]

[262] See White Paper Chapter 21 on 'Institutions' in this White Paper Committee Report for an elaborated discussion on the dominance of crony capitalism in Bangladesh over the past decade.

[263] See "Export competitiveness project still in slow lane after 6 years": https://www.thedailystar.net/business/economy/news/export-competitiveness-project-still-slow-lane-after-6-years-329

[264] See "Only 10% of planned economic zones get off the ground in a decade": https://www.thedailystar.net/business/news/only-10-planned-economic-zones-get-the-ground-decade-3622336

[265] See "Industrial Policy 2022: Coordination key to achieving implementation target": https://www.thedailystar.net/business/economy/news/coordination-key-achieving-implementation-target-3136196

Name	Duration	Partners	Focus	Status of the project
Skills for Employment Investment Programme (SEIP)	2014–ongoing	Asian Development Bank (ADB), Swiss Agency for Development and Cooperation	Development of a skilled workforce for emerging sectors like ICT, light engineering, and agro-processing to support export diversification.	The Finance Division, Ministry of Finance, has been implementing this project and it doesn't fall into the mandate of this ministry.
Bangladesh Investment Climate Fund (BICF)	2007–2018		Improve the business environment to encourage investments in sectors beyond garments. Focused on regulatory reforms and infrastructure development.	The country lacks significant challenges in improving its investment climate and business environment. The World Bank's 'Bangladesh Development Update' in October 2023 highlights relevant challenges.[266]
Export Development Fund (EDF) Expansion and Upgradation	2011–ongoing	International Finance Corporation (IFC), UK Aid Bangladesh Bank	The EDF initially focused on the RMG sector and was expanded to provide financing options for non-traditional export sectors, including leather, IT services, and jute products.	There have been allegations of mismanagement of EDF. According to the report by the Daily Star on 1 November 2024, a large chunk of a Tk 10,000 crore central bank fund, meant for financing raw material imports for export orders, remains stuck with four crisis-hit banks.[267]
PFM II: Feed the Future Bangladesh Improving Trade and Business Enabling Environment Activity	2019–2024	USAID	The Feed the Future Bangladesh Trade Activity is working to improve trade facilitation through the implementation of the World Trade Organization (WTO) Trade Facilitation Agreement (TFA), building the trade facilitation capacity of government officials, and improving food safety procedures.	Complex customs processes, lack of cooperation among customs agencies, absence of automation, and unavailability of resources and information are the major challenges for Bangladesh to achieve the World Trade Organisation-TFA.[268]

[266] See World Bank (2023)

[267] See "Tk 3,000cr export fund held up in four troubled banks": https://www.thedailystar.net/business/news/tk-3000cr-export-fund-held-four-troubled-banks-3741981

[268] See "Many challenges prevent Bangladesh from achieving WTO-TFA: report": https://www.newagebd.net/article/195083/many-challenges-prevent-bangladesh-fromachieving-wto-tfa-report

Bangladesh has also struggled to attract FDI, which is crucial for diversifying its export base and enhancing economic resilience. Despite its potential, Bangladesh's FDI-to-GDP ratio has remained below 1%, significantly lagging behind regional competitors such as Vietnam and India, whose FDI ratios stand at 4.5% and 1.5%, respectively. This limited FDI inflow restricts opportunities for technology transfer, industrial upgrading, and the expansion of high-value exports, all of which are vital for sustainable economic and export growth.

Concerns Over Capital Flight Through Over- and Under-invoicing

Bangladesh has faced substantial capital flight, particularly through trade misinvoicing. Between 2009 and 2018, an average of $8.27 billion was lost annually through this method, according to the Global Financial Integrity Report. The IMF also observed significant outflows from the financial account in FY 2022-23, amounting to 0.5% of GDP, alongside unrealised export proceeds, suggesting potential capital flight.[269]

To address these issues, it is essential to strengthen the capacity of institutions such as the NBR, the EPB, and the BB in data collection, validation, and reporting. Currently, discrepancies arise due to differing data collection methods: the EPB relies on self-reported figures from exporters, which can be inflated for various reasons, while BB's data, based on foreign exchange earnings, is more reliable but delayed.

Improving technological infrastructure and coordination between these institutions is crucial for ensuring accurate and timely export data. Integrating digital tools for real-time export tracking and cross-verifying data between the EPB and BB would reduce reporting errors. Furthermore, investing in training for data collection, analysis, and reporting will enhance the capacity of these institutions to manage the increasing complexity of global trade.

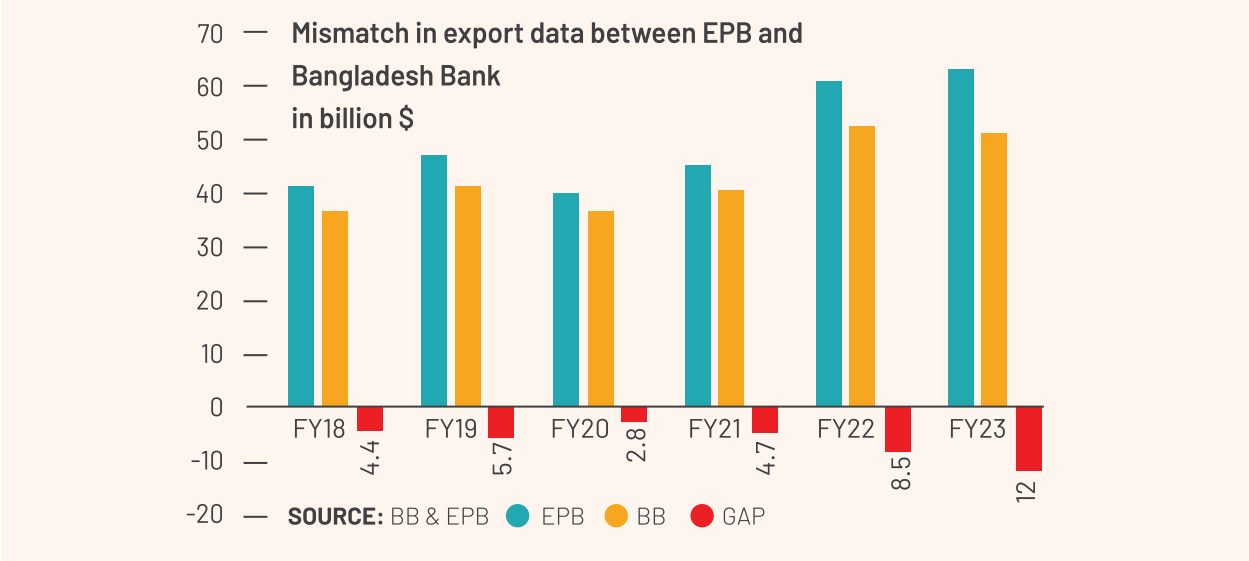
It is equally important to ensure that these institutions remain independent of political and business pressures that could incentivise the inflation of economic indicators. Transparency in data collection processes, along with regular audits by independent bodies, will help mitigate these risks and provide a more accurate assessment of the export sector's state.

Export Data Mismatch

In 2022–23, the gap between export figures reported by Bangladesh's EPB and BB widened to $12 billion, up from $4.73 billion in 2020–21 (Figure 12.4). In July 2024, BB released corrected data showing actual exports from July 2023 to April 2024 at $33.67 billion, a significant reduction from the $47.47 billion reported by the EPB, revealing a $13.8 billion discrepancy. Such mismatches pose considerable challenges for policymakers and investors, complicating economic planning and obscuring the true state of the export sector. This raises concerns regarding the robustness of Bangladesh's economic recovery and its resilience to external shocks.

[269] See White Paper Chapter 20 on 'Illicit Financial Outflows' in this White Paper Committee Report for an elaborated discussion on the magnitude and processes of capital flight from Bangladesh in the past decade.

Figure 12.4: Export data mismatch



Source: https://www.thedailystar.net/business/economy/news/14b-export-data-puzzle-unnerving-3649186

The discrepancy suggests deeper systemic issues in export reporting accuracy. Observers have noted that export figures are often inflated. Moreover, exporters face rising production costs due to higher energy prices, wage increases, and global supply chain disruptions. Additionally, demand for labour-intensive products, particularly apparel, has shifted toward more sustainable and ethically sourced goods, which has led to difficulties in retaining global clients. Reports indicate that many RMG factories have reduced production due to insufficient orders and rising compliance costs.[270] This disconnect between reported figures and on-the-ground realities can result in misguided policies, obscuring the need for support in areas such as financing, technology upgrades, and workforce development.

Inflated export data can also lead to misinformed decisions concerning foreign exchange reserves. Accurate export figures are essential for estimating foreign exchange inflows, which influence monetary policy and currency valuation. Overreporting exports creates unrealistic expectations about the country's ability to manage its BoPs, complicating fiscal and monetary planning.

To address these issues, it is essential to strengthen the capacity of institutions such as the NBR, EPB, and BB in data collection, validation, and reporting. Currently, discrepancies arise from differing data collection methods. The EPB relies on self-reported figures from exporters, which can be inflated, while BB uses foreign exchange earnings data, which offers a more reliable, though delayed, account of actual performance.

Improving technological infrastructure and enhancing coordination between these institutions is vital for accurate and timely export data. The integration of digital tools for real-time tracking of exports and payments, coupled with cross-verification mechanisms, could substantially reduce reporting errors. Investment in training for data collection and analysis would also enable institutions to manage the growing complexity of global trade.

Status of Ready-made Garment Export and Associated Challenges

The 'RMG model' of export success in Bangladesh has failed to establish a sustainable path for export growth and diversification (Raihan, 2024). While it is often assumed that the RMG sector

[270] See "Numerous RMG factories go bust amid adversities": https://thefinancialexpress.com.bd/economy/numerous-rmg-factories-go-bust-amid-adversities

thrived solely due to favourable domestic and international trade policies, a range of other factors were crucial to its growth. Key factors include the prioritisation of the RMG sector for export incentives and industry and trade policies, political settlements among elites to protect the sector from national-level conflicts, and the rise of subcontracting firms that bypassed many formal regulatory issues. The RMG sector also benefited from a 'political settlement' among elites in labour management, which involved suppressing minimum wages, limiting workers' rights, and restricting trade unions. This was compounded by weak oversight of factory compliance, inadequate regulatory enforcement, and the extraction of rents through RMG by-products. The Bangladesh Garment Manufacturers and Exporters Association emerged as a powerful lobbying group, securing policies that favoured the sector. The influence of this sector extended to politics, with several garment owners becoming ministers and members of parliament (MP), indicating a form of state capture by the RMG industry.

The RMG sector in Bangladesh faces significant domestic and international challenges that threaten its growth and competitiveness. Domestically, labour rights remain a critical issue. Despite employing over four million workers, approximately 60% of whom are women, the sector has been criticised for poor working conditions, as highlighted by the 2013 Rana Plaza tragedy. Although some progress has been made in factory safety through initiatives such as the Bangladesh Accord and the Alliance, labour rights violations, including low wages, long working hours, and inadequate union representation, continue to be a concern (ILO, 2022).

Environmental compliance is another pressing issue. As global buyers prioritise sustainability, RMG factories face pressure to adopt greener practices. However, many SMEs struggle with the high costs of eco-friendly technologies and limited access to green financing. The lack of a robust regulatory framework further complicates the shift toward sustainable production (Light Castle, 2024).

Internationally, Bangladesh's RMG sector competes with low-cost producers such as Vietnam and Cambodia. Vietnam, with favourable trade agreements, has become a formidable competitor by offering competitive prices and improved market access (Textile Today, 2020). Additionally, global supply chain disruptions and the shift towards nearshoring or friend-shoring—focusing on sourcing from countries closer to home markets—have altered sourcing patterns, challenging Bangladesh's position (McKinsey, 2022).

Evolving consumer preferences for sustainable apparel, particularly in Europe and North America, add further pressure. The upcoming EU Corporate Sustainability Due Diligence Directive will require supply chain compliance with stringent standards, risking the loss of buyers if these standards are not met (European Commission, 2023).

Bangladesh's RMG exports also suffer from limited diversification within the sector. At the six-digit HS code level, just 10 RMG products account for 70% of total RMG exports from Bangladesh (Raihan, 2024). As the RMG industry becomes increasingly saturated with cotton-based apparel production, it is crucial for manufacturers to diversify into non-cotton-based apparel, particularly man-made fibre (MMF), to maintain Bangladesh's position as the second-largest RMG exporter globally.[271]

Global trade tensions, particularly the US–China disputes, disrupt raw material supplies. Meanwhile, international trade agreements emphasise labour and environmental standards, requiring Bangladeshi manufacturers to upgrade compliance practices. A looming challenge is Bangladesh's LDC graduation in 2026, which will end preferential trade benefits, raising export costs and reducing competitiveness (Raihan et al., 2022).

[271] See "Diversification of Man-Made Fiber (MMF) to Implement Circular Fashion Lifecycle": https://lightcastlepartners.com/insights/2024/09/rmg-man-made-fiber-sustainability/

Tariff Liberalisation Challenges

Bangladesh faces significant challenges in tariff liberalisation, a crucial aspect of trade policy aimed at boosting global competitiveness. While reducing tariffs can lower the cost of imported raw materials, benefiting export-oriented industries, it also exposes local industries to the threat of cheaper imports. This creates a policy dilemma between protecting domestic industries and encouraging exports and foreign investment. Historically, Bangladesh's tariff policies have been criticised for being inconsistent and reactive, failing to align with long-term economic objectives (Sattar, 2024a).

Bangladesh's current average tariff rate of 27% is significantly higher than the averages for other income groups: 9.79% for low-income countries, 7.2% for lower-middle-income countries, 2.02% for high-income countries, and the global average of 6%. Over the past decade, the increase in para-tariffs, combined with customs duties, has led to a rise in the overall nominal protection rate (Table 12.3).

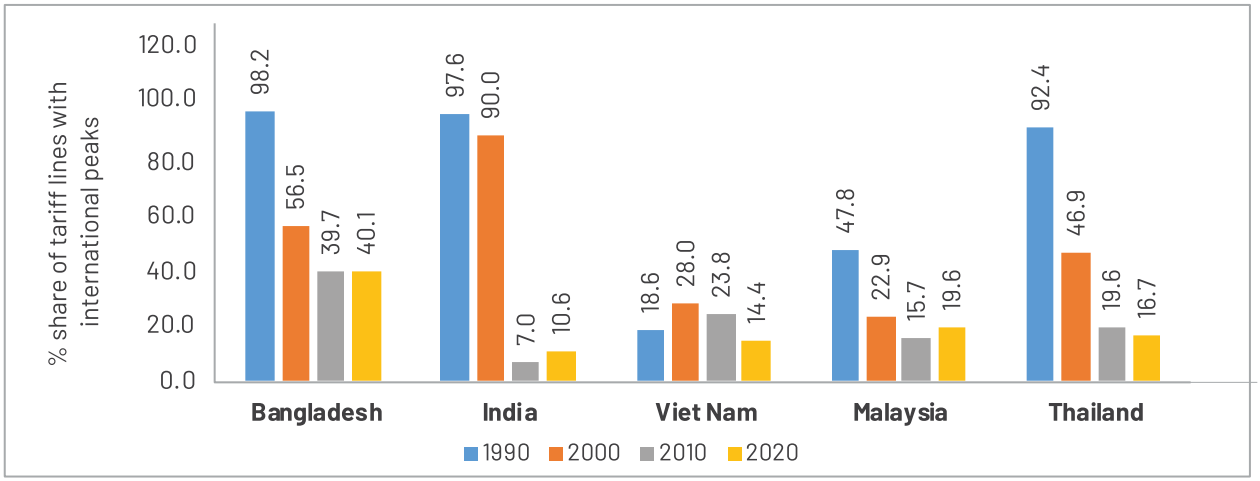
Table 12.3: Trend in Nominal Protection in Bangladesh

Fiscal year	Un-weighted average customs duties Average	Average para-tariff	Average nominal protection rate
FY 01	21.10	7.13	28.54
FY 10	13.67	10.21	23.88
FY 15	13.16	13.53	26.69
FY 20	13.45	13.30	26.75
FY 21	13.58	13.50	27.08

Source: Sattar (2024b).

Bangladesh also has a very high share of tariff lines with international peaks (Figure 12.5). Between 2010 and 2020, the share of tariff lines with international peaks in Bangladesh increased from 39.7% to 40.1%.

Figure 12.5: Bangladesh also has a very high share of tariff lines with international peak



Note: The share of tariff lines with international peaks is the share of lines in the tariff schedule with tariff rates that exceed 15%.
Data source: World Bank, WDI.

The country's high average tariff rate stems from the government's heavy reliance on customs duties due to weak domestic revenue mobilisation. Over the past decade, the government's emphasis on physical infrastructure development has led import-substituting sectors, such as steel, cement, and construction materials, to advocate for protection through high tariffs. Other sectors, including edible oil, sugar, biscuits, leather and leather goods, and poultry, have similarly supported high tariff protection.

This protectionism has created an 'anti-export bias', incentivising firms to prioritise the more profitable domestic market over exports. For instance, while the RMG sector benefits from tariff reductions on imported inputs, SMEs face difficulties competing with imported goods, particularly in industries such as light engineering and electronics.

The high level of tariff protection discourages firms from innovating and exploring new export markets, thereby hindering export diversification beyond the RMG sector. Although periodic tariff reductions have been introduced to comply with international guidelines, their impact is often offset by non-tariff barriers, including high supplementary duties and VATs. While these measures provide short-term protection to local industries, they impede the broader objective of fostering a competitive, export-oriented economy (Sattar, 2024a).

Bangladesh's tariff regime is further complicated by bureaucratic customs procedures, which increase the cost and time of trade. Despite efforts to streamline these processes, persistent barriers continue to push firms towards the domestic market, where administrative challenges are less severe (Raihan et al., 2023).

To address these issues, the National Tariff Policy 2023 aims to rationalise the tariff structure, reduce protection for final goods, and lower tariffs on raw materials and intermediate goods. This policy seeks to reduce production costs for exporters, enhance competitiveness, and attract FDI by fostering a transparent tariff environment (Khatun, 2024). However, its success will depend on effective implementation, which has historically been undermined by vested interests benefiting from high protection levels.

Strong political commitment and collaboration among government agencies, industries, and trade associations are essential for the gradual reduction of protection and the promotion of competitiveness in domestic industries. Additionally, complementary reforms—such as lowering business costs, improving logistics, and strengthening institutions like the NBR and BB—are crucial for ensuring the success of tariff liberalisation and overcoming the anti-export bias. Rather than wholesale liberalisation, a more strategic approach to tariff reform should be pursued.

Limited Participation in Free Trade Agreements

Bangladesh's trade policy faces a significant challenge due to its limited participation in Free Trade Agreements (FTAs). FTAs are crucial in the global trading landscape, offering enhanced market access, reduced trade barriers, and increased competitiveness by securing preferential export treatment. Despite these benefits, Bangladesh has been slow in negotiating and signing FTAs, particularly when compared to regional counterparts such as India and Vietnam. This delay restricts Bangladesh's ability to secure favourable market access globally (The Daily Star, 2024). The low participation can be attributed to six primary factors: (1) Preference for GSP benefits: Bangladesh significantly benefits from the Generalised System of Preferences (GSP) offered by major markets, such as the EU, which reduces the immediate need for FTAs. (2) Fear of revenue loss: Tariffs contribute substantially to government revenue, and policymakers fear that tariff reductions in FTAs may negatively impact income. (3) Limited trade negotiation capacity: Bangladesh has not yet developed the institutional capacity or negotiating expertise required for complex trade agreements. (4) Concern for domestic industries: Many import-substituting industries oppose FTAs due to the perceived threat of increased competition. (5) Concentrated export basket: Bangladesh's exports are heavily concentrated in the RMG sector, limiting the incentive to open up to other markets or industries. (6) Political and strategic considerations: Regional dynamics and geopolitical alliances also influence Bangladesh's cautious stance towards FTAs, particularly in balancing relationships with neighbouring countries and trading partners in Asia.

Table 12.4: Bangladesh's limited Free Trade Agreement participation

FTA	Description
Asia-Pacific Trade Agreement (APTA)	Formerly known as the Bangkok Agreement, APTA is a PTA involving Bangladesh, China, India, South Korea, Laos, and Sri Lanka. It offers tariff concessions among member countries.
South Asian Free Trade Area (SAFTA)	A regional trade agreement among SAARC countries, including Bangladesh, India, Pakistan, Sri Lanka, Nepal, Bhutan, Maldives, and Afghanistan. It aims to promote trade by reducing tariffs among member nations.
Preferential Trade Agreement (PTA) with Bhutan	Bangladesh signed a PTA with Bhutan, marking its first bilateral trade agreement. The agreement provides duty-free access to numerous products between the two countries.

Bangladesh's participation in regional trade agreements has been underwhelming (Table 12.4), with limited progress in agreements such as the South Asian Free Trade Area (SAFTA) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) FTA. SAFTA, signed in 2004, aimed to reduce tariffs and foster intra-regional trade. However, its progress has been hindered by non-tariff barriers and political tensions between member states (Raihan, 2020). BIMSTEC has similarly struggled, with delays in finalising the agreement due to diverging national interests.

Bangladesh's only significant bilateral trade achievement has been the Preferential Trade Agreement (PTA) with Bhutan, signed in 2020, which provides duty-free access for selected products. However, the agreement's scope is limited, covering a small trade volume, and Bhutan's market size restricts its economic benefits. Bangladesh has yet to sign comprehensive FTAs with major trading partners such as the EU, the United States, or China, all of which are critical for its long-term economic strategy.

The absence of FTAs has serious implications for Bangladesh's export sector. Without FTAs, Bangladeshi exports often face higher tariffs compared to competitors like Vietnam, which benefits from numerous FTAs, including the CPTPP and EU-Vietnam FTA. This has provided Vietnam with a competitive advantage in sectors such as textiles, electronics, and agriculture. As Bangladesh prepares to graduate from LDC status in 2026, the loss of trade privileges under the GSP will exacerbate these challenges.

To address these issues, Bangladesh must prioritise strategic engagement in FTAs, particularly in sectors where it has comparative advantages, such as RMG, leather, and agro-processing. It should also seek to diversify its export markets by exploring agreements with emerging economies in Asia, Africa, and Latin America. Comprehensive consultations with domestic industries are essential to ensure that FTAs offer adequate safeguards for vulnerable sectors while fostering competitiveness through investment in technology, skills, and innovation.

Bangladesh has recently expressed interest in joining the Regional Comprehensive Economic Partnership (RCEP) and ASEAN. Membership in RCEP would provide Bangladesh with expanded market access, particularly to major economies such as China, Japan, South Korea, and ASEAN members.[272] Bangladesh is also considering FTA negotiations with other countries. However, it must strengthen its trade negotiation capacity, diversify exports beyond the RMG sector, and improve infrastructure to meet regional standards. Additionally, reforms in trade policies, tariff structures, and regulatory frameworks are necessary to enhance competitiveness.

[272] See "Bangladesh economy set to gain from RCEP's diverse trade facilitation": https://www.globaltimes.cn/page/202410/1321410.shtml

Bangladesh could revitalise the SAARC and BBIN processes and expedite the BIMSTEC FTA by leading discussions on trade facilitation, cross-border connectivity, and streamlined customs processes. By prioritising mutual economic gains, Bangladesh could propose joint investment projects, harmonised regulations, and capacity-building initiatives. Engaging stakeholders and leveraging diplomatic channels could drive progress and foster regional partnerships.

12.3 Key Messages

1. **Export diversification:** The government should implement targeted policy interventions to support the development of non-RMG sectors. This could involve reducing tariffs on imported capital goods, offering tax incentives, and promoting technology upgrades to improve productivity and competitiveness.
2. **Address RMG-related challenges:** To enhance the resilience of the RMG sector, Bangladesh should promote diversification into non-cotton and MMF textiles, provide financial incentives for compliance with international standards, invest in technological upgrades, and establish a green finance fund to support sustainable practices. It should also enforce labour standards and collaborate with global organisations to ensure ethical practices and improve buyer confidence.
3. **Streamline the tariff structure:** The government must remove the current 'anti-export bias' by reforming the high-tariff regime. A more strategic, rather than wholesale, approach to tariff liberalisation should be pursued.
4. **Strengthen institutional capacity for data accuracy:** Bangladesh must reinforce institutional capacity in data accuracy, integrating technology at the EPB and BB to minimise discrepancies in export reporting. Digital mechanisms for real-time export tracking and training in data collection and validation should be implemented to enhance transparency.
5. **Address capital flight through strengthened trade monitoring:** Strengthen trade monitoring systems to reduce capital flight due to trade misinvoicing. This could involve closer collaboration between the NBR, BB, and customs authorities to improve data validation, implement advanced tracking systems, and regularly audit trade transactions for accuracy.
6. **Negotiate strategic FTAs:** Bangladesh should negotiate strategic FTAs with key trading partners in anticipation of the potential loss of LDC trade benefits in 2026. These negotiations should focus on sectors where Bangladesh holds comparative advantages, with a clear strategy and strengthened negotiating capacity to secure favourable trade terms.
7. **Enhance the FDI attraction strategy:** To improve the investment climate, the government should address infrastructural challenges, reduce bureaucratic red tape, and offer appropriate incentives in high-potential sectors. It is also crucial to establish EZs for industries outside the RMG sector, to diversify the economy and attract FDI.

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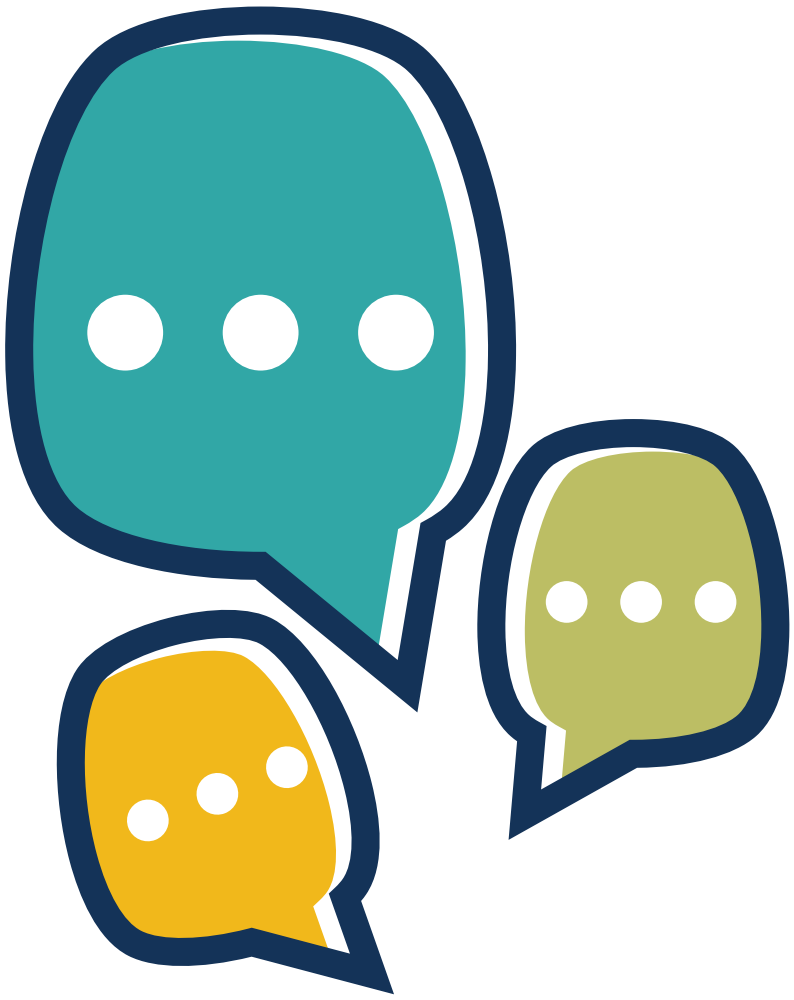
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C. SOCIAL



Chapter XIII. Poverty, Inequality, and Vulnerability: A Story of Fragile Glory

13.1 Introduction

This chapter critically examines four key narratives that together shape an overarching, yet fragile, portrayal of the past 15 years under the previous regime in Bangladesh. Our analysis draws on primary data from the HIES for 2016 and 2022, supplemented by consultation interviews and a secondary literature review.

The first narrative centres on Bangladesh's accelerated progress in poverty reduction, human development, and impressive GDP growth during the past regime. We argue that this narrative presents a truncated view of a longer trajectory of progress, one that spans across various political regimes. Furthermore, it selectively uses 'convenient truths' and misrepresents statistics. The indicators cited to support claims of accelerated poverty reduction and human development offer an incomplete and skewed picture, concealing the fragility and vulnerability underlying these achievements. Evidence shows that those who have escaped poverty often remain close to the survival poverty line and are prone to falling back into poverty due to shocks, which have become more intense and complex in recent times.

The narrative of human development progress rests on a few critical first generation successes centering on basic access, many of which have deeper historical roots shaped by complex dynamics of policy, civil society, and people's initiatives. These dynamics, which transcend political regimes, are largely ignored in the mainstream narrative. Moreover, poor progress in addressing second generation challenges—particularly in relation to quality, critical in translating basic access into meaningful opportunities—has been largely overlooked.

The second narrative suggests that inequality is an inevitable consequence of rapid growth, a claim unsupported by global evidence. Alongside rising income inequality, which now places Bangladesh in the same category as highly unequal countries, wealth inequality, particularly in terms of land and assets, has reached alarming levels. Without progressive taxation and redistribution policies, such inequality will perpetuate intergenerational poverty, triggering destabilising and polarising dynamics in society.

A popular and highly visible narrative depicts a caring and generous government, as reflected in its expansive social protection programmes. However, we argue that social protection, despite the well-designed and government-endorsed National Social Security Strategy, suffers from severe shortcomings due to politicisation, accountability, and inefficiency, with weak implementation.

Finally, digitalisation has been heralded as a tool for creating opportunities and improving services for the poor. In reality, this promise has largely proven illusory, with very low adoption rates. At best, it offers marginal benefits; at worst, it has given rise to new forms of corruption, weakened accountability, and has been wasteful.

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* The chapter was prepared by Dr Imran Matin, Executive Director, BRAC Institute of Governance and Development (BIGD) and Dr Kazi Iqbal, Research Director, Bangladesh Institute of Development Studies (BIDS).

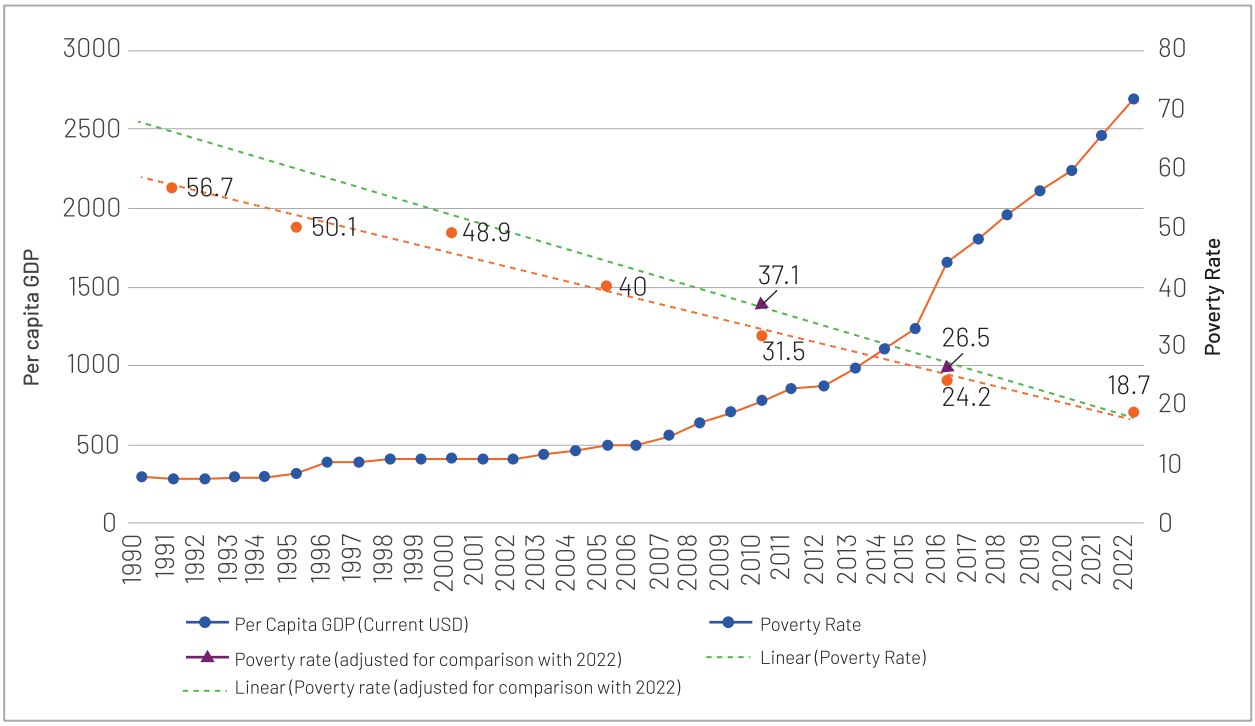
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This chapter is structured as follows: Section 13.2 examines trends in poverty and economic growth, followed by an analysis of inequality and its relation to the poverty-growth nexus. Sections 13.3 and 13.4 explore trends in human capital and social protection services, respectively, in the context of poverty and inequality. Section 13.5 discusses digital exclusion, and the chapter concludes with observations on data.

13.2 Trends in Poverty and Economic Growth

Although Bangladesh has experienced significant economic growth in recent years, the pace of poverty reduction has slowed. Figure 13.1 shows the trends in GDP growth alongside poverty rates based on the upper poverty line. Between 1990 and 2022, the poverty rate fell by 38 percentage points, from 56.7% to 18.7%, with an average annual reduction of approximately 1.2 percentage points. Economic growth peaked in the past decade, with per capita GDP more than tripling from 2012 to 2022, compared to an 88% increase between 2000 and 2010 and just 40% in the 1990s. However, the most rapid poverty reduction occurred between 2000 and 2010, with an annual decrease of 1.74 percentage points. In light of the trends in economic growth and poverty reduction, the past three decades can be characterised as three distinct phases: (a) the 1990s, marked by slow economic growth and gradual poverty reduction; (b) 2000–2010, characterised by moderate growth and accelerated poverty reduction; and (c) a period of rapid growth since 2010, accompanied by a slowing rate of poverty reduction.

Figure 13.1: Annual per capita GDP growth and poverty rate trend



Source: Poverty estimates for 1991-2010 and for 2016-2022 were taken from the HIES 2010 report (Page 61) and HIES 2022 report, respectively; Per capita GDP estimates were taken from World Development Indicators (WDI)https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=BD.

Despite robust economic growth, the benefits for the poor have been less favourable in recent years, even when adjusting for changes in measurement methods. Two key changes are noteworthy when comparing long-term trends in poverty and per capita GDP. First, the BBS revised the base year for GDP calculations from 2005–06 to 2015–16, incorporating a broader

range of economic activities, including new sectors and restructuring existing ones. This resulted in a sharp rise in per capita GDP between 2015 and 2016. However, the high rate of GDP growth has continued since then. Second, the poverty lines were recalibrated to reflect the expanded food and non-food consumption basket, adjusting for current living conditions. With the revised poverty lines, the annual poverty reduction rate has been 1.84 percentage points since 2010, compared to 1.74 between 2000 and 2010 (Table 13.1). Both of these figures surpass the 1.3 percentage point reduction observed between 2016 and 2022.

Table 13.1: Poverty incidence over time (2000-2022)

Years of HIES	Upper poverty line			Lower poverty line		
	National	Rural	Urban	National	Rural	Urban
2000	48.9	52.3	35.2	34.3	39.5	13.5
2005	40	43.8	28.4	25.1	28.6	14.6
2010	31.5 (37.1)	35.2	21.3	17.6 (12.2)	21.1	7.7
2016	24.3 (26.5)	26.4	18.9	12.9 (9.2)	14.9	7.6
2022	18.7	20.5	14.7	5.6	6.5	3.8

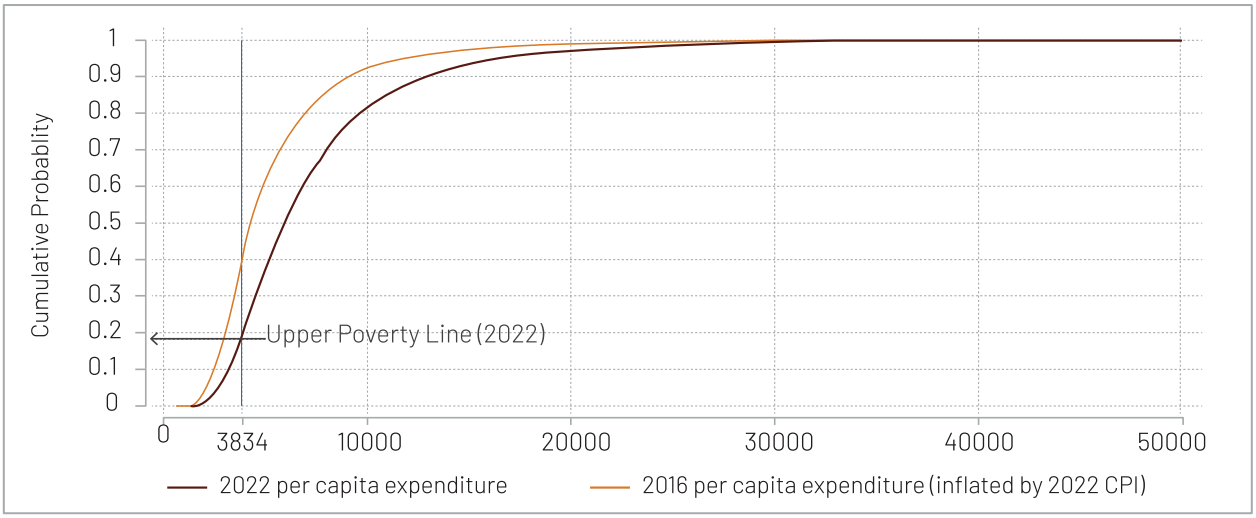
Source: HIES reports 2000-2022 (BBS) **Note:** Consumption basket for food and non-food items was expanded in 2022, making poverty lines for 2022 incomparable with those from previous HIES rounds. As a result, the BBS re-estimated the 2016 and 2010 poverty lines. The figures in parentheses at the national level represent the adjusted poverty rates using the 2022 basket. This adjustment was not carried out for 2000 and 2005 due to the lack of comparable baskets.

The effectiveness of economic growth in reducing poverty has diminished. A growing consensus suggests that growth now benefits the poor less than in previous decades. Factors such as geographic isolation, ecological risks, and entrenched policy biases have increasingly constrained the impact of growth on poverty reduction (Sen & Ali, 2015). Despite a steady decline in the poverty elasticity—both for extreme and moderate poverty—between 2000 and 2016 (Iqbal & Pabon, 2018), limited action has been taken to address or reverse these trends. The COVID-19 pandemic further exacerbated the situation for low- and middle-income households, with its impact likely underrepresented in current poverty estimates. This raises significant concerns about the reliability of government estimates for 2022, particularly in light of the post-pandemic realities of distressed coping and rising food and living costs (Fielding et al., 2024).

While poverty has declined, it masks the vulnerability of those hovering just above the poverty line. A crucial determinant of poverty is the income threshold below which individuals are classified as poor. Figure 13.2a shows the cumulative distribution of per capita consumption expenditure for 2016 and 2022, with the upper poverty line marked on the horizontal axis. To ensure comparability, we adjust the 2016 data to 2022 prices.[273] The distribution reveals a reduction in poverty between 2016 and 2022, irrespective of the poverty line, as indicated by stochastic dominance (Figure 13.2a). However, examining the sensitivity of poverty estimates to variations in the poverty threshold reveals underlying vulnerabilities (Figure 13.2b). A 10% increase in the threshold reveals a concentration of households just above the poverty line. Analysis suggests that a 20% rise in the income threshold would nearly double the proportion of the population classified as poor and more than double the proportion classified as extremely poor. Despite the overall decline in poverty, even a modest increase in the poverty line can dramatically alter poverty rates, underscoring the fragility of those living just above the current threshold.

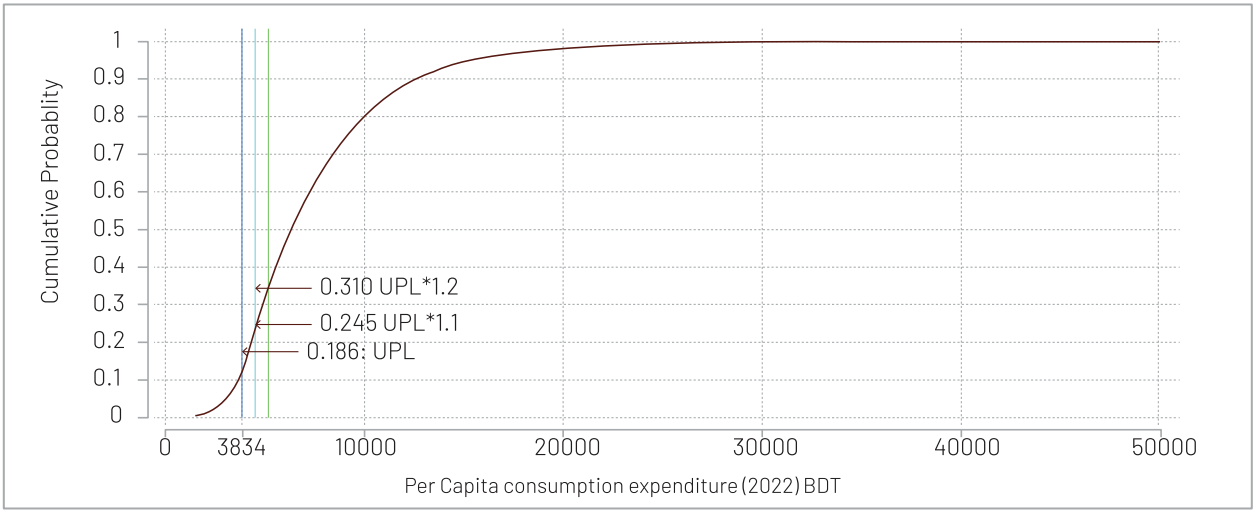
[273] Throughout our primary analysis of HIES 2016 and 2022 data, we inflated the 2016 figures to 2022 prices when comparing monetary values.

Figure 13.2a: Cumulative distribution of per capita consumption in 2016 and 2022



Note: Author's calculations using HIES 2016 and 2022 data. The 2016 consumption expenditure and poverty lines were adjusted for inflation (by a factor of 1.43 (CPI 2022/CPI 2016)). For easier visualisation, the cumulative distribution is restricted to 50,000 BDT.

Figure 13.2b: Cumulative distribution of per capita consumption in 2022 (With a 10% increase in poverty thresholds).



Note: Author's calculations using HIES 2022 data. For easier visualisation, the cumulative distribution is restricted to 50,000 BDT.

Multidimensional poverty improved significantly during the 2010s, outperforming income-based poverty; however, it urgently requires updated data to reflect evolving realities. The Multidimensional Poverty Index (MPI) value decreased substantially, from 0.29 in 2010 to 0.10 in 2020 (see Table 13.2). Between 2015 and 2020, approximately 19 million people in Bangladesh transitioned out of multidimensional poverty, according to the latest MPI estimates. A key factor driving this progress, beyond income, was improved nutrition; malnutrition rates, for example, fell from 36.5% to 9.5% between 2010 and 2020. However, these gains may be undermined by rising food insecurity, linked to the COVID-19 pandemic and persistently high inflation over recent years. Educational indicators within the MPI also raise concerns. Although the proportion of households without a member completing six years of schooling declined from 24% in 2010 to 17% in 2020, the impact of this education is diminishing, with increasing concerns about education quality. Later in this chapter, we explore how these educational challenges may influence future trends in poverty and inequality.

Table 13.2: Multidimensional poverty indicator for Bangladesh (2010-2020)

Programme	Indicators	Definition	Weight	2010	2015	2016	2020
Oxford Poverty and Human Development Initiative (OPHI)	**Data Source**			DHS 2007	MICS 2012-13	DHS 2014	MICS 2019
	Nutrition	Any person under 70 years of age for whom there is nutritional information is undernourished	1/6	36.50%	11%	23%	9.50%
	Child Mortality	A child under 18 has died in the household in the five years preceding the survey	1/6	24%	12%	15%	1.30%
	Years of Schooling	No eligible household member has completed six years of schooling	1/6	23.70%	17%	15%	16.70%
	School Attendance	Any school-aged child is not attending school up to the age at which he/she would complete class	1/6	9%	15.50%	9.50%	6.80%
	Cooking Fuel	A household cooks using solid fuel, such as dung, agricultural crops, shrubs, wood, charcoal or coal	1/18	56.70%	36%	40%	23.30%
	Sanitation	The household has unimproved or no sanitation facility or it is improved	1/18	48.20%	23%	28%	15.60%
	Drinking Water	The household's source of drinking water is not safe, or safe drinking water is a 30-minute walk or longer walk from home, roundtrip	1/18	2%	3%	3%	1.40%
	Electricity	The household has no electricity	1/18	38.80%	22.50%	26%	4.60%
	Housing	The household has inadequate housing materials in any of the three components: floor, roof, or walls	1/18	54.10%	35%	37%	23.30%
	Assets	The household does not own more than one of these assets: radio, TV, telephone, computer, animal cart, bicycle, motorbike, refrigerator, car, or truck	1/18	45.30%	27%	26%	16.10%
	Multidimensional Poverty Index (HxA)	HxA		0.291	0.174	0.196	0.104
	Incidence of Poverty (H)	Proportion of the population that is multidimensionally poor		57.80%	37.30%	41.30%	24.60%
	Average Intensity Across Poor (A)	Average proportion of indicators in which they are deprived		50.40%	46.60%	47.40%	42.20%

Source: All indicators were taken from Global MPI country briefs, for the years of 2010-2020.

The gender dimension of poverty extends beyond female headship, necessitating consideration of pervasive lived experiences such as gender-based violence (GBV). Female headship is associated with various vulnerabilities, but not necessarily income poverty. In fact, households headed by women are less likely to be poor than those headed by men.

However, GBV remains a significant issue in Bangladesh, with women often constrained in their economic and educational pursuits due to violence and safety concerns.

Despite advances in policies aimed at addressing gender violence, its prevalence remains high. The incidence of partner violence (physical and/or sexual) reported by women in the poorest households (61.4%) is nearly double that reported by women in wealthier households (BBS, 2016). Furthermore, fear of violence, both inside and outside the home, may limit women's mobility and access to education, employment, and healthcare. According to the 2019 Multiple Indicator Survey, 25% of women reported feeling unsafe walking alone in their neighbourhood after dusk, with younger women (ages 18–19) feeling more unsafe (36%) compared to older women (ages 45–49) (17%) (BBS & UNICEF, 2019). This concern for safety was particularly acute during the pandemic, especially for female-headed households, which faced the greatest difficulties in meeting daily needs and ensuring their daughters' safety (Sultan, Mahpara, & Tasnin, 2023). This heightened concern is likely to increase the likelihood of child marriage in these households, as early marriage tends to limit women's educational opportunities. Such practices are more prevalent in the poorest quintile than in wealthier households (NIPORT & ICF, 2024).

Laws such as the *Nari o Shishu Nirjatan Domon Ain* and the Domestic Violence Prevention and Protection Act (DVPPA) of 2010 have been undermined by the widespread belief, even among service providers and legal practitioners, that marriage is a sacred and private institution, leading to inaction. A study by BRAC Institute of Governance and Development (2023) suggests that effective implementation of the DVPPA requires a fundamental shift in norms and attitudes among implementers, as well as additional support for victims and procedural revisions to facilitate access to protection under the Act.

13.3 Rising Inequality: All in the Top

The tolerance of rising income inequality in the name of faster growth has proven detrimental to the poor. Recent discussions in policy circles and media have suggested accepting increasing inequality as a trade-off for accelerated economic growth. The Kuznets Curve—hypothesising an inverted-U relationship between inequality and GDP, whereby inequality initially increases with national income but eventually declines with greater prosperity—has gained traction despite significant criticism of the notion that economic growth will *naturally* reduce inequality. This scepticism is valid, particularly in modern economies, where empirical evidence supporting the curve is scarce (Gallup, 2012; Chang et al., 2021). As a result, inequality in Bangladesh has continued to rise, with the Gini coefficient reaching 0.50 nationally in 2022, and 0.54 and 0.45 in urban and rural areas, respectively (see Table 13.3). While Bangladesh is not unique in experiencing rising inequality alongside economic growth (Osmani, 2018), it now ranks among the countries with the highest income inequality globally. As of 2021, only Colombia, Brazil, and Panama reported Gini coefficients exceeding 0.50 among the 72 countries with available data from the World Bank. Although comparisons across countries can be challenging, Bangladesh's current income inequality remains alarmingly high.

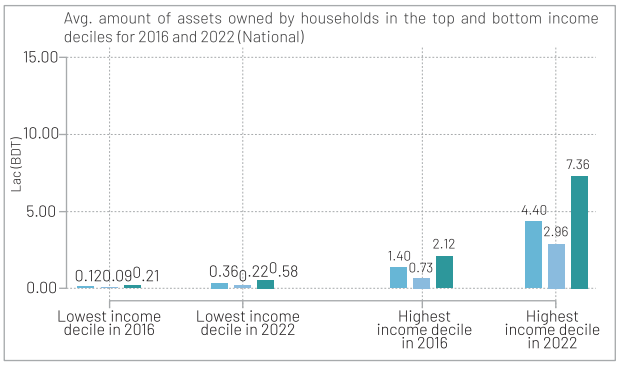
Table 13.3: Income and Asset Gini (2016-2022)

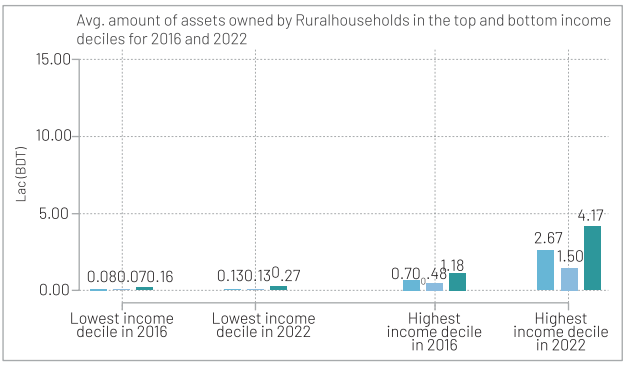
Region/HIES years	Income Gini		Asset Gini	
	2016	2022	2016	2022
National	0.48	0.50	0.82	0.84
Rural	0.45	0.45	0.75	0.81
Urban	0.50	0.54	0.85	0.84

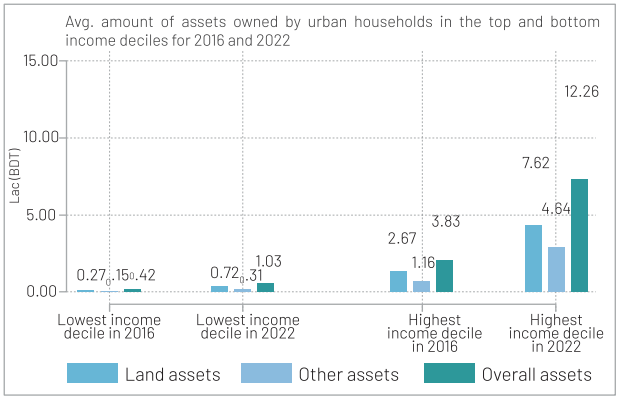
Source: Author's calculation using HIES data (2022 and 2016).

Wealth inequality, as measured by the asset Gini, is even more pronounced than income inequality. The asset Gini increased from 0.82 in 2016 to 0.84 in 2022 (see Table 13.3). These figures demonstrate an increasing concentration of wealth at the top, though they likely underestimate true wealth inequality due to incomplete data from the wealthiest households. This discrepancy is evident when examining the reported asset values of the wealthiest 10% of income earners (see Figure 13.3). According to HIES 2022 data, the wealthiest households reported owning assets worth only BDT 7.36 lakh (BDT 4.17 lakh in rural and BDT 12.26 lakh in urban households). These figures appear implausibly low when compared with general observations of wealth. Despite a reported increase between 2016 and 2022, the figures seem significantly underreported in both rounds, making it difficult to draw meaningful conclusions about actual wealth dynamics.

Figure 13.3: Average value of assets in the top and bottom income decile in 2016 and 2022



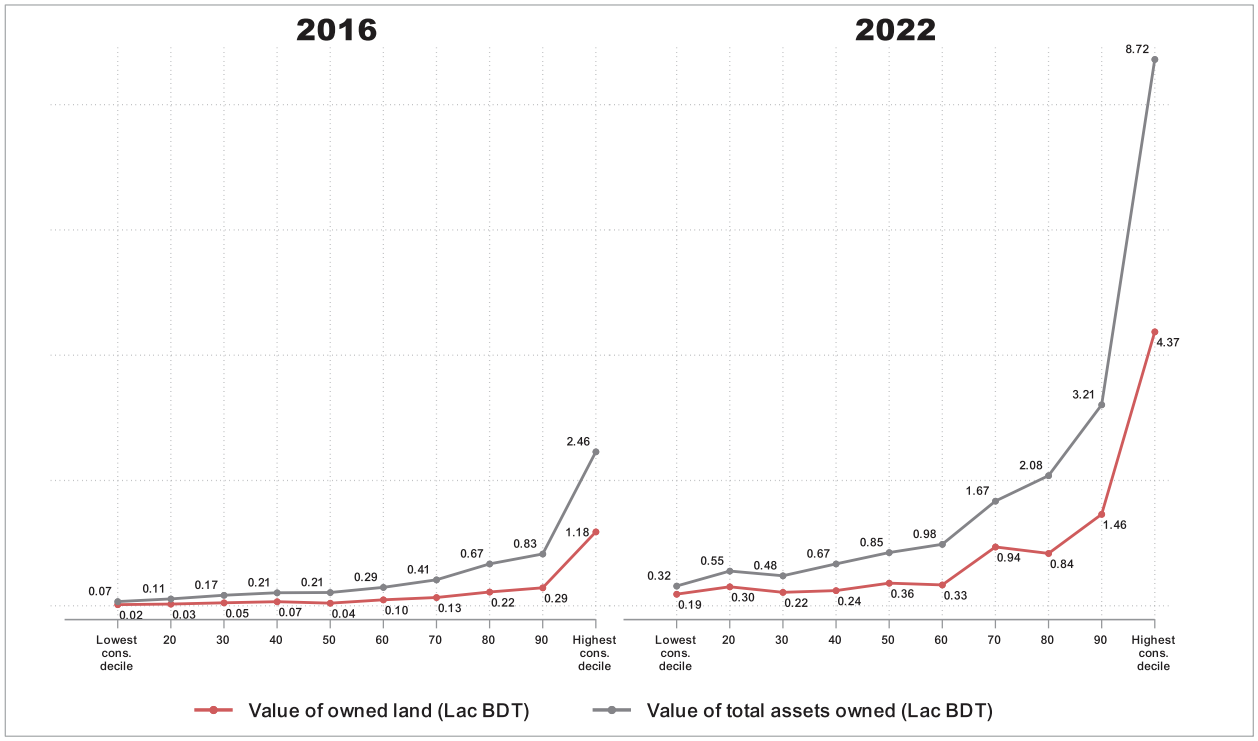




Source: Author's calculation using HIES data (2022 and 2016).

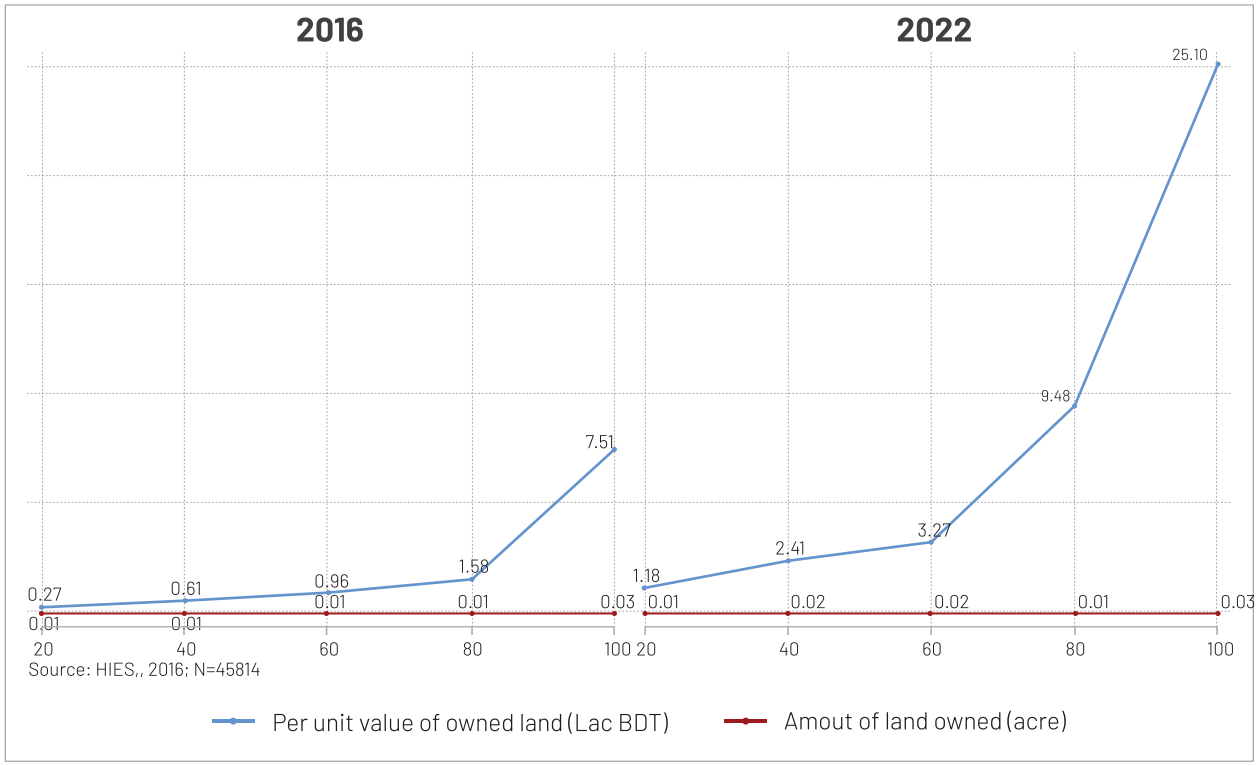
Even with underreporting, land constitutes approximately half of the reported wealth and is concentrated among the wealthiest households. Disaggregation of assets by consumption decile reveals that land and real estate account for over half of total wealth across consumption deciles (see Figure 13.4). Real estate wealth inequality can arise from the concentration of land ownership or the appreciation of land and property values. Households in the highest income decile report the greatest concentration of real estate and a higher propensity to invest in return-generating assets such as stocks, bonds, and jewellery, both in 2016 and 2022 (see Figure 13.3). In contrast, households in lower deciles own a larger proportion of non-land assets, such as household durables, which depreciate rather than generate income, except for livestock. It is noteworthy that many households reported not owning any real estate, and all asset values were self-reported. Predictably, the average amount of land owned remained largely unchanged between 2016 and 2022 (see Figure 13.5). The real disparity lies in the value of land—although the quantity owned by richer and poorer quintiles was similar, the value of land was far higher for wealthier households, and this gap grew significantly between 2016 and 2022. This suggests that infrastructure investments disproportionately benefit the wealthy, leaving the poor with limited access to appreciated land values.

Figure 13.4: Average value of land and total assets by consumption decile (2016 and 2022)



Source: Author's calculation using HIES data (2022 and 2016).

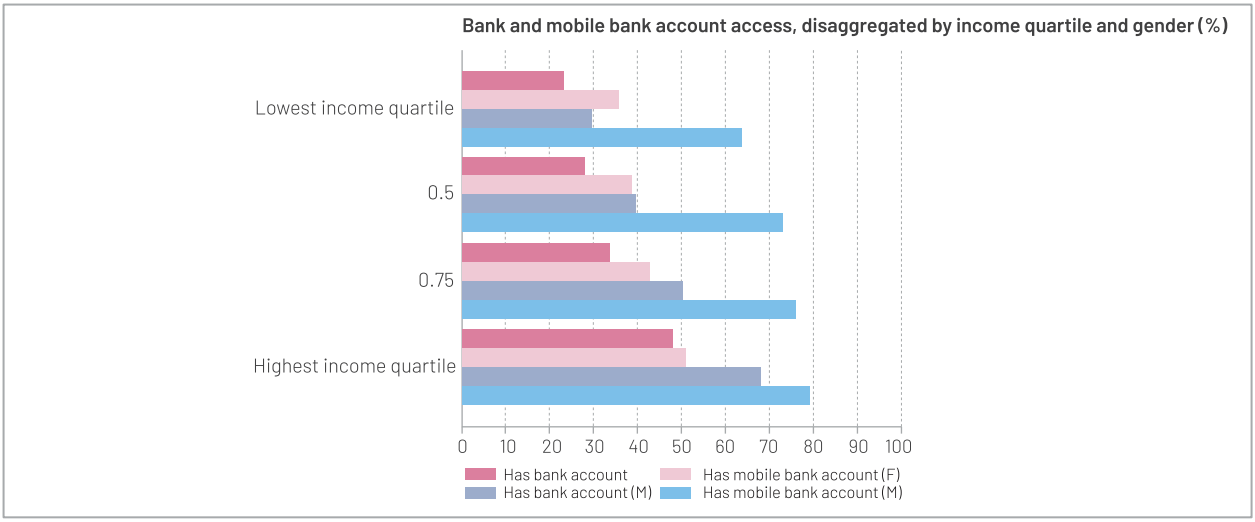
Figure 13.5: Amount and price of land in 2016 and 2022



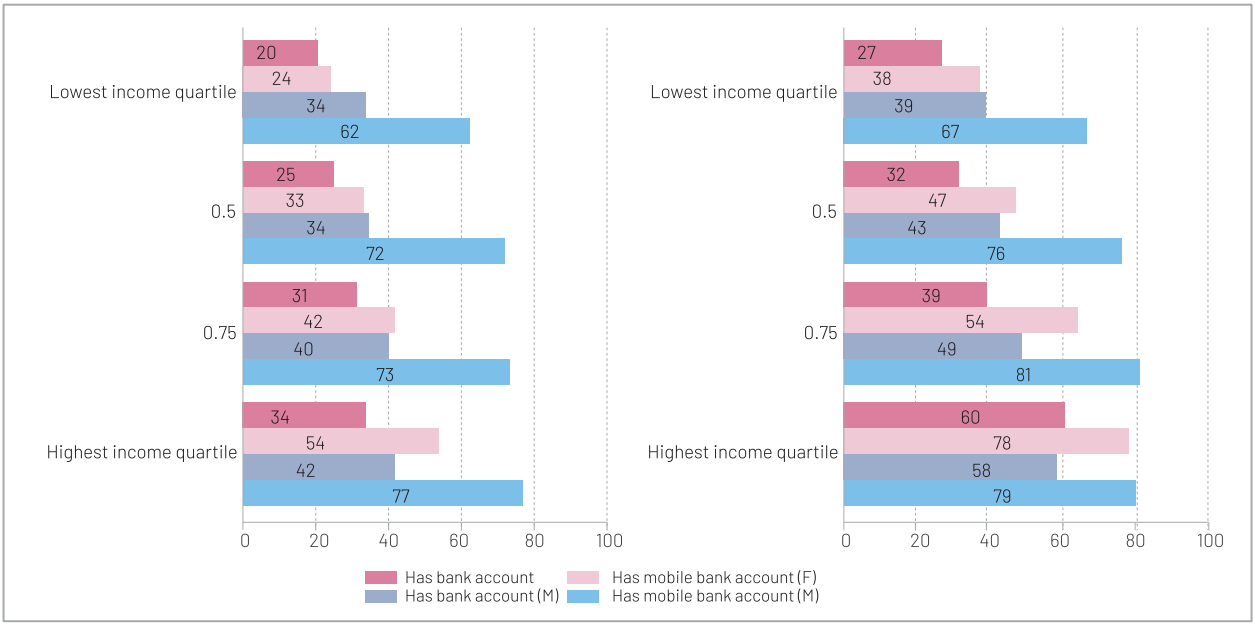
Source: Author's calculation using HIES data (2022 and 2016).

Gender inequality in financial assets persists across all wealth groups. Access to financial services is essential for wealth accumulation. There is a persistent gender gap in access to bank or mobile money accounts across all wealth quartiles (see Figure 13.6). Data from the GGiFI survey shows that women are more financially excluded than men, with only 18% of women falling within the high financial inclusion category compared to 32% of men. Moreover, women tend to use financial services less actively than men, which highlights the role of gender norms in shaping women's financial inclusion (CRD, 2024).

Figure 13.6: Access to bank and mobile bank accounts, by income quartile, region and gender



Source: HIES 2022, N=14375



Source: Author's calculation using HIES data (2022 and 2016).

The gender gap is less pronounced for mobile money accounts compared to bank accounts, but the ownership of any financial account remains a fundamental disparity, limiting access to affordable credit and higher-yielding financial investments.

These disparities in financial inclusion are closely tied to broader constraints on women's economic agency, particularly regarding asset ownership and digital access.

Although overall digital access in Bangladesh has improved in recent years, women remain 20% less likely than men to own a mobile phone and 43% less likely to use mobile internet (GSMA, 2023). In addition to low digital literacy, women frequently cite family disapproval as a major barrier to mobile phone ownership—a constraint that was not reported by men. This reflects deeply rooted cultural concerns, where families fear that women's digital engagement may expose them to potential reputational risks, thereby threatening family honour. Limited access to digital technology further restricts women's ability to engage with mobile financial services—an increasingly important channel for accessing credit, savings, and government transfers.

In addition, deeply embedded gender norms continue to restrict women's ownership of productive assets and their access to enabling technologies. While women are more likely than men to own small-scale, low-value assets—such as poultry and basic household durables—ownership of higher-value assets, particularly land, remains significantly constrained by both normative and institutional barriers (Solotaroff et al., 2019). Even when women are legally entitled to inherit land, daughters are significantly less likely than sons to receive or claim their rightful share—often attributed to a combination of mobility constraints—which limit women's ability to navigate bureaucratic processes—and social norms that continue to position men as the primary breadwinners and custodians of family wealth (Solotaroff et al., 2019). Survey data further illustrate these disparities: while 69% and 86% of rural men report sole or joint ownership of agricultural and non-agricultural land, respectively, the corresponding figures for rural women are only 12% and 7% (Quisumbing, Kumar, & Behrman, 2018). This digital exclusion, when combined with unequal ownership of productive assets, not only undermines women's financial autonomy but also deepens their marginalization within formal financial systems, reinforcing persistent structural barriers to economic inclusion.

Covid-19 and Inequality

The pandemic-induced economic shocks—marked by nationwide lockdowns and a global recession—had a widespread impact on employment and income across all socioeconomic groups in Bangladesh. Given that labor earnings constitute the primary source of income for most households, the disruption of employment due to COVID-19, compounded by the absence of institutional support mechanisms, forced many households to cope by depleting their savings or incurring debt (Genoni et al., 2020; BIGD-PPRC, 2021).

The consequences were particularly severe for women, especially those heading female-led households. The informal sector—where approximately 95% of employed women in Bangladesh are concentrated (BBS, 2023)—was among the hardest hit. As a result, women experienced disproportionately higher unemployment rates and more significant income losses than their male counterparts in similar occupations (BIGD & PPRC, 2021; Asia Foundation, 2021; Genoni et al., 2020). Once displaced from employment, women also face more structural barriers to re-entering the labour force, often leading to prolonged or permanent withdrawal from economic activity.

Government stimulus packages were rapidly introduced to cushion the income shocks induced by the pandemic, they were primarily targeted toward ready-made garment (RMG) workers, small and medium-sized enterprise (SME) entrepreneurs, low-income farmers, small traders, marginased populations, and unemployed or poor workers. However, reports indicate that despite these measures, a substantial number of eligible beneficiaries did not receive support, as the allocated liquidity was insufficient to cover the full pool of eligible recipients (Moazzem and Taznur, 2021; Rahman et al., 2021).

The global scale of the pandemic resulted in widespread job losses, including among Bangladeshi migrant workers abroad. Although the exact magnitude of this loss was difficult to quantify, estimates suggest that approximately 270,000 Bangladeshi migrant workers were laid off and repatriated between April and September 2020 (CPD, 2020). In addition to domestic job and income losses, the decline in remittance inflows further constrained household income—particularly for those entirely dependent on remittances as their sole source of livelihood.

This illustrates that, although the COVID-19 crisis affected the broader population, its adverse impacts were disproportionately borne by already vulnerable and marginased groups. Households with limited or no access to formal support mechanisms, lacking stable income sources, and heavily reliant on credit were driven deeper into poverty and faced slower paths to recovery. Evidence from a three-round panel survey conducted in April 2020, June 2020, and March 2021 indicates that the pandemic not only pushed previously non-poor households below the poverty line, but also that many remained unable to recover their pre-pandemic economic status even after the lifting of lockdown measures and the resumption of economic activity (BIGD-PPRC, 2021).

These patterns reveal that COVID-19 not only exposed but also deepened existing socioeconomic inequalities, disproportionately affecting women, rural households, and the near-poor, and highlighting the urgent need for more inclusive and resilient social protection systems.

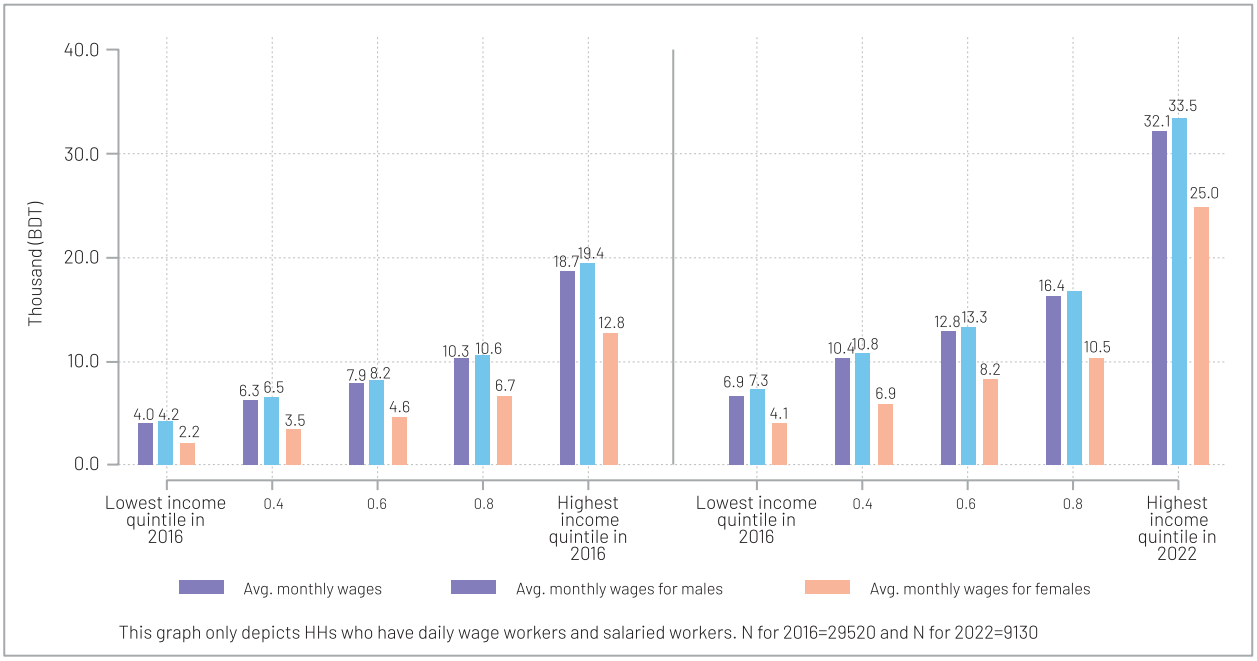
Current inequalities pose a significant barrier to future progress. Despite the rural bias in HIES data, the substantial asset inequality observed in this sample reflects a concerning reality, which is often misreported, underreported, or entirely unreported. Without corrective measures, the benefits of future economic growth will likely remain disproportionately skewed against the poor, as Bangladesh already exhibits a highly unequal distribution of income and wealth.

13.4 Human Capital Disparities and the Threat of Rising Inequality

Bangladesh has yet to realise economic growth driven by human capital. The Recent growth has primarily stemmed from low-skill, labour-intensive sectors, such as garment manufacturing, rather than advancements in human capital. Investment in human capital—encompassing workforce skills, education, health, and productivity—can foster faster economic growth through high-value activities and help reduce inequality (Osmani, 2018). Despite notable progress in literacy rates, enrolment, nutrition, and life expectancy, challenges persist in improving education quality and aligning skills with market demands.

Changes in real wage rates signal an increasing income gap. With limited assets to rely on, labour remains one of the few viable paths for the poor to 'catch up'. Between 2016 and 2022, the average monthly income for individuals in wage employment rose from BDT 4,000 to BDT 6,900. Real wage growth was most pronounced in the highest income group across both genders (Figure 13.7). For middle-income earners, wage increases were modest, and the poorest experienced the least growth. In both years, women in the lowest income quintile earned approximately half of what men earned. Although gender disparity in earnings was less pronounced in higher income quintiles, it remained persistent. Furthermore, the reported average monthly income in the highest quintile (e.g. BDT 31,000) appears surprisingly low. Nevertheless, the wage ratio between the highest and lowest quintiles remained almost unchanged, with individuals in the highest quintile earning 4.7 times more than those in the lowest quintile in both 2016 and 2022.

Figure 13.7: Monthly wage rate in 2016 and 2022 by income quintile and gender



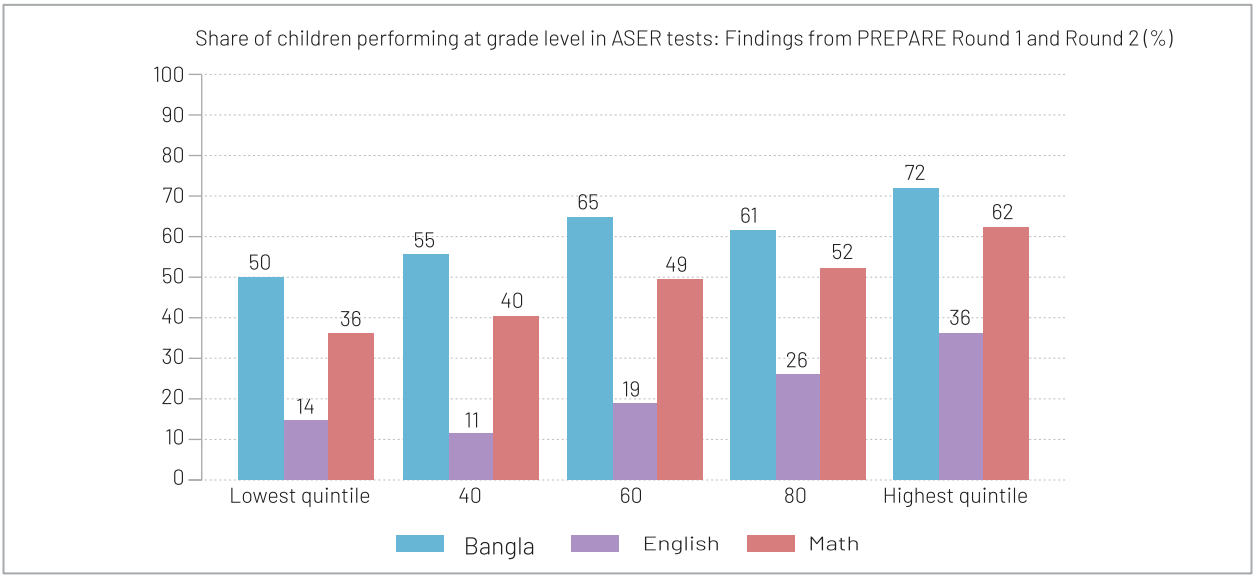
Source: Author's calculation using HIES data (2022 and 2016) (BBS, 2022, 2016).

Bangladesh's employment structure is overwhelmingly dominated by the informal sector, with approximately 85% of workers engaged outside the formal, regulated labour market (BBS, 2023). Although individuals from all income groups participate in informal employment, formal sector jobs—which offer structured wage increments and legal protections—are more commonly accessed by individuals with higher levels of education. Given the financial barriers to tertiary education, access to formal employment is often limited to those from relatively higher-income backgrounds. In contrast, lower-income groups are disproportionately concentrated in informal work, which is typically low-paying, insecure, and devoid of basic legal and social protections. Informal workers, lacking formal contracts and union representation, have limited bargaining power to demand better wages or working conditions, and face minimal prospects for upward mobility (World Bank, 2018; ILO, 2023). As a result, wage growth remains largely stagnant for most informal workers, reinforcing existing income disparities and making sustained earnings growth more attainable only for those already in higher-income, formal employment.

The quality of education suggests limited prospects for improving productivity in the near future. The scarcity of financial resources and credit for low-income groups, combined with strong inflationary pressures, makes it difficult for these households to invest in their children's education. A two-phase study testing learners' foundational skills found that fewer poor students performed at grade level compared to their non-poor peers (Figure 13.8).[274]

[274] The PREPARE surveys were conducted by phone, using an existing sample frame of 12,391 children (aged 5–18 years) from 8,052 households across all 64 districts in Bangladesh. The first round was completed in January 2023, followed by a second round in July 2023 (Hossain et al., 2023).

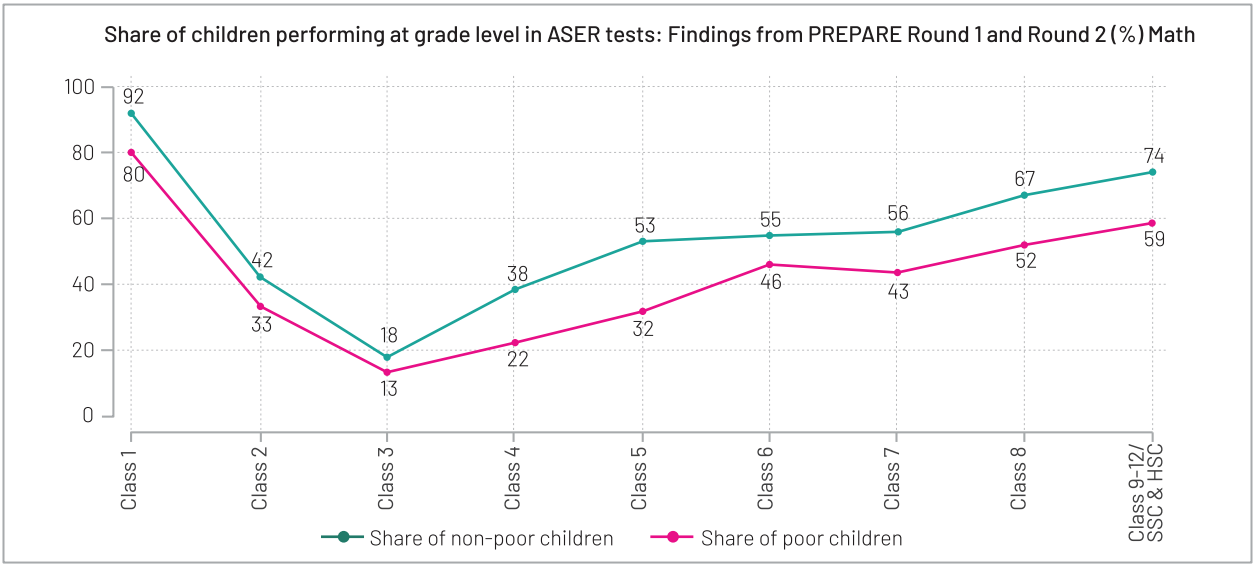
Figure 13.8: Share of children performing at grade level in foundational tests by poverty quintile



Note: Poverty status here was measured using a Poverty Score Card
Source: BIGD & CGD, 2023.

Class-level disaggregation further reveals a persistent gap between poor and rich students. The gap appears as early as grade one and widens as students advance to higher levels (Figure 13.9). For poor families, educating their children can lead to upward mobility, but poor children struggle the most in accessing quality education.

Figure 13.9: Students performing at grade level expectations in Mathematics by class and poverty status



Source: BIGD & CGD, 2023.

Competency achievement remains low across all groups. Concern is growing about inequality in human capital accumulation, particularly regarding children's learning achievements. Even the wealthiest children are not necessarily performing well—only 36% of students from the highest income quintile met grade-level expectations in English competency tests. Although results were somewhat better for Bangla (72%) and Mathematics (62%), these figures still point to a generally

low quality of education. An excessive focus on enrolment rates, politicised pass rates in public exams, and frequent, uncoordinated curriculum changes have contributed to these challenges, undermining both the intrinsic quality of education and the potential for future economic growth.

13.5 Social Protection: Too Little and Unreliable to Make a Dent

Strengthening social protection programmes is critical, with substantial room for improvement. Poverty and asset dynamics underscore the need for well-designed and targeted safety net programmes, regional targeting, and effective graduation models to further reduce poverty. Numerous safety net programmes are implemented by various ministries and departments; however, there is widespread evidence of leakages, mistargeting, duplication, and lack of coordination among implementing bodies (Rahman, Choudhury, & Ali, 2012; Barkat-e-Khuda, 2011).

Coverage has increased significantly. Data from multiple secondary sources on four key programmes—the old age allowance, widow and destitute women allowance, freedom fighters' allowance, and allowance for persons with disabilities—reveal substantial growth in the number of recipients between 2007 and 2021. Notably, recipients of the allowance for persons with disabilities grew more than ten-fold, while the freedom fighters' allowance saw the smallest increase, from 100,000 to 192,500 recipients (Table 13.4).

Table 13.4: Number of beneficiaries of selected SSPs for 2007, 2012, and 2021

Year	Old Age Allowance (in 000s)	Allowance for Widow/Destitute Women (in 000s)	Freedom Fighter Allowance (in 000s)	Allowance for Persons with Disabilities (in 000s)
2007	1700	750	100	200
2012	2476	920	200	286
2021	5701	2475	192.5	2008

Source: Allowance amounts were collected from various sources, which include reports from the Ministry of Social Welfare, the Department of Social Services, and newspaper articles.

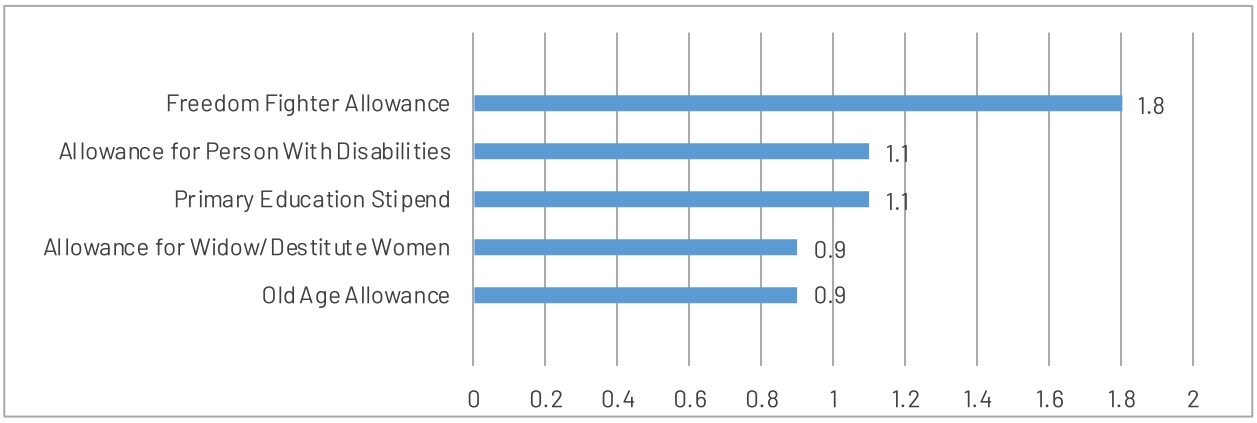
Despite the increase in coverage, the amounts provided remain inadequate. The real value of these transfers has only changed for the freedom fighters' allowance. Monthly allowances are BDT 500 for the old age and widow allowances and BDT 750 for persons with disabilities. The school stipend programme, the largest social transfer initiative, provides BDT 150 per month. In real terms, these amounts are too small to bring about meaningful change, and their purchasing power has remained largely stagnant. In contrast, the monthly allowance for freedom fighters is BDT 20,000. When adjusted for 2022 values (Table 13.5), most transfers have retained their real value, with the freedom fighters' scheme standing out for nearly doubling in value, making it the most substantial government-to-person (G2P) transfer (Figure 13.10).

Table 13.5: Real value of selected social transfer schemes

Year	Old Age Allowance	Allowance for Widow/Destitute Women	Primary Education Stipend	Freedom Fighter Allowance	Allowance for Persons with Disabilities
2016	566.09	566.09	141.52	11321.88	707.62
2017	669.45	669.45	133.89	13388.91	803.33
2018	634.28	634.28	126.86	12685.66	888.00
2019	600.69	600.69	120.14	14416.62	840.97
2020	568.35	568.35	170.50	13640.33	852.52
2021	538.48	538.48	161.55	21539.39	807.73
2022	500.00	500.00	150.00	20000.00	750.00

Source: Allowance amounts were collected from various sources, which include reports from the Ministry of Social Welfare, the Department of Social Services, the World Bank, and Microsave and newspaper articles.

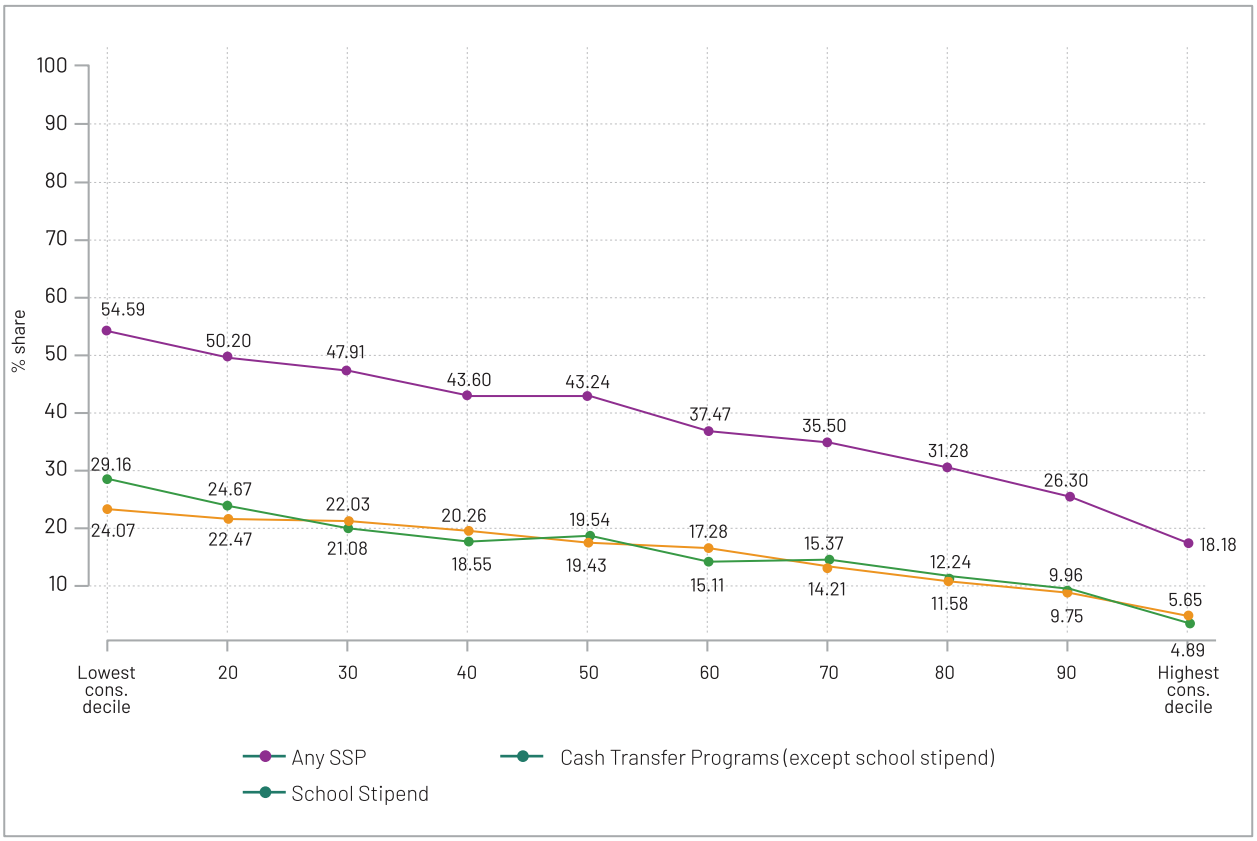
Figure 13.10: Proportional change in real values of selected SSPs in 2022 relative to 2016



Source: Author's own calculations.

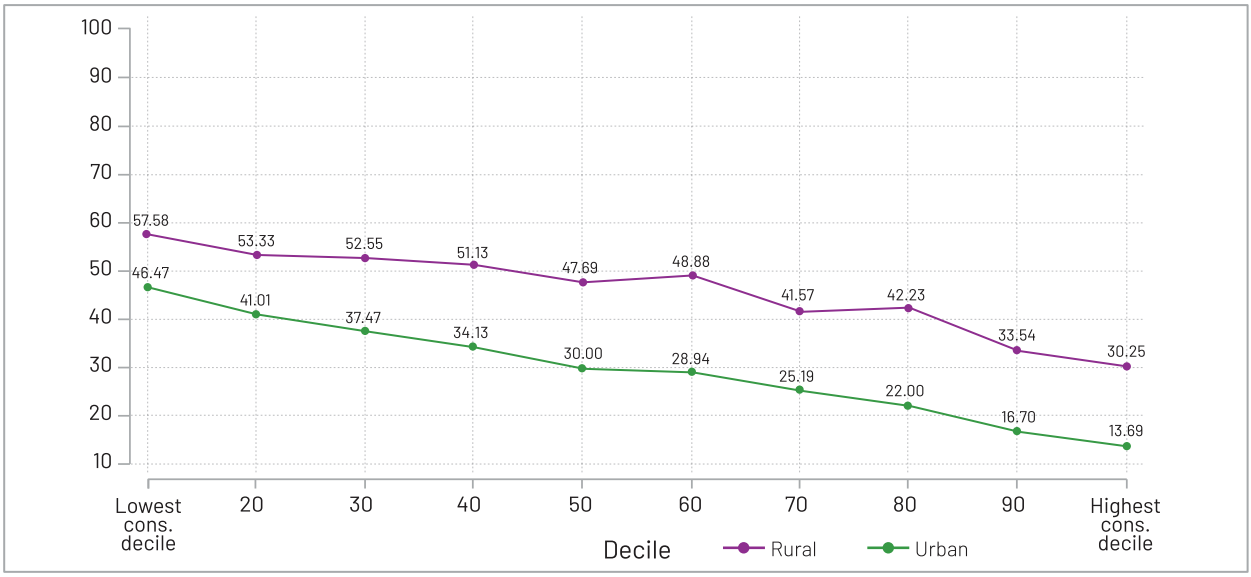
Mistargeting exacerbates the inadequacy of social transfers. Social transfers are not effectively targeted to the poor, as evidenced by the low decline in the incidence of beneficiaries as income increases (Figure 13.11). This pattern is consistent across universal schemes, such as school stipends and cash transfer programmes, which are intended to be more strictly targeted. Urban social transfers have lower coverage, but a similar pattern of beneficiary incidence across income groups is observed (Figure 13.12).

Figure 13.11: Percentage of households covered by SSPs across consumption decile (2022)



Source: Author's own calculations using HIES 2022 data.

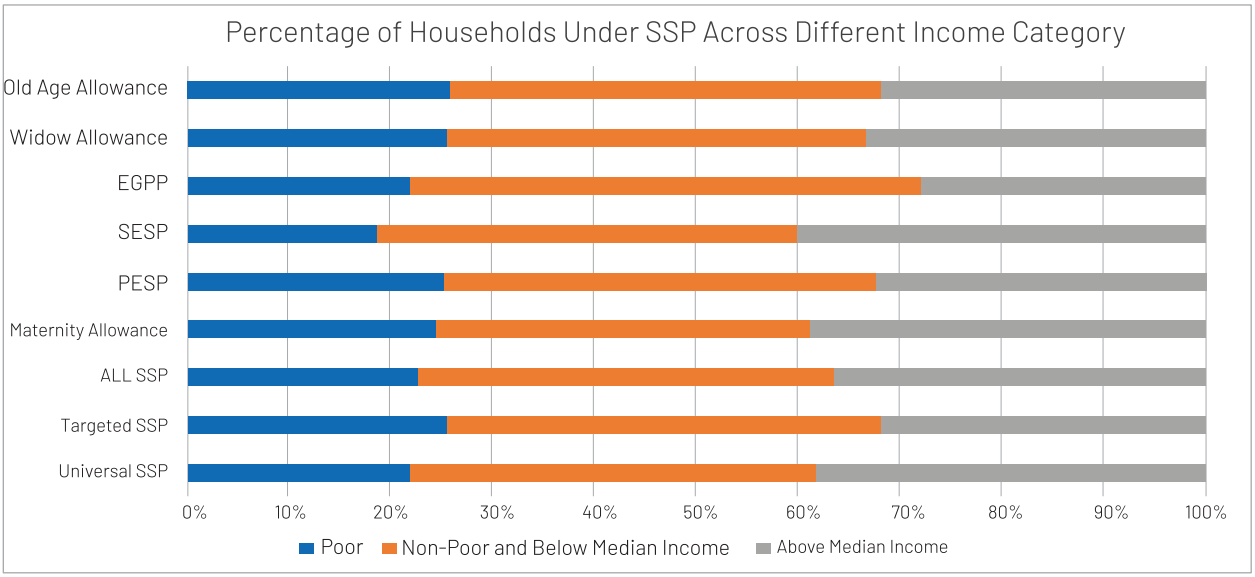
Figure 13.12: Percentage of HH receiving SSPs in rural and urban (2022)



Source: Author's own calculations using HIES 2022 data.

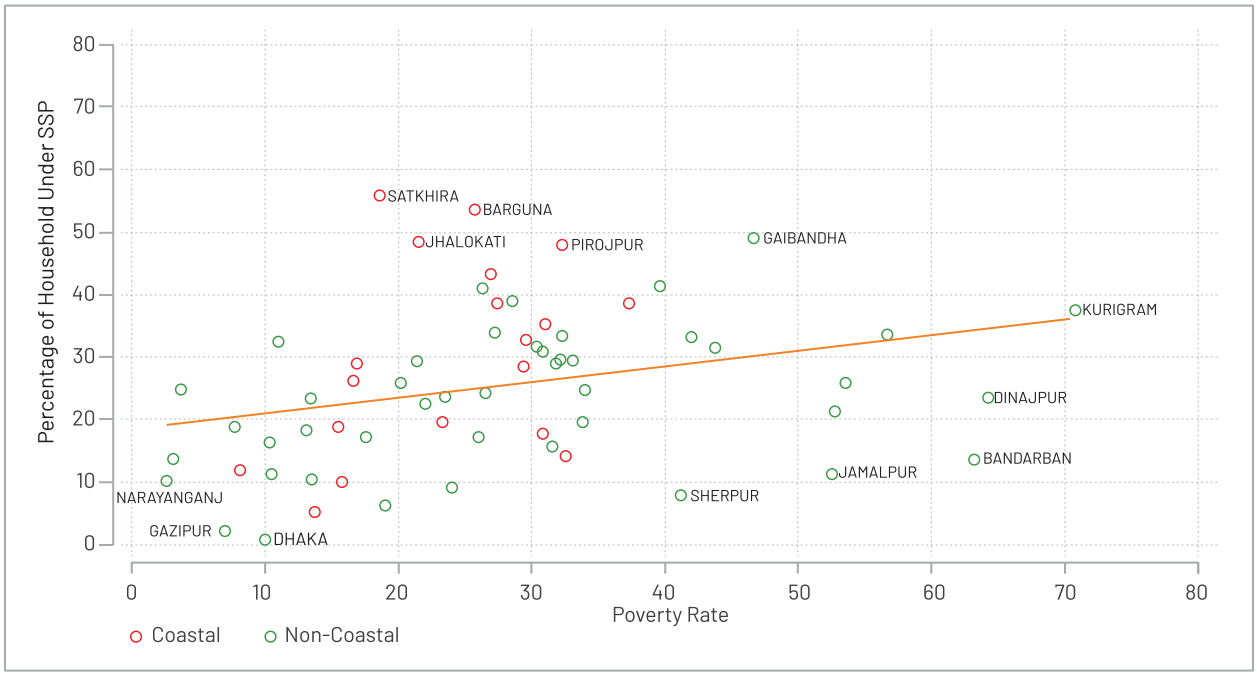
Significant mistargeting issues require attention. This analysis, based on the HIES 2022, distinguishes between the non-poor below the median income—who are more vulnerable—and those above it (Fig. 13.13). Two key findings emerge. First, over half (approximately 56%) of the mistargeting benefits the vulnerable non-poor—those above the upper poverty line but below the median income. If vulnerability is taken seriously, this group should also be included in social protection programmes. As such, the 'real' mistargeting to address is between 32% and 38%. The fact that a large proportion of social protection benefits intended for the poor are claimed by the non-poor, particularly those above the median income, reflects the erosion of local government accountability, which has worsened since the introduction of party symbols in local elections in 2015. It is crucial to separately consider the social protection needs of the poor and vulnerable non-poor when designing and delivering these programmes. Second, there is minimal difference in targeting effectiveness between poverty-targeted and more universal social protection schemes, suggesting that a serious review of means-tested and self-targeting mechanisms is warranted.

Fig 13.13. Percentage of HHs under SSPs across different income groups



Existing data could be better utilised to enhance targeting in social protection programmes. While rigorous targeting is costly, geographic targeting serves as a cost-effective alternative to improve efficiency. In 2016, the HIES expanded its sample size to provide more accurate poverty estimates at the district level, replacing previous rounds that focused on divisional and rural-urban estimates. Although methods like small area estimation can further refine these estimates, the expanded 2016 HIES data offered an opportunity to allocate allowances at the district level, potentially enhancing support for poorer households. Currently, the correlation between district poverty rates and the percentage of households receiving social support programmes is weak (Figure 13.13). Therefore, social transfer programmes, intended as safety nets, could benefit from using available secondary data to improve targeting.

Figure 13.14: Scatterplot of district-level poverty rate and SSP coverage



Source: Author's own calculations using HIES 2016 data.

Coastal districts vulnerable to climate shocks have been prioritised for social support. A higher proportion of households in coastal districts, at risk of cyclones and increased salinity (WRPO, n.d.), receive social support compared to districts with similar poverty rates but no such risks (Figure 13.14). This suggests the use of geographic targeting, which could be strengthened to reach additional poverty pockets using existing data. Integrating additional data sources, such as night light imagery or mobile usage data, with census and household surveys can cost-effectively enhance targeting. However, progress in adopting these methods has been limited.

13.6 Digital Exclusion: A New Dimension of an Unequal Society

Digital literacy and access to digital services remain limited. A 2019 survey found that almost all rural households owned at least one mobile phone, but only 41% had smartphones, which are essential for accessing many digital services.[275] While most people were aware that the

[275] BIGD conducted two rounds of nationally representative rural surveys, one in 2019 and one in 2021, to assess the state of digital literacy and the use of public digital services. The study aimed to understand the barriers to the uptake of digital services despite policy priorities and infrastructure investments.

government had digitised services and understood the concept of 'digital', they were not fully aware of which services were available online. A significant share of respondents also reported being unable to read or send SMS messages, which are crucial for using digital services. Areas with lower internet access, particularly rural regions like Rangpur, faced substantial challenges in digital engagement.

Limited digital literacy restricts service utilisation and increases reliance on intermediaries. In the aforementioned survey, only 18% of respondents successfully retrieved information from government portals. Many sought digital services through intermediaries, such as computer shop owners. Access to intermediaries was widespread, with 50% of the population using them. For example, door-to-door agents charged small fees to pay bills online, and local Bkash agents facilitated school stipend payments. However, not all households had access to computer shops. A follow-up survey in 2021 revealed that many users accessed services like birth registration and national ID registration through intermediaries rather than their own devices. Despite the substantial growth of mobile financial services, most respondents still depended on local agents for transactions. Users tend to access services out of necessity and remain largely unaware of the full range of available digital services. To increase uptake, mass communication campaigns and user-friendly interfaces catering to the digitally illiterate are essential.

There is a significant gender gap in digital access. Women are less likely to own mobile phones or utilise digital services. While awareness and device access have improved, disparities based on gender, income, and education persist. The GGiFI survey finds that almost 83% of men had access to mobile financial services (MFS), compared to only 47% of women (CRD, 2024).

13.7 Observations on Data and Independence

This chapter primarily relies on HIES data, which aims to generate poverty estimates. While our limited analysis does not raise concerns regarding the poverty estimates and associated methodologies, it reveals a significant gap in the sampling of higher-income households and/or the completeness of information from them. This issue may stem from strategic underreporting, such as tax evasion. Addressing this bias requires ensuring the independence of the BBS from other government branches and fostering public trust that their data will be used solely for research purposes, without risk of misuse. Increasing the frequency of surveys and conducting more spatially disaggregated surveys are critical, given the complex poly-crisis context and the need for more localised development planning. Innovative partnerships between public and private research institutes could also be worth exploring.

The methodologies employed in HIES have changed over time, making it difficult to track these modifications in detail. It is essential to document these changes comprehensively to build organisational memory and ensure that future analyses accurately reflect trends and shifts in data collection practices.

13.8 Conclusion: A Record and Narrative of Fragile Glory

Bangladesh has made notable progress in poverty reduction and human development, achieving significant advancements across key indicators. This success is the result of carefully designed and implemented policies. However, it has been framed within a simplified political narrative that overlooks evolving realities. Independent evidence highlights the increasing fragility of resilience among the near poor, especially in the context of the post-COVID poly-crisis (Rahman, HZ et al., 2024). This analysis reveals the superficial nature of Bangladesh's poverty alleviation efforts, yet official statistics have failed to address issues of fragility and vulnerability. Critiques based on independent research have been largely ignored. For example, SANEM's 2023 national survey,

following the HIES sampling framework, reported a 2-percentage point increase in the upper poverty headcount compared to the 2022 HIES estimate, resulting in an additional 3.5 million people falling into poverty within a year. This increase was twice as large in urban areas, at 4 percentage points.

The sharp rise in income and asset inequality, with wealth increasingly concentrated in the top decile, further underscores this disparity. Real wage growth is primarily occurring within this top decile, which is also accumulating high-value land and assets due to privileged access to information and capital. In contrast, there has been little change in the economic position of middle-income segments, particularly in terms of asset accumulation, reflecting deepening inequality. Additionally, early and persistent learning disparities between the poor and non-poor contribute to a low human capital trap, exacerbating the fragility of poverty reduction efforts.

To address this fragility, a forward-looking twin track strategy which on the hand pursues a human capital focused growth strategy, combined with, on the other hand, a social protection strategy that offers a reliable safety net against shocks, and an effective springboard to unlock the poverty trap in a sustainable way, is essential. Such a strategy could set Bangladesh on a new trajectory, characterised by lower inequality, a more sustainable escape from poverty, greater social mobility, and a stronger, more engaged citizenry.

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Chapter XIV. Health: Life-Saving Sector that Requires Intensive Care Itself *

14.A Health and Nutrition: Not Thriving

14.A.1 Introduction

Health and education are merit goods, generating positive externalities for individuals, families, and society. Quality health care and education yield social benefits that far outweigh private gains, a consideration crucial when evaluating the returns on public investment in these sectors.

Bangladesh has made notable progress in expanding coverage of essential public health interventions, such as immunisation, significantly reducing maternal and child mortality rates. However, coverage of secondary and tertiary care services remains limited. Public health spending in Bangladesh is over one percentage point lower than the South Asian average as a share of GDP, and out-of-pocket expenditures are substantially higher than those of its regional counterparts, a trend that has worsened over time.

The share of public expenditure allocated to health is among the lowest globally, while out-of-pocket spending exacerbates the economic hardship faced by households (Table 14.H.1; Annexe I Health). This chapter highlights systematic issues, including governance challenges, which hinder access to quality health services in Bangladesh.

14.A.2 Primary Health Care: Low Facility Readiness and Poor Supervision

The government is one of four key providers of Primary Health Care (PHC), along with the for-profit private sector, non-governmental organizations (NGOs), and development partners. The Ministry of Health and Family Welfare (MoHFW) holds the primary responsibility for national policy, planning, and decision-making regarding healthcare provision.

Bangladesh has established 14,327 CCs at the grassroots level to serve rural populations. However, the supply of medicines in these clinics is not aligned with local population size or disease burden. Equipment quality is subpar in 88% of facilities, and 59% of clinics face inadequate drug supplies (MOHFW et al., 2019).[276] Union-level facilities also lack basic logistics and equipment. At the Upazila Health Complexes (UzHCs), only 18% have functional X-ray machines, and just 14% possess ultrasound machines. Additionally, 28.6% of UzHCs report stockouts (NIPORT et al., 2020).[277] These facilities often require significant maintenance.

14.A.3 Sexual, Reproductive, Maternal, Newborn, Child and Adolescent Health (SRMNCAH)

Progress in reducing the Maternal Mortality Ratio has slowed significantly since 2011. Antenatal care coverage remains low, with only 17.7% of pregnant women receiving adequate care. Additionally, 47% of births are attended by unskilled providers, and 50% of the 3 million annual births occur at home. Nationally, 33% of deliveries involve Caesarean sections, a figure that rises

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[276] MOHFW, DGHS, CBHC, & WHO (2019). Independent Evaluation of Community-Based Health Services in Bangladesh. https://www.who.int/docs/default-source/searo/bangladesh/pdfreports/2019-20/cbhs—-report-2019.pdf?sfvrsn=fdecaade_2

[277] NIPORT, MOHFW, & ICF. (2020). Bangladesh Health Facility Survey 2017. NIPORT-ICF. https://www.dhsprogram.com/pubs/pdf/SPA28/SPA28.pdf

to 84% in private facilities, with many considered unnecessary (NIPORT et al., 2020).[278] Only 4% of facilities offering normal deliveries are equipped to provide the necessary services. Furthermore, only 7% of home births receive postnatal care.

The neonatal mortality rate is declining slowly. Newborn deaths account for 67% of all deaths among children under five. As Bangladesh prepares to graduate from GAVI (the Vaccine Alliance), the government will assume responsibility for funding routine and new vaccines from 2026 onwards.

While the Bangladesh Expanded Program on Immunisation (EPI) is globally recognised for its success in coverage, performance in remote and hard-to-reach areas (such as char, haor, and the Chittagong Hill Tracts) is significantly lower. Urban areas also face challenges, with regional disparities in coverage.

The government has created new city corporations in the past decade, focusing on urbanisation. However, these entities were not adequately prepared to provide essential services. Public PHC infrastructure is nearly non-existent in urban areas, and the gaps are mostly filled by NGOs and unregulated private for-profit providers (Evans & Alam, 2017).[279]

The Local Government (City Corporation) Act, 2009 and the Local Government (Municipalities) Act, 2009 place responsibility for PHC services with city corporations and municipalities. However, inadequate health budgets and limited financial and human resources make it difficult for these local governments to provide quality services.

Another issue is the mobility of mothers, which results in a significant loss due to follow-up. A number of young mothers migrate for employment in cities (e.g. in the RMG sector), but destination city corporations lack the systems to identify these mothers and integrate them into health programmes.

Table 14.A.1 Expanded Program on Immunisation (EPI) coverage in Bangladesh

	National	Rural	Urban	City Corporation
EPI Coverage (2019)	83.9%	91.8%	79.2%	82.9% Rajshahi (92.4%) Sylhet (63.8%)

Source: EPI coverage evaluation survey, 2019.

Adolescents mainly receive Sexual and Reproductive Health (SRH) services from private-sector providers, including unqualified ones, as they have limited access to comprehensive SRH education through formal channels (NIPORT et al., 2021).

Both the Directorate General of Health Services (DGHS) and the Directorate General of Family Planning (DGFP) are responsible for SRMNCAH services. However, the overlapping mandates of these organisations result in inefficiency, especially given the severe shortage of skilled personnel and resource constraints.

[278] NIPORT, MOHFW, & ICF. (2020a). *Bangladesh Demographic and Health Survey 2017-18*. NIPORT/ICF. https://www.dhsprogram.com/pubs/pdf/FR344/FR344.pdf

[279] Evans, J., & Alam, M. I. (2017). *Primary health care systems: Comprehensive case study from Bangladesh*. World Health Organization.

14.A.4 Family Planning Programmes Require Momentum

The total fertility rate (TFR) in Bangladesh decreased from 2.12 in 2010 to 2.04 in 2020 (BBS, 2021). Family Planning (FP) activities are led by the DGFP, which also prioritises maternal health. The contraceptive prevalence rate stands at 63.9% (BBS, 2021).

The COVID-19 pandemic led to a decline in contraceptive use in 2020-21, resulting in an increase in unwanted pregnancies (DGFP Management Information System). However, this trend is gradually reversing.

Menstrual Regulation among married adolescent women remains low, according to BDHS 2014 data (NIPORT et al., 2016). FP support is unavailable to women who deliver in private facilities or at home, which applies to 50% of women who deliver outside of health facilities.

A shortage of skilled service providers at district and lower levels hampers the delivery of FP services. High vacancy rates in the DGFP's community-level workforce further complicate the situation (M. H. Kabir & Hossain, 2022).

14.A.5 Delivery of Nutrition Programmes Encounters Structural Limitations and Rampant Corruptions

Despite improvements, approximately 4.8 million children remain stunted and 1.6 million are wasted in Bangladesh. Wasting has remained at 8-10% for the past two decades. The reduction of chronic undernutrition (stunting) has been more significant in rural areas than in urban ones. Urban slums report higher rates of underweight, stunting, and wasting compared to rural areas. Approximately 28% of children under five are stunted, compared to the South Asian average of 21.8%.

More than half of adolescent boys and girls are underweight, and one-third of adolescent girls fall below the 145 cm height threshold, putting them at nutritional risk. Teenage pregnancies and high rates of low birth weight are prevalent, often linked to early pregnancies.

Although Bangladesh has made progress in improving child and maternal nutrition outcomes, significant challenges remain, particularly in regions such as Sylhet, which has the highest rates of malnutrition among children under five.

The availability, accessibility, and utilisation of essential nutrition services through PHC remain low. Community outreach is insufficient to ensure continuity of care and effective service uptake. Nutrition services, provided by both DGHS and DGFP, are often reported in a manner that distorts the true coverage, especially as services are offered at different levels of the healthcare system.

The Health Population Nutrition Sector Development Programme has been marred by allegations of financial misconduct involving the DGHS and the Institute of Public Health Nutrition (IPHN).[280] Reports indicate a syndicate governing awareness programmes within the DGHS, IPHN, and MoHFW, leading to significant corruption.[281] The ACC has investigated and confirmed allegations of systemic corruption within the MoHFW during the 4th Health, Population, and Nutrition Sector Programme (HPNSP).[282]

[280] https://www.kalerkantho.com/print-edition/culture/2011/05/05/151179

[281] https://www.risingbd.com/amp/national/news/60160

[282] https://www.banglatribune.com/others/606810/%E0%A6%B8%E0%A7%8D%E0%A6%AC%E0%A6%BE%E0%A6%B8%E0%A7%8D%E0%A6%A5%E0%A7%8D%E0%A6%AF%E0%A6%AE%E0%A6%A8%E0%A7%8D%E0%A6%A4%E0%A7%8D%E0%A6%B0%E0%A7%80%E0%A6%B0-%E0%A6%B8%E0%A6%BE%E0%A6%AC%E0%A7%87%E0%A6%95-%E0%A6%8F%E0%A6%AA%E0%A6%BF%E0%A6%8F%E0%A6%B8-%E0%A6%86%E0%A6%B0%E0%A6%BF%E0%A6%AB%E0%A7%81%E0%A6%B0-%E0%A6%93-%E0%A6%A4%E0%A6%BE%E0%A6%B0-%E0%A7%A7%E0%A7%A6

These governance issues are frequently discussed in the media, but there has been little meaningful action to address corruption.[283] Allegedly, political elites and government bureaucrats maintain a mutually beneficial yet corrupt system that undermines the delivery of essential health services. Corruption in health programmes is a major contributor to poor service delivery and inadequate nutritional outcomes.

14.A.6 Non-Communicable Disease and Mental Health

Cardiovascular diseases (such as stroke and heart attacks), cancers, diabetes, chronic respiratory diseases, and mental disorders, along with other mental health and neurological conditions, are leading causes of premature death and disability worldwide, including in LMICs.

In Bangladesh, the total number of deaths from Non-Communicable Diseases (NCDs) in 2021 was 557,200, with a 19% probability of premature mortality. The 4th HPNSP primarily focused on strengthening control of risk factors and early detection and management of NCDs. While this approach was moderate in scope relative to the NCD burden, it proved inadequate in addressing the rapidly growing consequences of these diseases. The slow implementation of interventions is driving up healthcare costs, and continued underinvestment in NCD prevention will have significant health, economic, and social repercussions in all countries (Nishtar et al., 2018).

The World Health Organization (WHO) identifies the following as priority mental health conditions in Bangladesh, based on their high burden (in terms of mortality, morbidity, and disability) and significant economic costs or links to human rights violations: depression, psychoses, mental and behavioural disorders in children and adolescents, disorders related to substance use, self-harm/suicide, epilepsy, and dementia (NMIH et al., 2022).

Mental healthcare is almost non-existent in PHC facilities, where screening, identification, and counselling for priority mental health conditions need to be introduced (IRT, 2020).

14.A.7 Secondary, Tertiary and Specialised Care Facilities

Bangladesh has only 0.8 hospital beds per 1,000 people (Abdullah, 2020), far below the WHO's recommended minimum of three. Public secondary and tertiary care hospitals are operating beyond capacity, as reflected by their high bed occupancy rates (BOR). In 2022, the average BOR was 137%, with secondary-level hospitals experiencing an even higher average of 147% (DGHS, 2023). Patients often resort to purchasing medications from private sources or using private diagnostic centres for tests. Outpatient departments (OPDs) in district hospitals are similarly overwhelmed, typically

https://www.banglatribune.com/others/606810/%E0%A6%B8%E0%A7%8D%E0%A6%AC%E0%A6%BE%E0%A6%B8%E0%A7%8D%E0%A6%A5%E0%A7%8D%E0%A6%AF%E0%A6%AE%E0%A6%A8%E0%A7%8D%E0%A6%A4%E0%A7%8D%E0%A6%B0%E0%A7%80%E0%A6%B0-%E0%A6%B8%E0%A6%BE%E0%A6%AC%E0%A7%87%E0%A6%95-%E0%A6%8F%E0%A6%AA%E0%A6%BF%E0%A6%8F%E0%A6%B8-%E0%A6%86%E0%A6%B0%E0%A6%BF%E0%A6%AB%E0%A7%81%E0%A6%B0-%E0%A6%93-%E0%A6%A4%E0%A6%BE%E0%A6%B0-%E0%A7%A7%E0%A7%A6

[283] https://bangla.thedailystar.net/news/bangladesh/crime-justice/news-477136

https://www.dainikamadershomoy.com/details/018de68e70c86

https://m.dainikshiksha.com/%E0%A6%AA%E0%A7%81%E0%A6%B7%E0%A7%8D%E0%A6%9F%E0%A6%BF-%E0%A6%B8%E0%A6%AE%E0%A7%83%E0%A6%A6%E0%A7%8D%E0%A6%A7-%E0%A6%96%E0%A6%BE%E0%A6%A6%E0%A7%8D%E0%A6%AF-%E0%A6%AC%E0%A6%BF%E0%A6%A4%E0%A6%B0%E0%A6%A3%E0%A7%87-%E0%A6%85%E0%A6%A8%E0%A6%BF%E0%A7%9F%E0%A6%AE-%E0%A6%A4%E0%A6%BE%E0%A6%B2%E0%A6%BF%E0%A6%95%E0%A6%BE%E0%A7%9F/208223/

https://www.kalerkantho.com/print-edition/culture/2011/05/05/151179

https://banglanews24.com/health/news/bd/812975.details

serving patients whose conditions could be addressed at lower levels of the health system. Consequently, doctors have limited time for each patient, compromising both clinical assessments and the quality of care.

District hospitals are not adequately equipped to provide quality services. Research indicates that only 66% of district hospitals have the full set of six essential pieces of equipment (adult scale, infant/child scale, blood pressure cuff, stethoscope, thermometer, and light source for examination). The availability of infection control measures and essential medicines varies considerably across district hospitals. Diagnostic capacity for NCD-related tests is particularly low: only 29% of district hospitals can conduct blood glucose tests for diabetes, and only 40% can perform liver or renal function tests (NIPORT et al., 2020b).

Additionally, 24% of district hospitals experience stockouts of essential medicines. Geriatric and palliative care services are unavailable, and both inpatient and outpatient care are hindered by infrastructural limitations. A functioning referral system across health system tiers remains a critical challenge (IRT, 2020).

The MoHFW has developed the Bangladesh National Healthcare Quality Strategy (2021-2030) to improve quality, setting minimum standards for hospitals in areas such as general management, patient rights, service delivery across the care continuum, and support services. Despite these policies, access to quality secondary, tertiary, and specialised healthcare remains a significant challenge.

14.A.8 Corruption: The Picture from the Demand Side

TIB published a report documenting evidence-based and empirical studies on corruption within service sectors in Bangladesh, including the health sector.[284] The report revealed that the health services are severely affected by corruption and a lack of accountability. A High Court bench also expressed concerns[285] regarding the pervasive corruption[286] in the sector.

The TIB study found that 48.7% of households that received health services experienced corruption. The rate was 45% in rural areas and 51% in urban areas. Among the service recipients, 6.2% paid bribes, with an average payment of BDT 680. The Upazila Health Complex was the most common healthcare provider, serving 32.2% of households, though the highest corruption rate was observed at District Sadar/General Hospitals (52.4%). Medical universities recorded the highest incidence of bribery (12%). According to the TIB report, bribes were highest at District Sadar/General Hospitals (BDT 704) and lowest at CCs (BDT 17).

Households receiving services from government health facilities experienced corruption across various service categories. The highest corruption rate was for diet services (66.4%), followed by services related to trolleys/wheelchairs (56.5%), dressing and bandages (55.1%), surgical operations (48.5%), and COVID-19 vaccine registration or vaccination (42.8%). Service recipients using trolleys/wheelchairs were the most frequent victims of bribery (43.6%), with an average bribe of BDT 141. However, the highest bribe was for delivery and C-section services, with an average payment of BDT 2,256 per household.

[284] Transparency International Bangladesh. (2021). *Corruption in the service sector: National Household Survey 2021.* https://www.ti-bangladesh.org/images/2021/report/nhs/NHS-2021-Extended-Executive-Summary-En.pdf
[285] https://bangla.thedailystar.net/news/bangladesh/crime-justice/news-477136
[286] https://bangla.thedailystar.net/node/175701

14.A.9 Rampant Systematic Corruption in the Health Sector

Through Procurement and Supply Chain Management

The delivery of health services depends heavily on public procurement of health commodities, ranging from general medicines to hospital equipment. The DGHS oversees more than 60 procurement entities. Prior to the COVID-19 pandemic, all tenders for the DGHS were managed by the Central Medical Stores Depot. However, during the pandemic, procurement responsibilities were redistributed across various DGHS sections.

The DGHS manages the procurement of medical and non-medical commodities essential for healthcare. Key stakeholders include the MoHFW, the Central Medical Stores Depot, and national health programmes such as the National Tuberculosis Program and the National Nutrition Services.

The government allocates funding to public hospitals based on the number of beds and staff, without adequately considering factors such as service quality, case complexity, and other cost drivers. This approach leads to inefficiencies and inequities within the health system. Moreover, budget execution is poor, particularly in local hospitals, which have limited authority to procure necessary goods.

Allegedly, corruption is widespread in this procurement system.[287] For instance, a 1,200-bed hospital may procure goods for a much higher number of beds than officially recorded. This overcapacity often results in a compromised quality of service. Regular shortages in essential health supplies exacerbate corruption, as hospitals struggle to meet demand.TIB[288] has highlighted large-scale financial mismanagement and inefficiencies in the procurement process.[289] There are also instances of 'under-the-table' deals in which lower-quality goods are procured at inflated prices.[290]

Doctors and health professionals in Bangladesh face multiple systemic challenges in an underfunded health system. Their efforts could be more effective if corruption[291] were addressed through improved governance.

Through Outsourcing Services

Outsourcing of services, such as cleaning and hospital operations, has been implemented in public hospitals and CCs. However, allegations of widespread corruption in service contracting persist, and the services provided by outsourced providers are often substandard.[292]

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[287] https://www.dhakatribune.com/bangladesh/corruption/214162/medical-equipment-scam-govt-orders-legal-action

[288] https://www.ti-bangladesh.org/articles/commentary/6729

[289] https://www.shomoyeralo.com/details.php?id=83242

[290] https://www.kalbela.com/ajkerpatrika/firstpage/27139

[291] https://samakal.com/bangladesh/article/239846/%E0%A6%B8%E0%A7%8D%E0%A6%AC%E0%A6%BE%E0%A6%B8%E0%A7%8D%E0%A6%A5%E0%A7%8D%E0%A6%AF%E0%A7%87%E0%A6%B0-%E0%A6%95%E0%A7%87%E0%A6%A8%E0%A6%BE%E0%A6%95%E0%A6%BE%E0%A6%9F%E0%A6%BE%E0%A7%9F-%E0%A6%AB%E0%A7%87%E0%A6%B0-%E0%A6%AE%E0%A6%BF%E0%A6%A0%E0%A7%81-%E0%A6%9A%E0%A6%95%E0%A7%8D%E0%A6%B0

[292] https://www.somoynews.tv/news/2024-10-21/SsDPV2s9

https://www.ittefaq.com.bd/110670/%E0%A6%B8%E0%A7%8D%E0%A6%AC%E0%A6%BE%E0%A6%B8%E0%A7%8D%E0%A6%A5%E0%A7%8D%E0%A6%AF-%E0%A6%96%E0%A6%BE%E0%A6%A4%E0%A7%87-%E0%A6%86%E0%A6%89%E0%A6%9F%E0%A6%B8%E0%A7%8B%E0%A6%B0%E0%A7%8D%E0%A6%B8%E0%A6%BF%E0%A6%82%E0%A7%9F%E0%A7%87%E0%A6%B0-%E0%A6%A8%E0%A6%BE%E0%A6%AE%E0%A7%87-%E0%A6%95%E0%A6%B0%E0%A7%8D%E0%A6%AE%E0%A7%80%E0%A6%A6%E0%A7%87%E0%A6%B0-%E0%A6%85%E0%A6%B0%E0%A7%8D%E0%A6%A5

Through Career Mobility of Young Coctors and Connection with Pharmaceuticals

After graduating from medical college, young doctors face significant financial challenges and often pursue further qualifications, typically for little or no pay. Private hospitals become a primary source of income, offering around BDT 800 for an 8-hour shift (which often extends to 10 hours without additional compensation).[293] Doctors undergoing postgraduate education and research are not provided with residential facilities, making it difficult for them to volunteer their services at a time when many are starting families.

It is common practice for pharmaceutical companies, through their medical representatives, to cultivate relationships with doctors to ensure the prescription of branded (rather than generic) medicines.[294]

Through Diagnostics Tests and Private Hospitals

Diagnostic tests are critical for disease detection and appropriate treatment. While government hospitals possess quality diagnostic equipment, there are often issues with maintenance and staffing. The cost of diagnostic tests is largely unregulated.

There are allegations that doctors and diagnostic centres are involved in arrangements where diagnostic centres pay a percentage of test fees to doctors. Patients frequently complain that doctors recommend unnecessary tests.

The private sector has gained a significant foothold in the health service industry, partly due to the public sector's failure to meet the growing demand for healthcare services. As of recent data, 76.87% of total health expenditure (THE) is directed towards private facilities, and 81.95% of current health expenditure goes to private healthcare providers.

Unfortunately, the absence of a robust legal and regulatory framework, as well as a clear strategic plan for achieving excellence in health services, has allowed the private sector to grow, often with profit maximisation as the sole objective.[295]

The quality of professional expertise, experience, and standards has been undermined by a focus on profit, fraudulent practices, and the influence of connections. For instance, the Regent Group's fraudulent activities during the COVID-19 crisis, where public funds were extorted without meeting basic licensing requirements, is not an isolated case. Many private healthcare facilities in Bangladesh fail to meet the minimum standards of professional competence, equipment, and infrastructure.

Although some exceptions exist, the private healthcare sector has been dominated by unscrupulous hospitals, clinics, and diagnostic centres, creating a business environment

[293] Revealed from the consultation

[294] https://sarbojonkotha.info/pdf/sk-19-oshudh-company.pdf

https://www.bhorerkagoj.com/2019/02/17/%E0%A6%A1%E0%A6%BE%E0%A6%95%E0%A7%8D%E0%A6%A4%E0%A6%BE%E0%A6%B0-%E0%A6%A4%E0%A7%81%E0%A6%AE%E0%A6%BF-%E0%A6%95%E0%A6%BE%E0%A6%B0-%E0%A6%B0%E0%A7%8B%E0%A6%97%E0%A7%80%E0%A6%B0-%E0%A6%A8%E0%A6%BE

[295] https://www.ti-bangladesh.org/articles/commentary/6729

characterised by fraud, extortion, and non-compliance with regulations. This has severely undermined the quality of healthcare in Bangladesh.

Concerns have also arisen regarding the quality and pricing of drugs. Despite the growth potential of the pharmaceutical sector, there are ongoing concerns about the disparity in quality between pharmaceutical products manufactured for the domestic and international markets.

The DGHS allegedly lacks a quality control mechanism to monitor the licensing and quality of private clinics and hospitals.[296] In addition to the DGHS's lack of governance, a broader nexus of institutional corruption involving the MoH&FP, the health service division, and other public health entities has fostered a culture of impunity in the private health sector.

These systemic corrupt practices came to a head during the COVID-19 pandemic (see Annexe VI Health for further details)

Through Appointments, Promotions, Transfer, and Leave Permission Decisions of Doctors and Health Professionals

Allegations of irregularities in the recruitment processes of public bodies, such as general and specialised public universities, are longstanding. These issues, with few exceptions, have become pervasive. Partisan political influence, nepotism, favouritism, and illicit payments, which have been institutionalised, are key factors contributing to violations of established rules.

The Super Specialised Hospital of Bangabandhu Sheikh Mujib Medical University (BSMMU) failed to become fully operational two years after its inauguration in 2022, primarily due to a shortage of manpower and inadequate logistics.[297]

- For the hospital, 157 employees—comprising 52 doctors, 29 officers, 53 nurses, and 23 technicians—received training in South Korea for periods ranging from two to four months. However, only six doctors, five officers, 50 nurses, and 11 technicians reported to the hospital. The remaining 85 professionals did not return. The hospital authorities did not take action against those who failed to report back, despite the costs being borne by the Hospital Authority.
- Several high-value machines, air conditioners, lifts, and other medical equipment malfunctioned shortly after installation due to substandard quality. Many items remained unboxed due to poor management.
- Allegations surfaced that a syndicate, allegedly backed by the then vice-chancellor (VC) Sharfuddin, leaked the recruitment exam papers in exchange for bribes ranging from Tk 10-20 lakh.
- Complaints were raised that the BSMMU authorities leased space to a business for a medical shop, despite that business failing to meet the tender requirements.
- Reports of corruption and irregularities have emerged at all stages, including recruitment, procurement of equipment, and space leasing for hospital services.

Protests were organised by a professional group of doctors who accused the outgoing VC of BSMMU of appointing over 100 teachers and staff in exchange for money.[298]

These examples reflect only a fraction of the widespread issues. There are also instances where doctors and health professionals have been effectively 'held hostage', being denied permission to

[296] https://www.jugantor.com/tp-firstpage/764074

[297] https://www.newagebd.net/post/country/238425/corruption-irregularities-handicap-bsmmu-unit

[298] https://www.tbsnews.net/bangladesh/health/bsmmu-super-specialized-hospital-govt-inquire-alleged-graft-recruitment-645758

sit for professional exams, despite bearing the costs themselves. This systemic corruption not only involves financial misconduct but also perpetuates an environment of nepotism, favouritism, and political interference.

14.A.10 Health Financing: Inadequate with Poor Implementation

THE in Bangladesh comprises Current Health Expenditure (CHE) and expenditure on gross capital formation, health education, and research. In 2020, THE amounted to Taka 777 billion ($9.1 billion), while CHE was Taka 719 billion ($8.5 billion). THE accounted for 2.8% of Bangladesh's GDP in 2020, with CHE representing 2.6%. Per capita THE in 2020 was Taka 4,578 ($54), while CHE stood at Taka 4,239 ($50). Over the past decade, THE has consistently remained below 3% of GDP since 2010.

When compared to its regional neighbours and other LDCs, Bangladesh's health expenditure paints a grim picture. The country consistently reports one of the highest out-of-pocket spending levels among other LDCs and low-middle-income countries (Table 14.H.1; ANNEXE I Health).

Health budget allocations have remained below 1% of GDP for the past 20 years, underscoring the government's lack of prioritisation of the healthcare sector (Figure 14.H.1, ANNEXE II Health). Notably, non-development expenditures have increased at a faster rate than development expenditures, with the share of the total budget allocated to non-development expenditures rising from 41% in FY 2010 to 62% in FY 2024. The increase in the development budget has not kept pace with this shift (Figure 14.H.2; ANNEXE III Health).

The growing gap between government expenditure and out-of-pocket costs highlights the increasing financial strain on middle and lower-income families (Figure 14.H.3, ANNEXE IV Health).

Upgrading existing facilities and constructing new ones, including repairs and maintenance, fall under the Physical Facilities Development (PFD) budget. The PFD OP receives the largest share of the MOHFW's development budget. In FY 2022-23, MOHFW had 37 discrete projects for establishing new medical colleges and hospitals (FY 2022-23 ADP). The PFD OP alone accounted for 23.65% of the total development budget for the 4th HPNSP and 24% of the total ADP allocation for FY 2022-23. Due to the limited absorption capacity of major OPs, substantial funds were diverted to PFD every year to accelerate fund utilisation, further increasing its share of the development budget. However, this practice has led to underfunding of other crucial development activities. From FY 2017-18 to FY 2020-21, the PFD OP received 32% of the total fund and spent around 30% of the total HPNSP fund.

Over the past decade, the utilisation of the health budget has worsened. Furthermore, the proportion of health financing from international sources, such as loans or assistance, has been decreasing (Figure 1.H.4, ANNEXE V Health).

14.A.11 Utilising NGO Capacities for Health Service Delivery

The GoB has a longstanding history of collaboration with NGOs for poverty alleviation, which has contributed significantly to improving the health status of marginalised populations. The MOHFW has partnered with NGOs in delivering essential health services, including tuberculosis (TB) control, maternal and child health, FP, immunisation (Expanded Programme of Immunisation - EPI), leprosy elimination, and nutritional programmes.

NGOs are key players in delivering health and nutrition programmes. According to the Bangladesh National Health Accounts 1997-2020, NGOs accounted for approximately 6.7% of the

THE in the country, funded through their own resources or from development partners (DPs) (HEU, 2022). NGOs have also pioneered alternative approaches to service delivery, some of which have been scaled up by the government. In urban areas, NGOs provide PHC services to the urban poor and collaborate with the government on public health and disease-specific programmes.

The GoB provides grants to NGOs from its operating budget. Additionally, the Ministry of Social Welfare (MoSW) and the Ministry of Women and Children's Affairs provide funds to NGOs for the construction or expansion of hospitals.

14.A.12 Drug Administration Fails to Provide Quality Despite the Potential of Pharmaceutical Companies

The Directorate General of Drug Administration (DGDA) has faced allegations of corruption at every stage of drug governance, including the registration of pharmaceutical companies, approval of drug formulas, issuance of NOCs, and the granting of drug licences.

Quality Control: Although regulations mandate that drug samples be collected from each batch of promoted drugs, TIB reported that this practice is often not followed. While the law requires ingredients used in drugs to be listed in recognised pharmacopoeias such as the British Pharmacopoeia, some companies fail to comply with these standards, and the DGDA does not evaluate these companies before issuing certificates.[299]

Pricing of Drugs: The authority of the DGDA in setting drug prices largely remains on paper. Pharmaceutical companies have dominated the pricing process. While the DGDA is responsible for setting the prices of 117 essential drugs, many of these are not yet in production.

TIB also reported that several importers serving on the Drug Pricing Committee exerted strong influence over drug price determination, in collusion with foreign companies to inflate the prices of imported raw materials and products.

Pharmaceutical companies are deeply implicated in a network of corruption and irregularities, as documented by TIB and corroborated by the White Paper Committee's consultations.

14.A.13 Conclusion

Despite Bangladesh's progress in population health and healthcare provision, largely driven by a long history of health and non-health programmes and partnerships between the government, NGOs, and development partners, recent progress in outcomes has been poor and inconsistent with the narrative of expanded coverage, infrastructure growth, and digitalisation. Significant challenges persist, particularly in achieving equity in coverage for the urban poor, improving service quality, addressing the growing burden of NCDs, and enhancing financial protection to prevent health shocks from driving families into poverty. The rising out-of-pocket health expenditure remains inequitable and fosters unregulated privatisation of healthcare, which is problematic given the weak regulatory framework. Moreover, the low allocation of the health budget faces serious implementation challenges and corruption.

Improving the quality of healthcare and education is essential for laying the foundations of a prosperous nation and must be central to the state-society contract. This requires urgent renewal, with space for new partnerships and innovative solutions, under effective state stewardship.

[299] https://healthworks.ti-health.org/wp-content/uploads/2019/11/es_ds_drug_15_en-1.pdf

14.B Education Sector Suffers from 'Heerak Rajar Deshe' Syndrome: 'The less you know, the more you obey'

14.B.1 Introduction

Bangladesh has made progress in areas such as adult literacy (increasing from 58.6% in FY2010 to 73.9% in FY2018) and gender parity in primary school enrolment. However, this success has been in terms of coverage rather than the quality of education and training (see ANNEXE I: Education).

The education system in Bangladesh faces numerous challenges, including persistent absenteeism at the primary level (Kumar & Saqib, 2017),[300] high dropout rates at secondary school (Hossain, 2021),[301] concerns about educational quality (Ali, Zulfiqar, & Siban, 2024),[302] ineffective teaching methods (Farooqui, 2014),[303] an inadequate framework for addressing school dropouts and adult education, a politically charged and hostile learning environment at the tertiary level, declining social esteem for teachers, insufficient resources (Islam, 2021), and the negative impact of COVID-19 on learning outcomes (Hosen et al., 2022).[304]

Transitioning from a focus on quantity to quality in public service delivery, including education, requires a comprehensive set of policies and interventions. Unfortunately, current education programmes and projects fail to address this need. For instance, in the Primary Education Development Program, success is still measured primarily by enrolment, intake, completion, and dropout rates, while quality remains compromised in the pursuit of quantity.

While the education sector encompasses numerous issues, this chapter focuses on a few key areas.

14.B.2 Education Deprived of Quality

14.B.2.1 Acute Learning Deficiency in Primary Education

The increase in the passing rate of the Primary Education Completion exam, alongside inflated grades and limited learning outcomes, is revealed by the National Student Assessment (NSA) programme of the MoPME. Assessments over the years have shown no improvement in learning competencies among primary school students; rather, competency levels have declined across all grades (see ANNEXE III: Education for a snapshot of this deficiency).

Learning gaps emerge early, with Grade 3 students showing concerning results: only half demonstrate grade-level proficiency in Bangla, and 39% in mathematics. Alarmingly, after five years of primary education, only 50% of students achieve grade-specific proficiency in Bangla, and only 30% in mathematics (see ANNEXE II: Education).

[300] Kumar, A., & Saqib, N. (2017). School absenteeism and child labour in Bangladesh. *The Journal of Developing Areas*, 51(3), 299-366.

[301] Hossain, T. (2021). Factors leading to school dropout in Bangladesh: An empirical approach. *Global Journal of Human-Social Science*, 21(2), 45-49.

[302] Ali, Z. M., & Shahana, S. (2024). The quality crisis: New evidence on learning in primary education in Bangladesh. *Research Report*, Bangladesh Development Studies.

[303] Farooqui, S. (2014). The struggle to teach in English: A case study in Bangladesh. *Journal of Education and Human Development*, 3(2), 441-447.

[304] Hosen, M., Uddin, M., Hossain, S., & Islam, M. (2022). The impact of COVID-19 on tertiary educational institutions of Bangladesh. *Ministry of Planning*.

- ***The NSA 2022 found that over 60% of third graders and 70% of fifth graders lack proficiency in mathematics appropriate for their grade level. Moreover, 51% of third graders and 50% of fifth graders fail to meet grade-level competency in Bangla.***

National data from the NSA (2011, 2013, 2015, 2017, 2022) and the Learning Assessment of Secondary Institutions (LASI, 2015) indicate that learning outcomes at the primary level remain low and uneven, with no substantial improvement over time. These outcomes also extend to the junior secondary level. While students perform well in knowledge-based assessments, they struggle significantly in tasks requiring higher-order thinking skills.

14.B.2.2 In the Era of 'I am GPA 5' Level Quality Education

The introduction of the Grade Point Average (GPA) system in 2001 saw just 76 students achieving a GPA of 5. By 2024, this number had soared to 163,845. The average pass rate for the Secondary School Certificate (SSC) exam was 35.22% in 2001 but had risen to 83.04% by 2024.

Each year, thousands of students sit for the SSC and Higher Secondary Certificate (HSC) exams under the General Education Board. However, amidst rampant ***grade inflation***, concerns have emerged. A 2016 newspaper article noted that some students who had achieved a GPA of 5 struggled with basic English translations and general knowledge about the country. One student, when asked a question, answered with the phrase 'I am GPA 5',[305] which became a symbol of the decline in educational quality despite high pass rates and the increasing number of students achieving top grades.

Discussions with secondary and higher secondary school teachers revealed that there were informal directives from the board, conveyed through senior teachers, encouraging the liberal awarding of marks. The practice was to assign higher grades than students actually earned, with an unspoken discouragement of failing students in board exams.

14.B.2.3 Out-of-Pocket Expenses for Education

The Education Watch (2022) study found that the average ***annual family expenditure on education for a primary student*** in Bangladesh during 2022 ***was BDT 13,882***, and for a ***secondary student***, it was ***BDT 27,340.*** These costs included private tutoring and purchases of commercial guidebooks and notebooks.

Approximately 41% of ***parents*** of primary-level students and 17% of secondary-level parents reported that they ***could afford to spend no more than BDT 2,000 per child per year***, far below the average costs incurred in both 2022 and 2023. The study revealed a widespread reliance on guidebooks to supplement inadequate classroom instruction. According to students, 92% of primary students and 93% of secondary students used commercial guidebooks, which are heavily marketed with incentives to schools and teachers to encourage their purchase.

14.B.2.4 Equity Deficit is Manifested in Low-quality Learning Outcome

Between 2019 and 2022, enrolment in Bangladesh declined by 8.7%, with a sharp contrast between rural and urban areas. In coastal and char regions, enrolment dropped by 18%, while urban areas saw a 3.3% decrease.[306] Urban students consistently outperformed their rural counterparts, highlighting significant geographical disparities.The enrolment of students in non-government and private

[305] https://m.somewhereinblog.net/mobile/blog/Enamhoque/30136967

[306] Ali, S. M. Z., & Shahana, S. (2024). The quality crisis: New evidence on learning in primary education in Bangladesh. *Bangladesh Institute of Development Studies.*

schools in city corporation areas rose to 35%, compared to rural and other urban areas.[307] A World Bank study (2019)[308] found that:

- At the primary level, students from privately managed kindergarten schools performed better than those from government primary schools (GPS).
- Students from both types of schools generally achieved significantly higher learning outcomes than those from nationalised GPS after 2012–13.

Urban primary schools consistently outperformed rural ones, with char schools performing the worst.[309] Char schools had the highest percentage of students falling into the basic competency category across all locations in Bangladesh.

These contrasting figures reveal an ***equity deficit between rural, urban, and city corporation areas, with the most severe deprivation in hard-to-reach and climate-vulnerable coastal areas.*** The equity deficit also manifests in the following ways:[310]

- Students from less-educated families generally perform worse.
- Economically disadvantaged households contribute to lower educational outcomes.

The poor, disadvantaged, and middle-class populations strive for upward social mobility through education. ***However, the low quality of education and persistent equity deficits create a vicious cycle, trapping the poor and disadvantaged in a state of limited social mobility.***

14.B.2.5 Primary Education: Gender parity attracts all the lights on the agenda

Bangladesh has made significant progress in achieving gender parity in primary school enrolment. However, many challenges remain that are rarely highlighted in government reports.
Female student enrolment declines as students progress through higher levels of education. Most notably, women with tertiary education face the highest unemployment rates, particularly in urban areas (ANNEXE IV Education).

Since 2012, all primary school teachers are required to register with the government to certify their qualifications. In the 2012-13 period, all primary schools in Bangladesh were incorporated into the Monthly Payment Order (MPO) system.

According to the National Academy for Primary Education (NAPE), 31.3% of government primary school teachers lack a Bachelor's (Honours) degree, indicating that the sector struggles to attract educated individuals. The salary structure is insufficient to attract qualified teachers, and political connections often lead to the recruitment of unqualified individuals. The recruitment process is frequently marred by corruption, with instances of question paper leaks during recruitment exams.

Government policy mandates that 60% of primary school teachers be female, 30% must be selected from 'Possho Quta' (the children of current or retired teachers, who receive preference after passing a competitive exam), and 10% are open to all candidates. In 2021, 64.41% of

[307] Education Watch. (2022). *Post-pandemic education: Recovery and renewal of school education.* Campaign for Popular Education (CAMPE).

[308] World Bank. (2019). *Whither quality? What do recent national assessments of students' learning outcomes in Bangladesh reveal?*

[309] Ali, S. M. Z., & Shahana, S. (2024). The quality crisis: New evidence on learning in primary education in Bangladesh. *Bangladesh Institute of Development Studies.*

[310] Ali, S. M. Z., & Shahana, S. (2024). The quality crisis: New evidence on learning in primary education in Bangladesh. *Bangladesh Institute of Development Studies.*

government primary school teachers were women (ANNEXE V Education). However, the efficacy of this model is debated. While some women's groups argue that this policy enhances women's agency at the local level, educationalists disagree.

The career progression of primary school teachers remains limited. Teachers enter the profession at Grade 14 and retire at Grade 11, while university lecturers begin at Grade 9. Public university teachers in Bangladesh are also underpaid, but the salaries of primary school teachers are particularly low.

For educated women, the low pay in primary school teaching presents a dilemma, as it allows them to balance work and domestic responsibilities, which are often dictated by social norms. The greater access to teaching for women in primary education can be seen as a 'low-level equilibrium trap' for society. Political leaders have shown little interest in employing high-quality teachers, as evidenced by protests at the central *Shaheed Minar*,[311] where teachers demanded a dignified salary structure.

14.B.2.6 National Curriculum and Textbook Board: A State of Confusion

For the past 15 years, the quality of education and the school curriculum have been major topics of debate in Bangladesh. In the early 2010s, the National Curriculum and Textbook Board (NCTB) introduced the *'Srijonshil'* (creative) approach to teaching and revised the syllabus. In 2022, a new experiential-based education system was introduced, which garnered significant criticism across the country. The key challenges of the 2022 curriculum included:

- The absence of year-end assessments,
- An insufficient teacher-student ratio, inadequate teacher training, and the lack of physical infrastructure to support the successful implementation of the programme.

In response to these challenges, the NCTB reverted to the previous syllabus used prior to 2022.
The process has been marred by corruption, particularly in the publication and distribution of textbooks, which is highly politically charged. A study by Transparency International found that NCTB officials were not only involved in irregularities in the publishing and distribution of free textbooks but also made arbitrary changes to textbook content at both primary and secondary levels due to political and communal pressures.[312] The NCTB's average annual expenditure on printing books is approximately 1400 crore taka, with allegations of significant corruption affecting printing quality.

14.B.3.7 Madrasa Education: Remains a Mystery and Marginalised

Among the various educational streams in Bangladesh—Bangla medium, English medium, and madrasa—madrasa education has received the least attention in policy debates, despite its long history. There are two types of religious schools: Aliya (registered) and Qawmi (non-registered) (ANNEXE VI Education). The registered madrasas serve approximately 3.83 million students, including Ebtedayee students (BANBEIS, 2018). The Bangladesh Madrasa Education Board (BMEB) and the Directorate of Madrasa Education oversee the Aliya madrasas, while the Qawmi madrasas operate independently under the oversight of their respective committees, without

[311] https://www.banglatribune.com/others/276287/%E0%A6%AE%E0%A6%A8%E0%A7%8D%E0%A6%A4%E0%A7%8D%E0%A6%B0%E0%A7%80%E0%A6%B0-%E0%A6%86%E0%A6%B6%E0%A7%8D%E0%A6%AC%E0%A6%BE%E0%A6%B8%E0%A7%87-%E0%A6%85%E0%A6%A8%E0%A6%B6%E0%A6%A8-%E0%A6%AD%E0%A6%99%E0%A7%8D%E0%A6%97-%E0%A6%95%E0%A6%B0%E0%A6%9B%E0%A7%87%E0%A6%A8-%E0%A6%B6%E0%A6%BF%E0%A6%95%E0%A7%8D%E0%A6%B7%E0%A6%95%E0%A6%B0%E0%A6%BE
https://banglanews24.com/education/news/bd/625924.details

[312] https://www.ti-bangladesh.org/articles/story/5403

government involvement. ***Approximately one-fifth of post-primary students are enrolled in madrasa education,***[313] yet madrasas, particularly Qawmi madrasas, remain largely excluded from mainstream policy discussions.

In 2018, the GoB passed legislation recognising the Dawrae Hadith (Takmil) Certificate from Qawmi madrasas as equivalent to a postgraduate degree in Islamic Studies and Arabic. The former Prime Minister was honoured as the 'Mother of Qawmi' at a rally in Dhaka, just before the 2018 parliamentary election, in recognition of her role in this development. This move sparked considerable debate within civil society, particularly due to its implications for the 'secular' image of the government.

Women make up 54% of madrasa students. In Aliya madrasas, students follow a curriculum that combines the NCTB syllabus with religious studies. In Qawmi madrasas, female students receive religious education aimed at preparing them to fulfil traditional familial roles (National Qawmi Madrasa Education Board, 2020). [314]

The absence of science education remains a significant challenge for Aliya madrasas. At the higher secondary level, Aliya madrasas offer only two academic streams—science and arts—excluding business studies. According to the BMEB, 76 out of 119 madrasas in Dhaka district have no students enrolled in the Alim-level science stream. Additionally, only 25.55% of madrasas have science laboratories (BANBEIS, 2018).

A shortage of qualified teachers further hampers educational quality. In Aliya madrasas, only 23% of teachers have received formal training. Moreover, the number of teachers holding Non-Government Teachers' Registration & Certification Authority certification is low, with only 19.66% of the 113,368 madrasa teachers possessing this qualification (BANBEIS, 2018).

The growing number of female students in madrasas, coupled with the **low proportion of female teachers,** is a cause for concern. Currently, 55.24% of female madrasa students are taught by just 12.7% of female teachers.

Literature suggests that poorer households are more likely to send their children to madrasas. However, the limited marketable skills acquired in madrasas contribute to lower earnings for madrasa graduates compared to students from general educational streams. This perpetuates a ***cycle of poverty,*** from which madrasa students cannot escape if they lack the skills to transition into higher education or the workforce.

The government must implement policies to modernise the madrasa curriculum by introducing subjects such as science, mathematics, social studies, Bengali, and English. Providing financial support for this curriculum reform will enhance the academic proficiency of madrasa students and ensure that their education meets national standards. This would also enable madrasa students to pursue higher education and transition into the workforce more effectively.

14.B.3 The Quantity and Quality Crisis: Evidence on Post-COVID Learning Situation in Primary and Secondary Education

School closures in Bangladesh from March 2020 to September 2021, and again in February 2022, disrupted the education of approximately 37 million children. These closures worsened pre-existing gaps in basic literacy and numeracy skills (UNICEF, 2021).

[313] Bangladesh Bureau of Statistics. (2021). *National education statistics, 2021.*
[314] National Kawmi Madrasa Education Board. (2020). *Kawmi Madrasa - Porichiti*. PDF.

14.B.3.1 Transition from Primary to Secondary Schools

Transition Among students in grade V of primary education (excluding the 4.5% dropout rate), 70% transitioned to regular government-assisted and government secondary schools. ANNEXE VII presents the transition trend of grade V students in 2020 to various secondary educational institutions post-COVID.

A small but ***noticeable shift to madrasas*** was observed, particularly among both primary and secondary school cohorts of 2020. The transition from primary (6.4%) to madrasas was notably higher than from secondary schools. This shift may reflect the pandemic's socioeconomic impact on families.

14.B.3.2 High Dropout Rates

The pandemic's impact has been multifaceted, compounding already ***low learning outcomes and high dropout rates.*** Vulnerable children, particularly those unable to access remote learning, were at risk of not returning to school, with some facing the threat of child marriage or child labour.

The ***average dropout rate at the primary level was 4.5%,*** with a higher rate among boys (7%) compared to girls (1.7%). ***At the secondary level, the dropout rate was 6%***, with no gender disparity.

- At the ***primary level, dropout rates were highest in grades 3 and 4***, with 33% and 36.5% of students discontinuing their education, respectively.
- At the ***secondary level, grade 8 saw the highest dropout rate,*** with 37.26% of students leaving school.

It is important to recognise that ***school dropout is not solely attributed*** to one factor; rather, it results from a combination of influences. These factors predated the pandemic but were exacerbated by its multifaceted effects. The following reasons have been identified as major contributors to dropouts following COVID-19 (ANNEXE VIII Education):

- The ***primary reason for school dropout is poverty.*** Nearly 90% of primary-level dropouts in urban areas came from families with an income below Tk 15,000. Similarly, at the secondary level, nearly two-thirds of dropouts also came from low-income families.

- Following economic reasons, ***students' reluctance to continue their schooling emerged*** as the second most significant factor leading to dropout. This reflects a negative school experience, potentially shaped by poor treatment from teachers or peers and an unsupportive learning environment.

- ***Early marriage emerged as a significant factor*** in the dropout of female students, particularly at the secondary level. This is closely linked to ***families' reluctance to support girls' education,*** which further contributes to their dropout rates.

- ***Engagement in income-generating activities or child labour*** has been identified as a reason for dropout by 13.7% of primary-level and 21.1% of secondary-level students. Additionally, the responsibility of assisting with household chores was cited by 20.7% of primary-level and 10.2% of secondary-level students as a factor contributing to dropout.

As of 2021, the current number of students in GPS stands at 13,484,617 (BBS, 2021). The cyclical dropout rate for primary school students in 2021 was 14.15%, and the out-of-pocket expenditure deficit faced by parents to continue their child's education in GPSs amounted to approximately 11,882 BDT per student (see 14.B.2.3). If a mechanism could be devised to cover these educational costs through public funding, it is estimated that ***a mere 2.5% increase in the Business As Usual budget for the education sector (for instance, the FY 2024-25 budgetary allocation for the education sector was 94,710 crore BDT) could result in a zero dropout rate in GPSs.*** This mechanism could include a mix of services, such as providing one meal a day, offering extra tuition, and supplying free or subsidised educational materials to students from extremely poor families (approximately 14.5% of the total student population), among others.

14.B.3.3 Widening Learning Gap

A government study by the Bangladesh Examination Development Unit under the Dhaka Education Board revealed that ***80% of class-8 students experienced significant learning losses in Bangla,*** the first language of most students, compared to expected grade-level competency. In comparison, ***approximately 76% of students in the same class had suffered losses in English, and 69% in Mathematics.*** According to a recent study by the NCTB, school closures due to COVID-19 caused substantial learning loss for primary students, with Class V students being the most affected. The average learning rate for English among Class V students dropped from 49% to 36% after the closure, compared to the expected grade-level benchmarks. The study further indicated that approximately ***48% of Class V students experienced a severe or moderate learning gap in Bangla, 61% in English, 59% in Mathematics, 54% in Science, and 60% in Bangladesh and Global Studies.***

A study by Education Watch (2022) revealed that 28.9% of Class VIII students failed to achieve the pass mark of 33 out of 100, while the figure for Class IX students was 26.2%.[315]

14.B.3.4 Technology Divide

The students most affected by COVID-19 included those from ethnic communities, who are already disadvantaged in various ways. A UNICEF 2021 report noted that about 56% of students did not participate in online lessons or Sangsad TV, a situation that was more pronounced among ethnic minority students (75%).

Access to remote learning was limited, with only 9-11% of primary students and 16.2% of secondary students engaging with televised educational programmes during school closures. Access to digital devices varied across economic classes, and there was a marked disparity in the provision of multimedia facilities and internet connectivity between urban and rural educational institutions.

Although many schools at both the primary and secondary levels are equipped with internet connections and multimedia facilities, inadequate maintenance and budgetary constraints continue to pose challenges.

14.B.4 Tertiary Education

Since 2009, there has been a surge in the establishment of new universities, both in the public and private sectors. Currently, there are 61 public universities and more than 110 private universities.

[315] Education Watch. (2022). *Post-pandemic education: Recovery and renewal of school education.* Campaign for Popular Education (CAMPE).

In 2022, the total number of students enrolled in public and private universities (including colleges under 17 public universities and madrassas) was 4,756,747.

14.B.4.1 Development Budget for Public Universities: Revealed Construction Bias

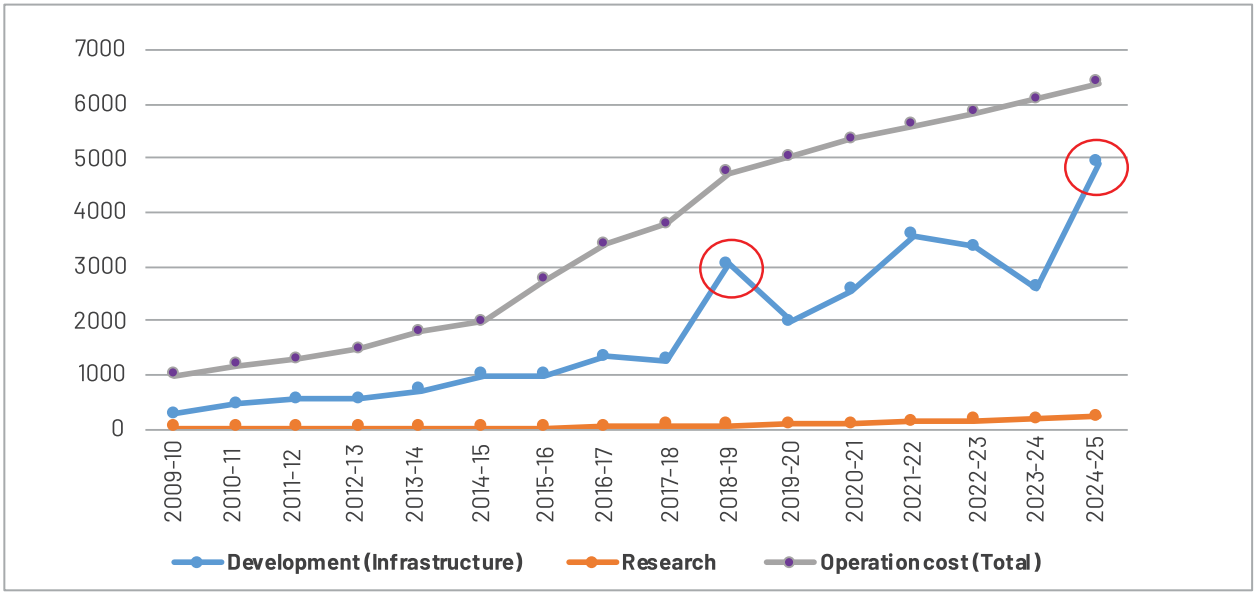
Public universities in Bangladesh receive minimal allocations for research, while development expenditure—primarily for infrastructure—and operational costs have increased significantly.

With the number of universities, including science and technology institutions, now at 61 (ANNEXE X Education)—nearly one per district—the rise in development and operational budgets may appear logical. However, the persistently low research funding contradicts claims of quality improvement in tertiary education. This raises concerns about whether decisions regarding university establishment were made through an informed decision-making process.

Operational expenditure (non-development) has consistently exceeded development expenditure, with negligible investment in research. The limited research funds available are often distributed arbitrarily within universities, resembling a practice akin to 'Sweets after Prayers' (Milad Shinni), rather than being allocated based on academic merit. This discourages capable and motivated faculty members while ***fostering an academic environment where excellence receives little recognition.***

Before every National Parliament election under the previous government, a pattern emerged in which permissions were granted for new universities, the expansion of existing campuses, and faculty and staff recruitments. These approvals often occurred without adequate infrastructure to support students (ANNEXES XI, XII, XIII Education). Figure 14.B.1 illustrates that, in the years preceding national elections, budget allocations for public universities increased significantly, with development expenditures—mostly infrastructure-related—nearly doubling. This trend suggests that political interests have influenced budgetary decisions in the education sector to maintain local-level support (ANNEXE X Education and Figure 14.B.1).

Figure 14.B.1 Trends in allocation for public universities-2009/10-2024/25



Source: Author's calculation from the data provided by University Grants Commission, Bangladesh

14.B.4.2 University Grants Commission largely failed to uphold its Autonomy before Political Power

University Grants Commission (UGC) was established on 16 December 1972 and later enacted as an autonomous apex body for higher education. Its primary function is to address the academic and financial needs of universities. Initially, under the 1973 Act, UGC was mandated to coordinate and facilitate six autonomous universities without interfering in their internal policies, strategies, or administrative decisions. However, over the decades, it has increasingly become a tool for government control over higher education, facilitating political influence.

During the July mass uprising, the UGC directed all public universities, including those under the 1973 Act, to shut down indefinitely, forcing students to vacate halls within a short timeframe amid campus agitation and violence. The violence was reportedly perpetrated by the student wing of the then-ruling party, with protection from law enforcement agencies.

Under the previous government, UGC's authority was significantly curtailed. Its involvement in decisions regarding the establishment of new universities or resource allocation was marginalised. Instead, it was reduced to drafting university acts for the Ministry of Education (MoE) to present in Parliament. Previously, UGC would first conduct feasibility studies for new universities, secure MoE concurrence, and then prepare the necessary legislation and DPPs.

Until 2005-06, under directives from the MoE—largely influenced by political decisions from the PMO—UGC would initiate projects to assess the feasibility of establishing new universities before forwarding the respective University Act to the MoE for parliamentary approval. However, public expenditure at the tertiary level was structured in a way that 'construction contracting' became a tool to serve vested interests, including MPs, bureaucrats, and their affiliates.

The last approved DPP for a public university was for Sheikh Hasina University, Netrokona, in 2018. Standard practice dictated that after DPP approval, the MoE would appoint a project director to oversee infrastructure development. Only when infrastructure was near completion would the appointment of a VC follow. After 2018, however, universities were established without approved DPPs, and VCs were appointed through political influence. These universities began academic activities despite inadequate infrastructure and faculty shortages. Teacher recruitment was heavily influenced by political affiliations, with a ***nexus involving university authorities, local MPs, ruling party affiliates, contractors, and student wings of the ruling party.*** Some faculty members, benefiting from this system, legitimised these politically motivated appointments, further undermining academic integrity.

14.B.4.3 Student File in Bangladesh Bank does not Speak the Reality

In recent years, an increasing number of Bangladeshi students have pursued undergraduate education abroad due to concerns over declining quality in domestic institutions. This raises questions about whether student migration also reflects broader issues of economic and social viability in Bangladesh.

To transfer tuition fees abroad, students must open a 'student file' with BB, which only permits transactions officially documented as tuition payments. According to BB data, between 2020 and October 2024, 4,376 students transferred approximately 290 crore BDT for tuition payments. However, UNESCO (2023) reported that 52,799 Bangladeshi students studied abroad that year alone, highlighting a significant discrepancy between the two datasets.[316] This disparity suggests that

[316] https://data.uis.unesco.org/index.aspx?queryid=3807

unregistered financial transfers may be a source of capital flight, with the United States, Canada, and the United Kingdom being the top destinations.

The 2024 Open Doors Report on International Educational Exchange indicated that the number of Bangladeshi students in the United States reached a record high in 2023, exceeding 17,000 enrolments.[317] While outbound student mobility data is publicly available, BB has failed to effectively monitor and address these financial outflows.

14.B.4.4 National University—Hardly Any Vision for Quality Education

Approximately 3.68 million students (3,679,310 students, about 70% of all tertiary-level students) are currently enrolled in affiliated colleges under the National University (NU).

The NU operates primarily on self-generated revenue from admission fees, registration fees, examination fees, affiliation fees, and other charges. It does not finance the salaries of college teachers. Faculty at government colleges receive salaries and benefits under the National Pay Scale, while those at non-government colleges under the MPO system receive only their basic salary, with a nominal allowance of Tk. 1,000 for housing and Tk. 500 for medical expenses.

Students bear their tuition and other educational expenses independently. Unlike public universities, NU does not receive recurring grants from UGC for its operational budget. Development expenditures, except for select government-funded projects (sometimes supplemented by multilateral loans, such as those from the World Bank), are primarily financed through NU's reserve funds.

In the 2022-2023 fiscal year, NU was required to transfer 1,000 crore BDT to the government under a parliamentary law mandating surplus funds from autonomous institutions be deposited into the state exchequer. This decision, made without stakeholder consultation, severely constrained NU's financial capacity. The NU administration maintained that these funds were not surplus but were earmarked for essential development projects, including connectivity infrastructure, district-level examination halls, and future pension liabilities. The forced transfer has placed NU under significant financial strain, with no government commitment to reimburse the funds. The situation is expected to worsen, as NU faces an impending Supreme Court verdict regarding the reinstatement of 988 employees terminated under the previous regime.

Currently, Approximately 48% of NU Graduates Remain Unemployed.

- A follow-up tracer study indicates that 28.73% of graduates from NU-affiliated colleges are in salaried employment, while 47.91% remain unemployed. Additionally, 10.93% are self-employed, and 12.40% are engaged in full-time or part-time study.
- Nearly 60% of unemployed graduates surveyed have been without work for over two years after graduation.
- Most students in NU-affiliated colleges have parents whose highest level of education is primary or secondary school.

14.B.4.5 Private University—Showing Promise Despite Challenges

[317] https://www.thedailystar.net/news/bangladesh/news/bangladeshi-students-studying-us-reach-record-high-3755901?fbclid=IwY2xjawGoRpRleHRuA2FlbQIxMAABHd8JGXQA0VU-DCXCz_8sul62h9CEhidZVrk7pEA5-xIA406zHZnMJWq_2g_aem_k_wemsLoeCfF0sYU63MgaA

In 1992, the Parliament of Bangladesh passed the Private University Act, marking the emergence of a new higher education system. The first private university, North South University, was approved by the GoB on 5 November 1992. The UGC is the primary body responsible for funding public universities.

Initially, private universities played a crucial role in addressing the gaps left by public institutions, primarily catering to students from high-income families. Public universities were often perceived to offer superior education. However, over the past 15 years, private universities—particularly well-performing ones—have attracted a growing number of students. Many students who were unable to secure admission to public universities now choose private institutions, and students from various economic backgrounds are increasingly opting for private university education.

Several factors contributed to this shift:

- The emphasis on ***timely completion*** of undergraduate programmes became more prominent, as society placed greater value on studying abroad. Admission to an educational institution abroad has often been a gateway to this goal.

- Public universities tend to have longer completion times for undergraduate degrees, whereas private universities offer more ***predictable schedules.*** Public universities also experience delays in starting first-year programmes due to the admission test system.

- Private universities' policy of ***avoiding student politics on campus*** attracted many parents willing to pay for education in these institutions.

Despite their growth, private universities face challenges. Business strategies often lead to an insufficient number of full-time faculty members to ensure smooth academic operations. To address this gap, many private universities employ part-time faculty from public universities, where salaries are relatively lower. Some well-established private universities, however, recruit high-quality faculty, with promotions often linked to publication output.

Nevertheless, only a few private universities have earned a strong reputation for quality education. The UGC's regulatory role remains limited, and some private universities are reportedly engaged in unfair practices, including:[318]

- Awarding certificates in exchange for money rather than through rigorous academic processes.
- A shortage of qualified faculty members.
- The absence of permanent campuses.
- High student-teacher ratios.
- Conflict among Board of Trustees members.
- Unlawful activities and financial corruption within the Board of Trustees.

In FY 2025-16, the then Finance Minister proposed a 10% VAT on higher education at private universities, sparking considerable debate. Following protests under the slogan 'No VAT on Education',[319] the Finance Division withdrew the proposal.

[318] https://bangla.thedailystar.net/top-news/news-439766; https://www.kalbela.com/ajkerpatrika/firstpage/85778; https://www.bbc.com/bengali/news/2014/06/140630_mh_private_university

[319] https://www.universityworldnews.com/post.php?story=20150915193445894#:~:text=The%20Bangladesh%20government%20last%20week,in%20its%20budget%20this%20June.

14.B.4.6 Technical and Vocational Education—Spending is almost similar to Public Universities

Under the guidance of the Technical and Madrasah Education Division of the MoE, the Bangladesh Technical Education Board (BTEB) oversees technical and vocational education and training (TVET), including student admissions, curriculum development, examinations, and certification. The Directorate of Technical Education (DTE) is responsible for managing staff, physical infrastructure, and overall planning, implementation, and development.

TVET faces numerous challenges, including:

- A significant proportion of teachers at private TVET institutions are inadequately qualified and trained.
- Many public TVET institutions face staff shortages.
- There is a lack of adequate training facilities for teachers to address TVET challenges and improve the quality of delivery.
- Poor monitoring and a lack of performance evaluations for TVET.
- Limited job opportunities for TVET graduates.
- A small industrial base with slow growth, hindering the absorption of a skilled workforce.
- Gender-related barriers limit female enrolment in TVET and restrict their employment opportunities.
- Weak connections between TVET and national/international labour markets.
- Ineffective governance of TVET.
- Insufficient private-sector participation in TVET.

Expenditure on TVET has increased by 42% between FY 2019-20 and FY 2023-24. Although the spending by public universities and TVET institutions is now comparable, the integration of TVET graduates into the labour market remains underwhelming. A significant portion of TVET spending has been directed towards infrastructure development, particularly the establishment of new training centres.

14.B.4.7 Low Enrolment in STEM

Despite a significant increase in tertiary education enrolment, much of this growth is concentrated in the humanities and social sciences. Only 12.5% of students at public universities and 45% at private universities are enrolled in science courses. The comparison between STEM enrolment in universities and tertiary colleges reveals a much lower enrolment in the latter. Combined, STEM enrolment across all tertiary institutions constitutes just 21% of total higher education enrolment (World Bank, 2019).

Concerns persist regarding the readiness of institutions to deliver quality STEM education, particularly with respect to qualified teachers and laboratory facilities.

14.B.5 Education Budget- A Fallacy of Prioritisation Characterised by Low Utilisation

The allocation for health and education remains opaque, with the Finance Division including budgets for the Ministry of Science and Technology and the Ministry of Information and Communication under the education sector's budget. In 2021-22, the budget for the Ministry of Science and Technology was 21,204 crore BDT, and for the Ministry of Information and Communication, it was 1,720 crore BDT. Additionally, the allocation for the Rooppur Nuclear Power Plant was mistakenly included in the education sector's budget, lacking a rational explanation. This tactic has often been employed as a political manoeuvre to project inflated education sector allocations, a trend that transcends political regimes.

14.B.5.1 Inadequate financing—Relative share of the education budget to GDP decreased

Although Bangladesh has made some progress in increasing its education budget in recent years, there are concerns about both the adequacy and effectiveness of these resources.

The previous government prioritised education in its budget rhetoric, yet this commitment often seemed to be more symbolic than substantive. The share of education expenditure as a percentage of the national budget and GDP has shown no significant upward trend in recent years. Between FY 2016 and FY 2025, education expenditure remained below 2% of the total budget, and in FY 2024, the revised budget allocation for education was less than 12% of the total national budget. Furthermore, the share of education spending relative to GDP fell from 1.9% to 1.69% in FY 2025. This decline indicates that the government is unlikely to meet its target of allocating 3.5% of GDP to education by 2031, and 4% by 2041, as outlined in the Perspective Plan of Bangladesh (2021-2041)(GED, 2020).

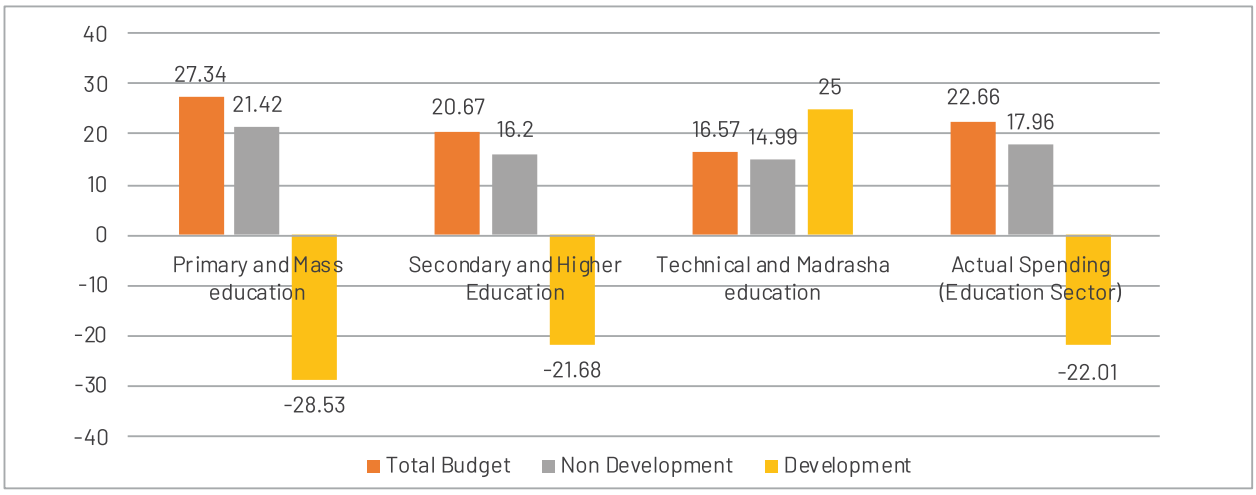
It is also worth noting that Bangladesh ranked as the third lowest in terms of education expenditure as a percentage of GDP among 38 LDCs from FY 2016-2023 (World Bank, 2024). Only Haiti and Somalia spent less than Bangladesh during this period. In FY 2019, Bangladesh's education expenditure as a percentage of GDP was the lowest among 28 LDCs and the second lowest among 104 countries worldwide.

14.B.5.2 Budget Utilisation-bias Towards Non-development Expenditure

It is noteworthy that a significant disparity exists between non-development and development expenditure. In the education sector, non-development spending has consistently exceeded development expenditure between 2010 and 2024 (Figure 14.B.2).

- ***In comparison with FY 2020/21, total expenditure in FY 2022/23 increased by 22.66%.*** This increase warrants further analysis. It comprises a notable rise in non-development expenditure (17.96%) and a substantial decrease in development expenditure (22.01%).
- Simultaneously, ***expenditure on primary and mass education, as well as secondary and higher secondary education, saw significant cuts in development spending, except for technical and madrasa education. Operational budgets, however, have steadily increased across all levels of education from 2020/21 to 2022/23.***

Figure 14.B.2 Public expenditure on development and non-development expenditure (actual) for different tiers of education: FY2020/21-FY2022/23



In total education sector expenditure, primary and mass education received approximately 39%.

14.B.6 Forms of Corruption in the Education Sector in Bangladesh

Studies identify several forms of corruption in the education sector, including ***the collection of unauthorised payments for school admissions, the biased distribution of free textbooks, coercion of students to pay for private tuition, and demands for bribes in exchange for school stipends and grants.*** More subtle forms of corruption, ***such as teacher misconduct, absenteeism, neglect of duties, and ineffective school management committees, also occur. Procurement corruption within education has recently attracted attention as a significant issue. Sexual corruption, including sexual harassment and the exchange of sexual favours for grades***, is another area of concern.

Reports from local primary and secondary schools indicate corruption at the grassroots level, often carried out by officers assigned to monitor education. This problem is exacerbated by politically appointed managing committees.[320] These politically motivated appointments result in the selection of unqualified or disinterested individuals to lead educational institutions.

Private tutoring and high-stakes testing undermine learning and deprive disadvantaged students of the full benefits of education. ***The expanding shadow education sector is exacerbating social inequalities and warrants closer scrutiny (UNESCO, 2023).***[321]

14.B.6.1 Question paper Leakage in Public Exams -Heaping of sorrow upon sorrow

The practice of question paper leakage became widespread after 2014 (ANNEXE XIV Education). Question papers for public examinations, including the Primary School Certificate (PSC), Junior School Certificate (JSC), SSC, and HSC, have been routinely leaked. Several university and medical entrance exam papers have also been compromised.[322]

Research by Transparency International has uncovered **collusion among officials—such as Deputy Commissioners, Upazila Nirbahi Officers, and bank employees—responsible for securing and distributing question papers at the local level.** Risks arise during the process of checking questions in vaults on the day before an examination and their subsequent distribution to exam centres. At the institutional level, **certain teachers violate the timing regulations** for opening question packets and send photos of the papers to students via SMS, email, Facebook, or Viber. [323]

A **network exists between question setters for creative sections, businesspeople operating coaching centres, and owners of photocopying shops**, all of whom contribute to the leakage of questions.

The appointment of the same teachers as both question setters and moderators fosters a syndicate of corruption. Inadequate training for the newly implemented creative examination system further exacerbates the problem, as unskilled teachers resort to providing leaked questions to improve results. The ranking system of educational institutions drives schools to adopt any measure to secure a top position, including relying on leaked questions.

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[320] UNESCO. (2017). *Global Education Monitoring Report, 2017/18.*

[321] https://www.unesco.org/en/articles/regulating-private-tutoring-public-good

[322] যত প্রশ্ন তত ফাঁস. Daily Janakantha (in Bengali). 24 November 2017. Archived from the original on 11 March 2018. Retrieved 9 March 2018.

[323] Transparency International. (2015). *Question leakage in public examinations: Process, reasons, and way forward.*

Logistical shortcomings, such as the lack of digital paper counters, also facilitate the leakage of questions. BG Press staff have opportunities to view the papers prior to distribution. Additionally, the growing workload at BG Press, caused by the inclusion of two more public exams (PECE and JSC), hinders adequate supervision and coordination.

Authorities' denial of question leaks, dismissing them as mere 'suggestions', along with weak law enforcement, encourage continued malpractice. The failure to disclose investigation findings shields perpetrators. No exemplary punishments have been enforced under the existing law, even though the penalty was reduced from 10 to four years in the *Public Examinations (Offences)(Amended) Act, 1992*. Furthermore, coaching centres remain open despite government policy prohibiting them, and *The Note-Books (Prohibition) Act*, 1980, is inadequately enforced.

14.B.6.2 Sexual Harassment of Female Students

In 2009, the High Court issued a landmark ruling, establishing guidelines that educational institutions and employers, both public and private, are required to follow. One such guideline mandates the formation of formal complaints committees within organisations. Although compliance with this ruling has been problematic in many institutions, the UGC has urged all colleges and universities to establish complaint committees in accordance with the court's directives.

In consultations with women's activists and civil society groups, female students have reportedly lodged complaints regarding sexual harassment. Many TVET institutions remain unaware of the requirement to set up anti-sexual harassment committees. While some universities have established such committees, their members are often appointed from among the institution's higher-ranking administrators.

14.B.7 Career Mobility for Teachers

Primary education was made compulsory in Bangladesh in 1993, making the government responsible for ensuring access to education for all.

Teachers across all education sectors are underpaid. **The average salary of a primary school teacher in the country is only $170.02, which is approximately 27% less than the average monthly per capita income.** In terms of salary, Bangladesh ranks 45th among Asian countries and 7th in South Asia. Within the national pay scale, primary school teachers are positioned at a low level.

Table 14.B.1 A comparison with other countries around the world paints a grim picture of Bangladesh[324]

Monthly Average Salary of primary School Teachers in South Asia (USD)					
Bangladesh	**Maldives**	**Pakistan**	**Sri Lanka**	**India**	**Myanmar**
170.02	953.13	206.07	250.44	284.64	189.22

Currently, assistant teachers in GPS are classified under the 13th pay grade, earning a basic salary of Tk11,000. With allowances for housing, medical care, and other benefits, their total compensation amounts to approximately Tk19,000.

[324] https://www.tbsnews.net/features/panorama/what-our-school-teacher-salaries-say-about-our-education-881386

Studies indicate that the monthly food expenses for a family of four in Dhaka are Tk22,664, making it difficult for primary school teachers, especially those who are the sole breadwinners in their families, to cover living costs. Despite inflation surpassing 9% in recent years, primary school teachers' salaries have not been adjusted in line with the cost of living.

At the university level, entry-level lecturers in Bangladesh earn between $220 and $482 per month. In comparison, entry-level teachers in India earn between $770 and $2,420, while lecturers in Malaysia earn between $700 and $2,800. In Singapore, university teachers' salaries range from $2,950 to $10,300.

The low pay demotivates some teachers, who limit their involvement to teaching hours and cease engaging in research. Some even stop conducting research upon becoming professors. Nonetheless, a significant number of teachers remain committed to research, regularly publishing scholarly articles.

It is important to note that the political criminalisation of educational institutions has profound social consequences, as many teachers will remain in the profession for the next 30 years. Teachers' associations across different education levels lack cohesion and do not support one another. This fragmented culture has hindered the development of collective agency among teachers, and political and bureaucratic decisions often override the professional dignity of educators.

Teaching is a profession that demands continuous intellectual development. Teachers require sufficient compensation to maintain a modest standard of living. Without such support, it is unrealistic to expect them to produce high-quality intellectual output.

14.B.8 Conclusion

The education system must prioritise ***quality education***, which will drive transformational changes in human capital development. The skill set imparted to students should equip them to emerge as global citizens, capable of contributing to both domestic and international spheres. In the context of Bangladesh's impending graduation from LDC status, ***enhancing labour force*** productivity is crucial. Policymakers should prioritise investment in human development to improve productivity. Creating a socioeconomic environment that offers objective incentives to individuals with higher education and qualifications is essential.

Most importantly, the issue of meeting the SDG target of ***'leaving no one behind'*** highlights the existing equity deficit in Bangladesh's education sector. The formulation and implementation of an inclusive education system that ensures equitable social outcomes, free from partisan political influence, must be central to the education policy.

Key Messages

- Half of Grade V students in primary schools lack grade-appropriate competency in Bangla, and 70% lack proficiency in mathematics.
- A 2.5% increase in allocation from the FY 2024–25 budget could reduce the dropout rate to zero in GPS.
- Tertiary educational institutions will face challenges for at least the next 35 years due to politically appointed faculty members and the pervasive culture of derailed learning, influenced by rampant political criminalisation.

14.C Disability-Inclusive Development: A Good Start that Fizzled Out

14.C.1 Introduction

The inclusion of persons with disabilities in development processes and outcomes has become a critical element of the broader commitment to 'Leave No One Behind' underpinning the SDGs. In 2007, Bangladesh signed and ratified the Convention on the Rights of Persons with Disabilities and its optional protocols. Accordingly, the country enacted the Rights and Protection of Persons with Disabilities Act in 2013, which repealed the Disability Welfare Act of 2001. This marked a shift from a charity-based to a rights-based approach in addressing disabilities. The new legislation established the rights of persons with disabilities, aiming to protect their dignity and ensure their participation in social and state activities. Section 16 of the Rights and Protection of Persons with Disabilities Act, 2013, alongside the rights enshrined in the Constitution of Bangladesh, provides 21 rights to persons with disabilities and imposes various duties on committees at all levels, from grassroots to national, for their advancement.

Persons with disabilities continue to face numerous human rights violations, including institutionalisation, isolation, stigma, discrimination, and a lack of access to health, education, justice, and employment opportunities. A comprehensive approach to addressing the needs of persons with disabilities throughout their lives is entirely absent. This challenge is not only a matter of resources or technical know-how but also of mindset, political interference, inefficiencies, waste, and corruption.

The previous government initiated various measures for the advancement of persons with disabilities, which became the hallmark of inclusive development during that period. There was a strong narrative that the administration created an enabling environment for persons with special needs, particularly those with autism. This paper aims to critically assess the reality of disability-inclusive development under the previous regime, examining services provided and identifying gaps.

14.C.2 Identification of Persons with Disabilities: Slow Progress and Gaps in Implementation

The NSPSD 2021 survey reports that approximately 4.8 million people in Bangladesh live with disabilities as defined by the 2013 Act. When measured using the broader Washington Group framework, this number rises to over 12 million.

A pilot initiative by the Department of Social Welfare in 2012 aimed to finalise the technical aspects of identifying individuals with special needs. The national programme for identification began in 2013, involving doctors and civil surgeons. By 2015, the system for including individuals in the government's data registry was established.[325]

Through this identification process, individuals with special needs gain access to services such as Disability Allowance and National Identification Cards. However, challenges persist, particularly due to doctors' limited understanding of the diversity of disabilities and the difficulties in adhering to the universal definition of disability.

According to the latest DSS survey, only 35% of persons with disabilities are registered, which is insufficient to make meaningful progress towards the rights-based approach mandated by the Rights and Protection of Persons with Disabilities Act, 2013.

[325] www.dis.gov.bd

14.C.3 Jatio Pratobandhi Unnyan Foundation: An Opportunity Wasted

In 1999, an independent body, the Jatio Pratobandhi Unnyan Foundation (JPUF), was established under the MoSW to empower persons with disabilities in Bangladesh. The foundation's mandate was to improve the quality of life for persons with disabilities and advocate for inclusive policies promoting their social integration. Its strategy involved supporting NGOs, including Organisations of Persons with Disabilities (OPDs), working to empower disabled citizens.

However, JPUF deviated from its original mission. The NGOs that were instrumental in creating JPUF in 1999 became marginalised as the foundation became an administrative and procurement instrument dominated by government officials.

Control from the Top: Weak Administrative Governance

The Board of Directors of JPUF consists of 24 members, of whom 21 are government officials, three are NGO representatives, and only one is a person with a disability. Frequent transfers of government officials hinder the board's understanding of issues and weaken governance. The board spends more time discussing administrative matters than programmatic issues, undermining its core purpose of reviewing and approving initiatives aimed at improving the well-being of persons with disabilities.

Subarna Bhaban: A big gap between concept and practice

With a $22 million loan from the World Bank in 2008 and additional public funding, JPUF began constructing facilities to create employment opportunities for persons with disabilities, provide assistive devices, and offer rehabilitation services to 250 individuals.

The original concept focused on providing rehabilitation and skill development services for children and individuals with neuro-developmental disabilities, including residential facilities. The infrastructure was designed with their unique needs in mind. However, the construction of a 15-story building within the JPUF campus deviated from the original programme. The building remains underutilised, and persons with disabilities are not receiving any services from it.

Procurement Process: Wasteful and Corrupt

Assistive devices, crucial for improving the quality of life of persons with disabilities, should be customised to individual needs. However, JPUF conducts bulk procurement without considering the specific requirements of users or consulting occupational therapists. As a result, many of the devices are inappropriate or poorly designed, which may cause harm rather than benefit. Moreover, procurement is conducted at inflated prices.[326]

One-Stop Service Centres: A Good Model Poorly Implemented

JPUF operates 103 OSS Centres nationwide to provide services and ensure rehabilitation for persons with disabilities. The concept was to integrate disability health services into government health facilities, following a pilot model at two government district hospitals by a leading

[326] From the White Paper consultation, it was revealed that a leading NGO in the disability sector developed a model of mobile rehabilitation units using small-sized pick-up vans with full accessibility features, designed to navigate narrow roads in the most remote rural areas. However, JPUF procured larger pick-up vans that could not access many rural areas. As a result, people in remote areas were deprived of essential rehabilitation services. The NGO has been operating three service vans, each costing approximately BDT 22 lakh. In contrast, it is alleged that JPUF purchased much larger vans, which are impractical for reaching these remote areas, at a cost of around BDT 1 crore each.

disability NGO.[327] However, the centres are operated independently, separate from mainstream health services. There is no accountability or monitoring to ensure the quality of service. Many individuals with special needs are marginalised, and many lack the confidence to voice complaints. The WPC consultation cited these centres as being of poor quality, despite being funded with public money. As a result, they fail to deliver essential services to some of the country's most vulnerable citizens.

14.C.4 Many Faces of Access Constraints: Big Room for Improvement

Mobility Constraints: Deepening Exclusion by Design

The Act mandates accessibility for persons with disabilities to all premises, both public and private, including open spaces and buildings, as well as unrestricted access to public transport. Additionally, Rules 5(5) and 13 of the Building Construction Rules 1996 and the Bangladesh National Building Code Act 2008 outline specifications for disability-friendly construction.

However, very few government buildings have ramps or lifts, and most public buildings remain largely inaccessible to persons with disabilities. Furthermore, most public institutions lack disability-friendly washrooms. There are no audio facilities in public spaces, preventing people with visual impairments from accessing these areas. Additionally, the 2013 Act does not require buildings, premises, or facilities to feature Braille signage, which would make both private and public spaces more accessible to those with visual disabilities.

Section 32 of the Act mandates accessibility in public transport, including the reservation of 5% of seats for persons with disabilities. However, these reserved seats are rendered ineffective by the lack of disability-friendly entrances to public transport, with wheelchair access to buses and trains being nearly impossible.

While the Metro Rail Transportation system has ensured accessibility, individuals with physical disabilities still face significant barriers in reaching Metro Rail stations due to insufficient accessibility in the mass transport system.

Hear us: Approval of Sign Language and Braille System

The primary challenge for individuals with hearing disabilities is communication. The diversity in regional sign languages further complicates interaction among persons with hearing impairments.

Disability rights activists and NGOs played a critical role in developing standard Bangla Sign Language. Following their advocacy, the Prime Minister announced the adoption of Bangla Sign Language at the national level on 1 February 2009, declaring 7 February as National Bangla Sign Language Day. However, since then, no significant efforts have been made by authorities to promote sign language as the official language for individuals with speech and hearing disabilities. Similarly, while the Braille system is in use by individuals with visual disabilities, it has yet to be officially gazetted.

Constraints of Access to Justice

The courts in Bangladesh remain largely inaccessible to persons with disabilities. Schedule 12 of the 2013 Act mandates that police, prison, and court officials make arrangements to ensure access to justice for 'disabled victims' of violence. However, both the Act and Schedule fail to address procedures for 'disabled offenders'.

[327] From the White Paper consultation.

There are no clear guidelines for court officials on how to record witness statements from individuals with speech and hearing disabilities. Furthermore, the need for interpreters in the judicial process has been neglected. Surprisingly, the Prevention of Women and Children Repression Act 2000 fails to adequately protect women and girls with disabilities from all forms of abuse and torture.

Constraints of Access to Education

The Act distinguishes between 'general education' for students without disabilities and 'special education' for students with disabilities, with the latter requiring extra care and distinct teaching methods (Section 16). However, the Primary Education (Compulsory) Act 1990 allows for the exclusion of children based on 'illness' or 'unavoidable reasons' and permits rejection if an officer deems it 'undesirable' to admit a child due to mental disabilities (Section 3(3)(a) & (e)). Moreover, there is a general lack of adapted curricula for children with disabilities, and children with psycho-social disabilities face even fewer opportunities for inclusive education. Braille textbooks and related materials, including writing frames and styluses, are also scarce.

Constraints of Access to Skills, Jobs, and Livelihoods

Although the right to work is guaranteed under Sections 16 and 35, which require employers to hire persons with disabilities, certain laws explicitly discriminate against them, preventing their inclusion in public service positions above certain grades. Provisions such as Schedule II of the Bangladesh Civil Service (Age, Qualification, and Examination for Direct Recruitment) Rules 2014 and Schedule III of the Bangladesh Judicial Service Appointment Order 2007, as well as the Bangladesh Judicial Service (Formation, Appointment, and Termination) Rules 2007, inhibit employment opportunities for individuals with disabilities. Additionally, there are no quotas for job seekers with disabilities in the private sector, nor are there legal remedies against discrimination by private employers.

In 2020, 285 individuals with physical and visual disabilities passed the primary school teaching examination but were denied appointments, forcing them to pursue legal action. In September 2024, the judiciary ruled in favour of these individuals. Over 100,000 educated persons with disabilities could access employment, yet significant barriers remain.

The Bangladesh National Social Welfare Council provides livelihood support to persons with disabilities and organisations working with them through the MoSW. However, there have been allegations of funds being misappropriated, with some directed to relatives of political leaders or organisations run by family members of a sitting minister.

Access Constraints to Sexual and Reproductive Health Care

Significant gaps remain in the provision of SRH care for persons with disabilities. This is partly due to the harmful belief that persons with disabilities are asexual or less sexually active, and thus less likely to require SRH services or be exposed to sexually transmitted diseases or violence. This stigma, coupled with insufficient training for healthcare providers in inclusive care, creates additional barriers for people with disabilities seeking SRH services, exacerbating their challenges in accessing healthcare as guaranteed by Article 9 (Accessibility) and Article 25 (Impediments to the Right to Health).

Access Constraints to Voting and Participation

Persons with intellectual or psycho-social disabilities are often excluded from the voter's list. Furthermore, individuals with visual disabilities are not provided with accessible ballot papers,

hindering their ability to vote in secret. There are no reserved seats for individuals with disabilities in elective bodies. While there are specialised sports and cultural activities for people with disabilities, these are typically marginalised and not integrated into mainstream events.

Implementation Capacity and Coordination Constraints

Issues related to persons with disabilities are primarily handled by the MoSW and the Department of Social Services, encompassing areas such as education, health, legal aid, and financial support. However, this arrangement is problematic, as the ministry and department lack the capacity and mandate to effectively mainstream services for persons with disabilities across various sectors.

14.C.5 Social Protection

The Disability Allowance for persons with disabilities was introduced in 1993, initially targeting low-income individuals. In 2015, coverage was expanded to include all persons with disabilities. The number of beneficiaries has grown significantly, rising from approximately 600,000 in FY2015-16 to over 2 million in FY2021-22. Depending on measurement methods, this represents 25% to 50% of persons with disabilities in Bangladesh.

Despite universal coverage, White Paper consultations indicate that many eligible individuals do not receive the allowance, even with a disability card. While some do not require financial support, a significant proportion are unaware of or unable to access it. As the budget covers all registered individuals with disabilities, concerns about misappropriation persist, with allegations of misconduct by government officials and local authorities.

Caregiving is essential to the well-being of persons with disabilities; however, caregivers remain excluded from social protection support.

14.C.6 Problem of Picking and Promoting Favourites: A Weakening Impact on the Larger Movement

Bangladesh's disability sector has seen significant government interest, particularly in autism-related initiatives. Several policies were introduced, including the establishment of the Neuro-Developmental Disability Protection Trust in 2013.

Following this, the government formed the Neuro-Developmental Disability Protection Trustee Board in 2014 under the Neuro-Developmental Disability Protection Trust Act, 2013, to enhance the quality of life for individuals with neuro-developmental disabilities. Additionally, 74 schools for children with such disabilities have received government support for teacher salaries.

The National Academy for Autism and Neuro-Developmental Disorders was established to expand service provision for neurodivergent individuals. However, despite an allocation of BDT 422 crore, allegations of corruption and financial mismanagement rendered the Academy ineffective.

For years, World Autism Day (2 April) was prioritised at the national level, with the former Prime Minister serving as programme chair. While this increased awareness and social integration for individuals with autism, concerns emerged within the broader disability rights movement. During consultations by the White Paper Committee, disability rights advocates noted that Bangladesh's National Disability Day—originally observed on the first Wednesday of April (since 1999)—was moved to 3 December to align with the International Day of Persons with Disabilities. This shift prioritised autism advocacy over other disabilities, weakening a longstanding movement.

Previously, National Disability Day had been a key moment for public engagement, with persons with disabilities actively participating in rallies. However, the government's focus on Autism Awareness Day (2 April) led many non-autistic persons with disabilities to feel marginalised, with the broader disability sector increasingly sidelined.

This selective focus neither advanced autism advocacy effectively nor addressed the needs of other persons with disabilities. Such initiatives, driven by political motivations and short-term visibility, failed to address structural constraints. Rather than adopting a sustainable, rights-based approach, the government pursued high-profile events that created a superficial sense of progress. Consequently, privileging one disability over others weakened the overall movement, fostering complacency rather than meaningful change.

14.C.7 Conclusion: Bungling A Solid Start and Movement

Bangladesh has made notable progress in disability rights, being among the first nations to ratify the United Nations Convention on the Rights of Persons with Disabilities. The disability rights movement played a crucial role in establishing the Rights and Protection of Persons with Disabilities Act of 2013, strengthening legal protections and promoting dignity, participation, and justice. A significant milestone was the 1999 decision to create an independent body under the MoSW to support persons with disabilities.

However, subsequent developments saw the politicisation of disability advocacy, procurement biases, and favouritism. In seeking to project an inclusive development agenda globally, the previous administration undermined the broader disability rights movement. This focus on selective visibility compromised long-term, substantive progress for all persons with disabilities.

ANNEXE I Health

Table 14.H.1 Snapshot on health expenditure and availability of health workers in Bangladesh

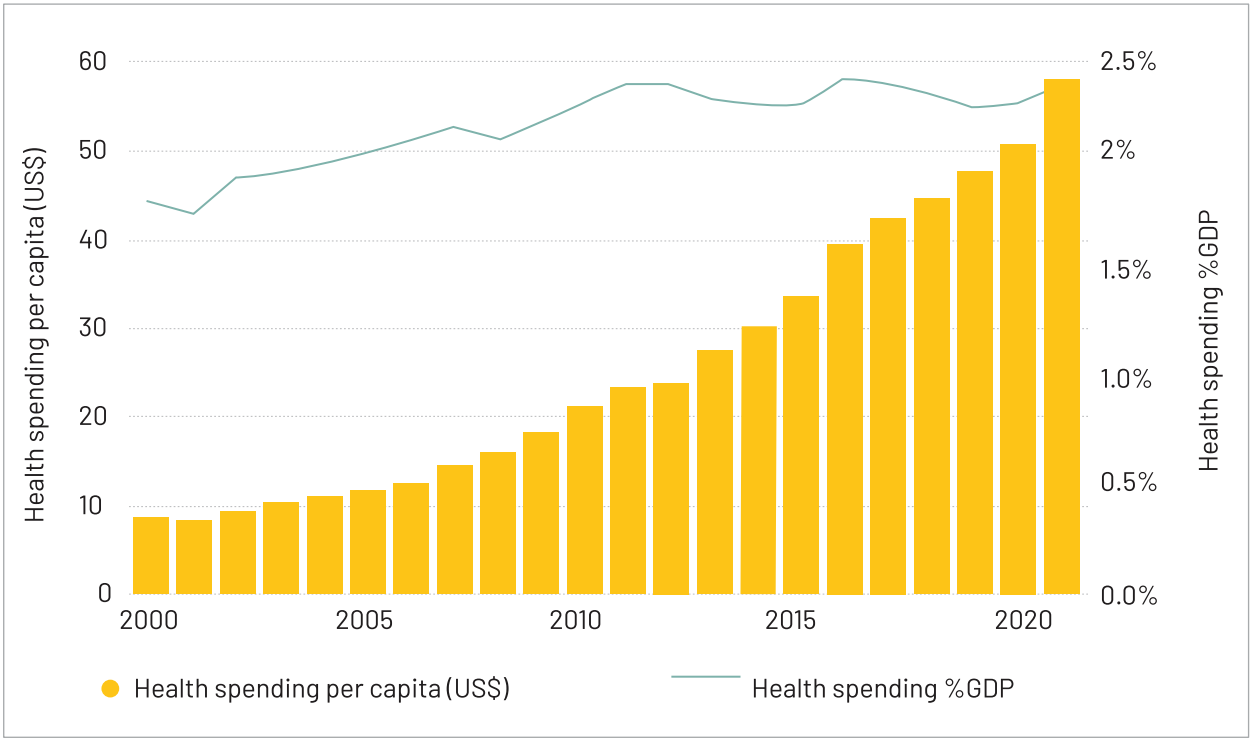
Country/ Region	Health Expenditure					Health Workers	
	Current	Public	Out of Pocket	Per Capita	Per Capita Current PPP	Physicians	Nurses & Midwives
	% of GDP	% of Current	% of Current	$		Per 1,000 people	Per 1,000 people
	2021	2021	20212021	2021	2016-21	2016-21	
South Asia	3.3	32.3	52.5	70.2	227.8	0.8	1.5
Bangladesh	2.4	16.9	73	57.9	153.6	0.7	0.6
Lao PDR	2.7	26.2	30.9	68.9	234.2	0.3	1.2
Malaysia	4.4	56.2	32.1	487.4	1268.2	2,2	3.4
Nepal	5.4	33.2	51.3	65.0	228.0	0.6	2.0
Philippines	5.9	39.3	44.6	203.0	522,0	0.8	4.8
Sri Lanka	4.1	46.5	43.6	203.			

Source: *The World bank*[328]

[328] https://datatopics.worldbank.org/health/

ANNEXE II Health

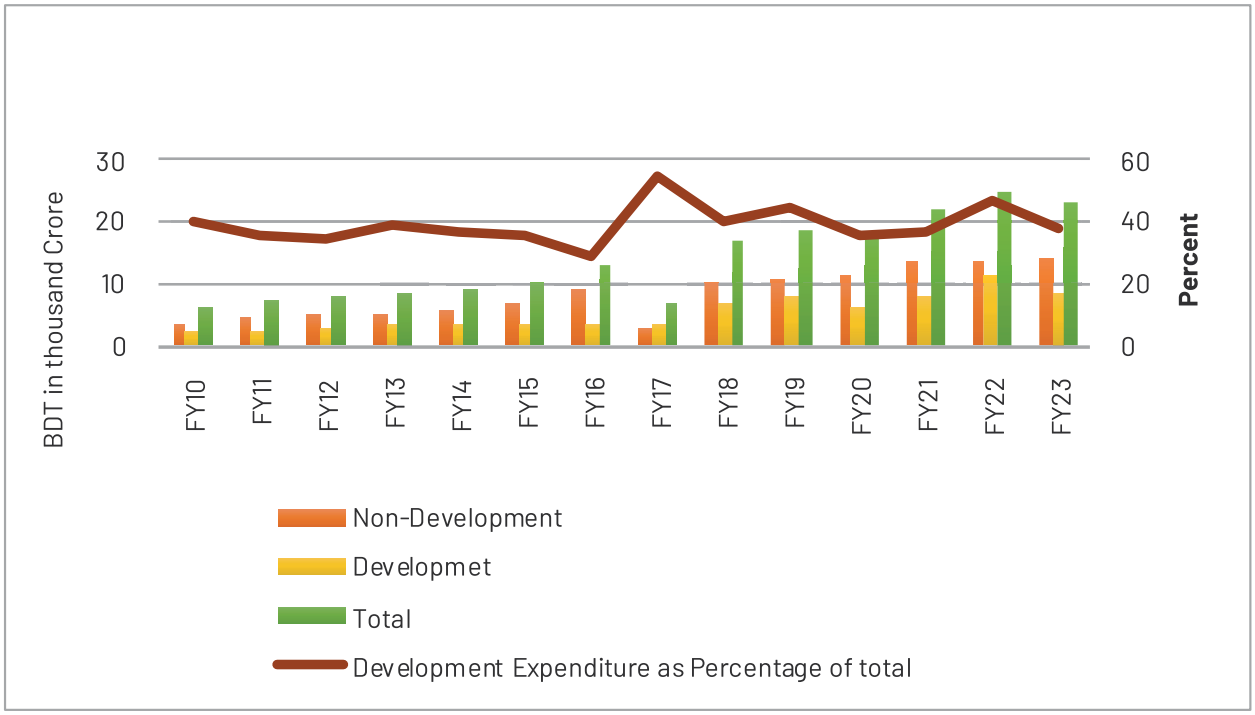
Figure 14.H.1 Current health expenditure (CHE%GDP and CHE per capita, US$)



Source: *https://apps.who.int/gho/data/node.searo.GHEDGGHEDCHESHA2011?lang=en*

ANNEXE III Health

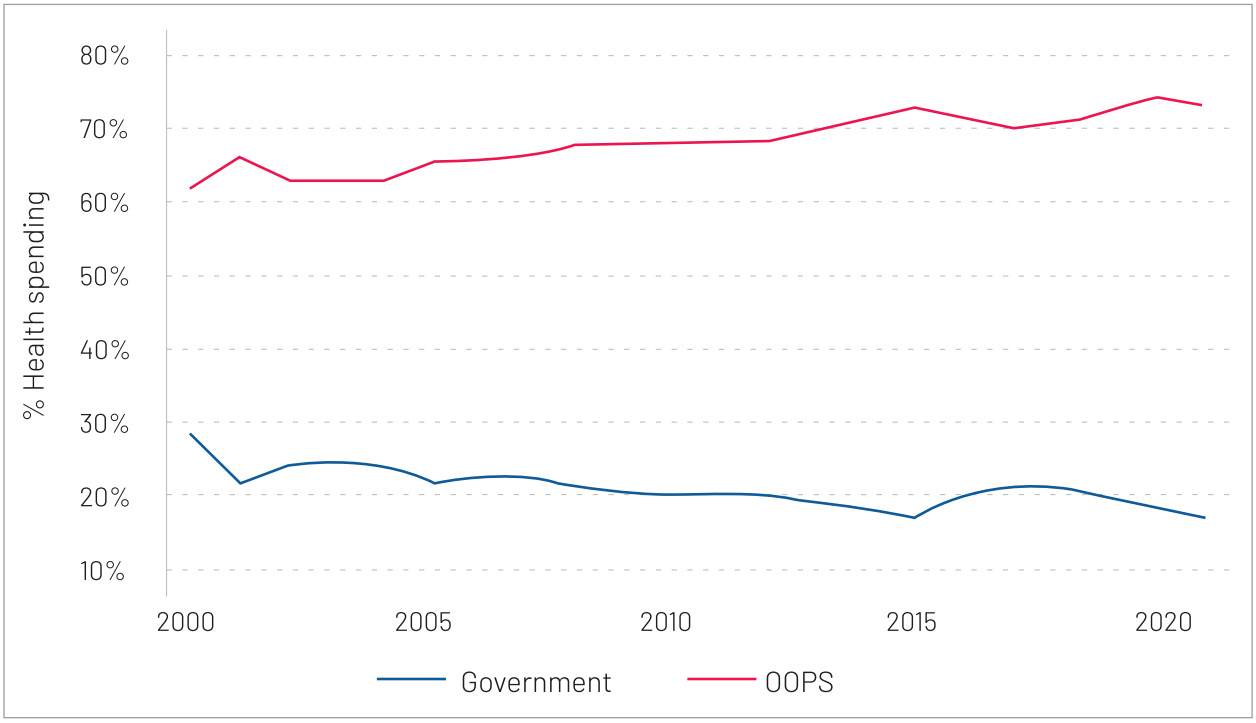
Figure 14.H.2: Actual expenditure on health-development and non-develpopment expenditure



Source: *Finance Division, Bangladesh*

ANNEXE IV Health

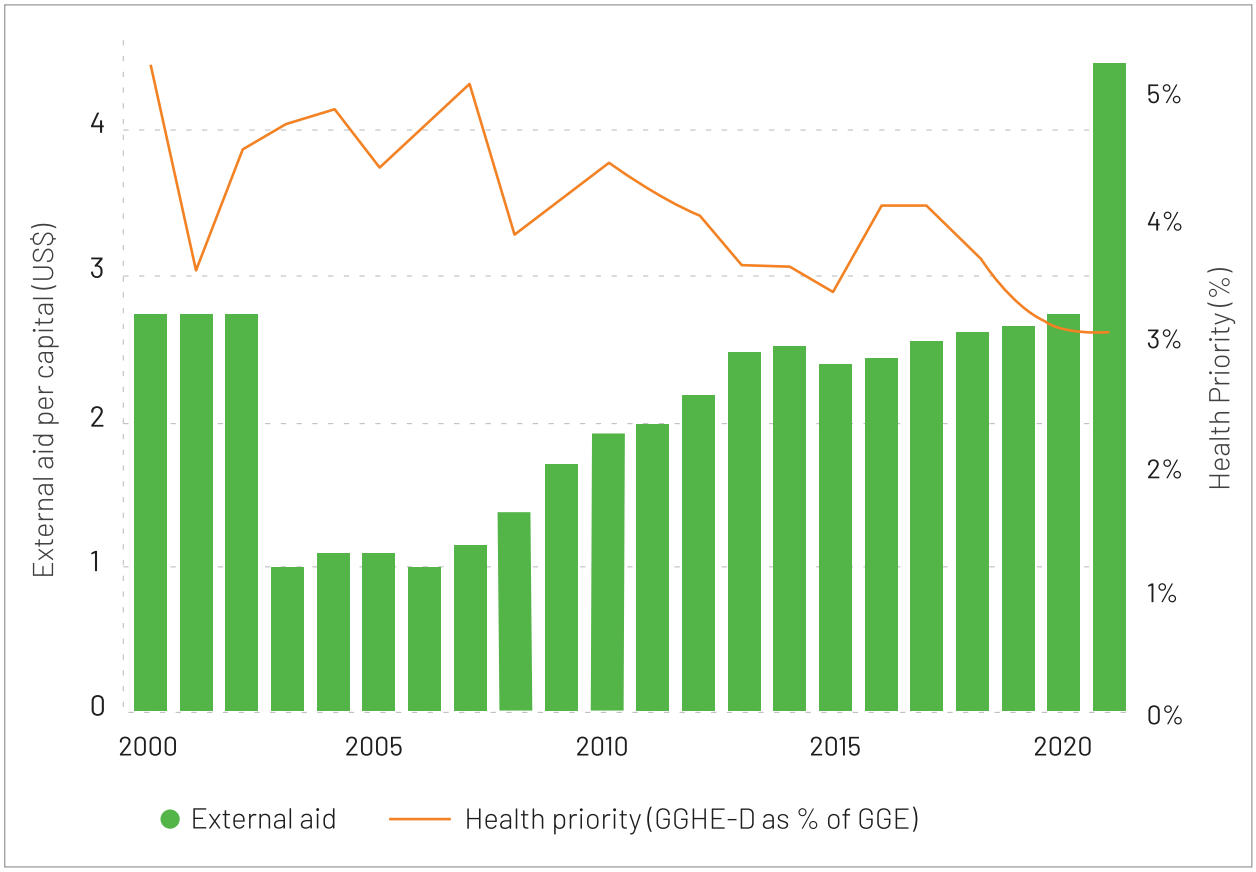
Figure 14.H.3 Government expenditure and OOPS (GGHE-D%CHE and OOPS%CHE)



Source: *https://www.who.int/data/gho/indicator-metadata-registry/imr-details/4953*

ANNEXE V Health

Figure 14.H.4 External health and health priority (External aid per capita and GGHE-D%CHE)



Source: *https://apps.who.int/gho/data/node.searo.GHEDEXTCHESHA2011?lang=en*

ANNEXE VI Health

Case Study: Corruption during COVID-19 pandemic exposed fundamental flaws in the health sector

The WHO declared COVID-19 a pandemic on 11 March 2020. The virus was confirmed to have spread to Bangladesh on 8 March 2020. The government announced the first lockdown, lasting 10 days from 26 March 2020, after three deaths and 33 confirmed cases. Notably, the GoB allowed nationwide celebrations for the centenary of the birth of the country's founding leader on 17 March 2020, as well as the commencement of the 'Mujib Borsho' (dedication of a year to his memory, from 17 March 2020 to 31 March 2021).

During the initial stage of the COVID-19 outbreak in Bangladesh, the government deployed the Armed Forces to assist civil administration and enlisted 500 doctors for the management of coronavirus infections. However, the pandemic exposed the significant inadequacies of Bangladesh's healthcare system, which, like many other developing countries, faced a range of systemic issues, including widespread financial corruption in the healthcare sector. National newspapers and electronic media reported on rampant corruption during the crisis, highlighting the scale of irregularities, a prevailing culture of impunity, and failures in policy implementation. These issues were compounded by arbitrary abuse of laws that restricted access to information, freedom of expression, and media freedom, hindering efforts to address corruption. Transparency International raised concerns about the unfolding events and the exacerbation of corruption across various sectors during the crisis.[329] This corruption, particularly within the health sector, portrayed a deeply entrenched system of malpractice.

Corruption was evident from the procurement of essential safety equipment, such as masks, sanitisers, and personal protective equipment (PPE), to fraudulent COVID-19 testing and inflated costs of medicines (Zaman, M.S., Al).[330] While developed countries struggled with high death tolls, Bangladesh faced the dual challenge of an under-resourced health system and widespread corruption within it.

Safeguarding frontline health care workers: Masks, sanitisers, personal protective equipment

The government was responsible for ensuring the provision of PPE and quality masks to frontline health workers (FLWs)—doctors, nurses, and staff directly handling confirmed or suspected COVID-19 patients. Reports indicated corruption in the procurement of medical supplies, including quality issues with masks.

For example, hospital authorities raised concerns about the quality of masks labelled as 'N-95' provided at a COVID-19-dedicated hospital in the capital, which posed a significant risk to the lives of FLWs. Allegedly, a particular company was supplying counterfeit N-95 masks to different parts of the country, with over 20,000 fake masks being distributed to 10 hospitals without any quality checks.

[329] https://www.ti-bangladesh.org/articles/story/6219

[330] MS Al Zaman. (2020). Healthcare crisis in Bangladesh during the COVID-19 pandemic. The American Journal of Tropical Medicine and Hygiene, 2020. Retrieved from https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7543838/

Khanam et al. (2023) documented various instances of corruption within the healthcare system during the COVID-19 pandemic, which are summarised in the table below:[331]

Areas of corruption	Specification
Safety goggles	Proposed cost: BDT 5000 per unit; market price: BDT 100 per unit.
Medical supplies	An automobile company absconded after securing a Tk 9 crore contract. An electronics supplier misappropriated Tk 8.28 crore after securing a deal to supply medical products but failed to deliver.
Website development	Tk 10.5 crore was quoted for developing four websites, despite the highest market price being Tk 2 lakh per website.
Computer software	Tk 55 crore was quoted for five pieces of software, while the average unit price was Tk 28 lakh.
Audio-video production	The cost for 30 audio clips was proposed at Tk 11.5 crore, whereas a full-length film typically costs Tk 1–2 crore.
Personal protective equipment (PPE)	Proposed expenditure: BDT 4700 per unit; market price: BDT 2000 per unit.
JKG Health Care scam	Approved by the Directorate General of Health Services, JKG Health Care set up 44 sample collection booths but issued 1,925 COVID-19 certificates without conducting tests.
Medical technologist recruitment	An audio recording suggested that each appointment required a bribe of at least BDT 10 lakh.
Procurement at Shaheed Suhrawardy Medical College	Financial irregularities amounting to Tk 6.4 crore were reported in the purchase of three types of equipment.
Health Department procurement	Since 2014, the ACC identified Tk 300 crore in corruption across 19 health sector projects, with 10 cases occurring during the COVID-19 pandemic.

[331] Khanam, M., Shuchi, N. S., Kamal, R. S., & Ahmed, S. M. (2023). Health sector corruption during the COVID-19 pandemic in Bangladesh: Newspapers as mirrors of society. *Science Direct, 9 (12),* e22318. https://www.sciencedirect.com/science/article/pii/S2405844023095269

ANNEXE I Education

Table 14.E.1 Gross Enrolment Rate (GER) and Net Enrolment Rate (NER) in Primary Education, Secondary School, College, Madrasah, Vocational, Business Management and Tertiary Education in 2021

Type of Education	GER			NER			Dropout	
	Total	Boys	Girls	Total	Boys	Girls	Boys	Girls
(a) Primary Education	105.72	105.32	106.14	97.42	97.39	97.44	15.05	13.25
(b) Secondary Level (School, Madrasah, Voc. Grade 6-10)	75.52	66.40	83.15	70.25	63.29	79.09	32.50	40.29
1. Secondary School	60.05	54.15	65.40	58.83	52.36	64.77	33.59	36.44
2. Madrasah (Dakhil: VI-X)	12.16	10.57	13.75	11.81	10.23	13.38	34.33	46.46
3. Vocational (IX and X)	4.616.10	3.06	4.38	5.79	2.91	32.09	28.25	
(c) Higher Secondary Level (College, Madrasah and BM: Grade 11-12	48.79	48.50	49.88	40.54	41.88	40.49	20.74	21.56
1. College (11 and 12)	37.70	35.34	37.70	33.55	31.57	35.21	19.16	20.36
2. Madrasah (11 and 12)) 3	3.55	3.28	3.55	2.89	2.91	2,76	18.96	27.24
3. Business Management	7.53	9,89	7.53	7.16	9.39	4.52	46.03	44.66
(d) Diploma Level	2.49	3.75	2.49				7.63	8.01
n(e) Tertiary Level	20.19	20.19	20.19					

Source: *Bangladesh Bureau of Educational Information and Statistics (BANBEIS) Ministry of Education, Bangladesh Education Statistics 2021*

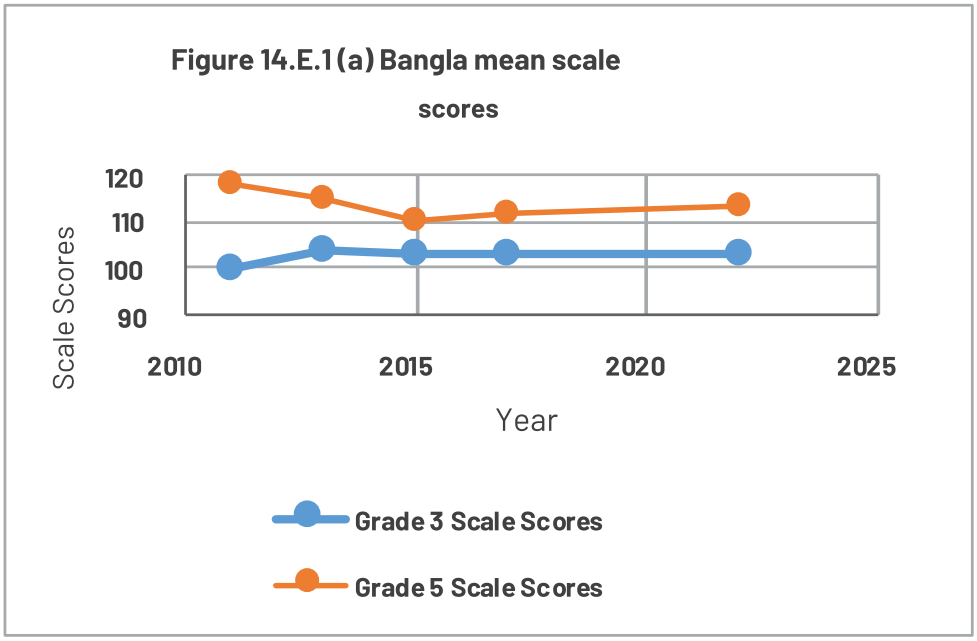
ANNEXE II Education

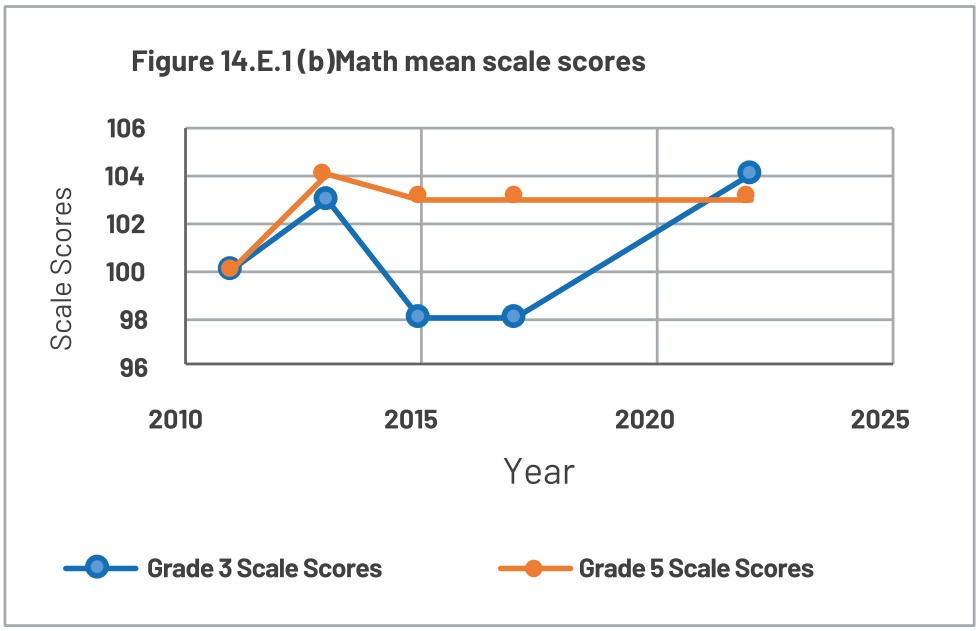
Table 14.E.2 Percentage distribution of students in grade-specific performance level and mean score level at Grade 3 and Grade 5

	2011	2013	2015	2017	2022
Grade 3 Bangla				47%	51%
Grade 3 Math				34%	39%
Grade 5 Bangla				44%	50%
Grade 5 Math				32%	30%
	Mean Scale Scores				
Grade 3 Bangla	100	104	100	103	103
Grade 3 Math	100	103	98	98	104
Grade 5 Bangla	116	115	112	109	110
Grade 5 Math	118	115	110	112	113

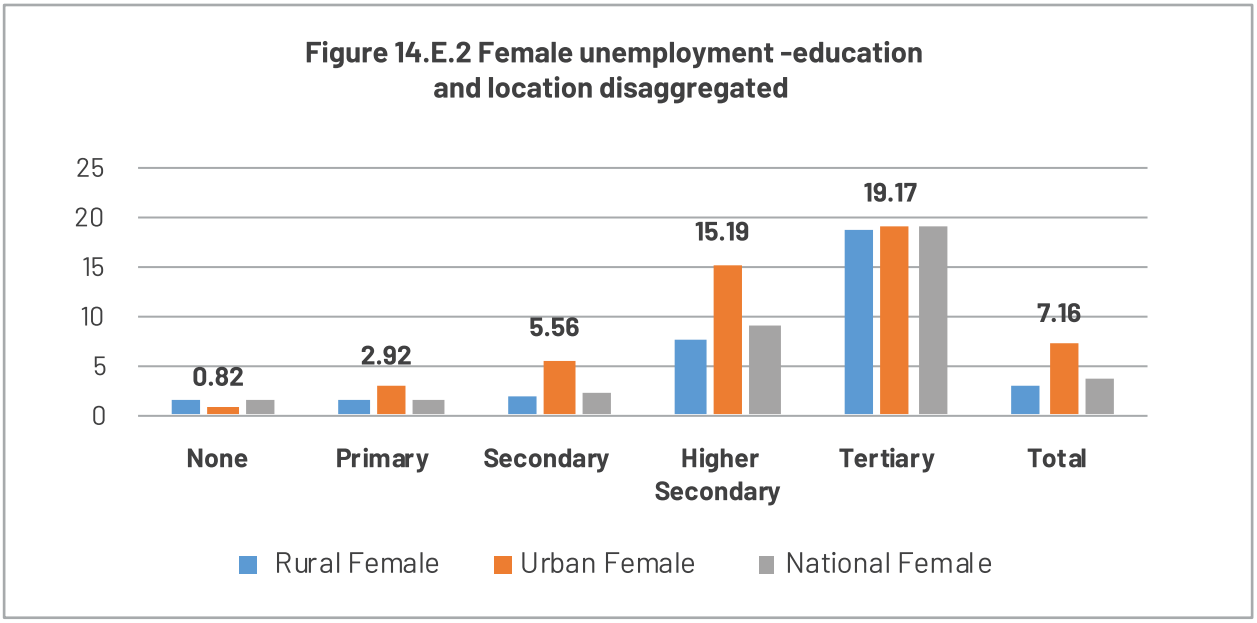
Source: *The National Student Assessment (various years); Ministry of Primary and Mass education*

ANNEXE III Education





ANNEXE IV Education



ANNEXE V Education

Table 14.E.3: Number of teachers in all government primary schools by gender 2021

	Male	Female	Total	% of Female Teachers
Number of Teachers	127809	231286	359095	64.41

Source: *Bangladesh Bureau of Statistics, 2021. National Education Statistics, 2021*

ANNEXE VI Education

Table14.E.4 Region disaggregated data on Madrasas

No.	Division	No. of Aliah Madrasahs	No. of Kawmin Madrasahs	Students
1	Dhaka	910	6860	1043491
2	Mymensingh	764	2388	713641
3	Chattogram	1581	3535	1620813
4	Rajshahi	1402	1557	562879
5	Rangpur	1057	1356	727107
6	Khulna	1094	1100	526893
7	Barisal	1181	602	578082
8	Sylhet	8594	19199	6266623

ANNEXE VII Education

Table 14.E.5 Transition of students from primary to secondary schools

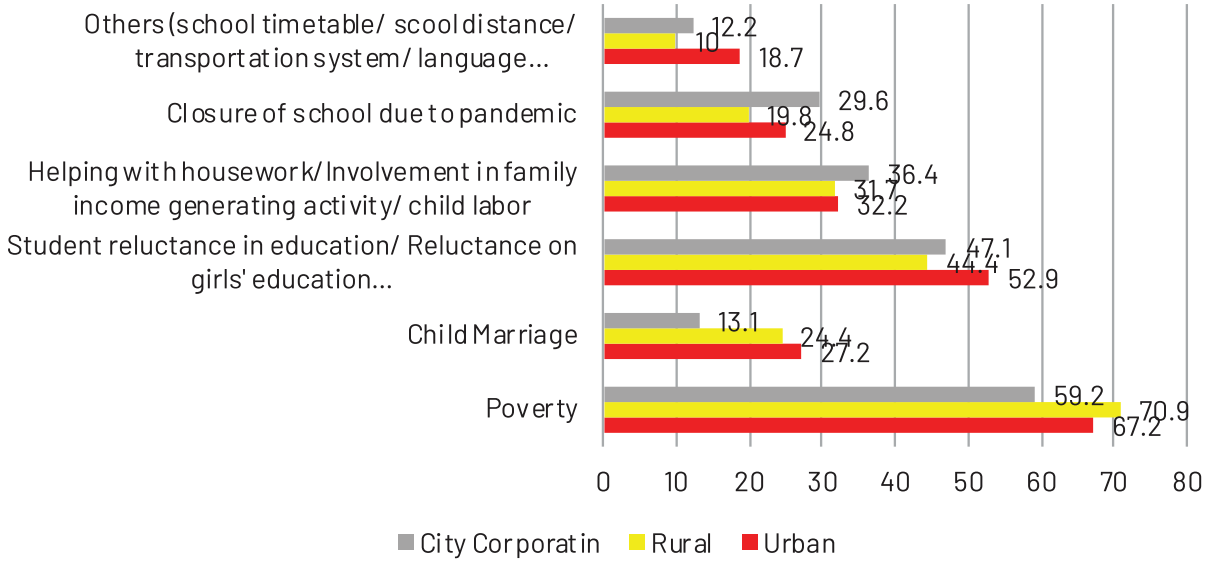
	Govt assisted/ Govt schools	Private (Kindergartens) /NGO run	Madrasa (Quaumi and Alya)	Tech and Vocational
% of Grade V students (before COVID) transitioning (after COVID), (approximately)	71	21	4	4

Source: Education Watch 2023[332]

[332] Education Watch. (2023). School education in Bangladesh: Post-pandemic resilience and sustainability. Campaign for Popular Education (CAMPE).

ANNEXE VIII Education

Figure 14.E.3 Reasons behind school dropouts by geographical cluster -students' view



ANNEXE IX Education

Table 14.E.6 Number of students in public and private universities

University	**Students (male)**	**Students (female)**	**Transgender/ others**	**Foreign**	**Students (Total)**
53 Public Universities[333]	4,28,126	2,97,840	5		7,25,971
Affiliated Colleges under 17 Public Universities/ Madrasas	18,73,692	18,15,968			36,89,678
	23,01,818	21,13,826	5		44,15,649
	PRIVATE UNIVERSITIES				
110 Private Universities	2,39,224	1,00,585	2	1,287	3,41,098
	TOAL STUDENTS (Public & Private Universities)				
Total	2541042	2214411	7	1287	4756747

Source: Annual Report, University Grants Commission, 2022

[333] The number is 61, as of October 2024.

ANNEXE X Education

Table 14.E.7 Trends in allocation in public universities (2009/10-2024/250)

Year	Development (Infrastructure)	Research	Operation cost (Total)
2009-10	261.08	7.64	975.2575
2010-11	451.51	9.0097	1177.617
2011-12	545.57	11.2977	1291.9749
2012-13	547.88	9.3084	1469.2717
2013-14	710.08	12.408	1780.39
2014-15	979.14	15.0637	1986.16
2015-16	986.52	15.3178	2727.7725
2016-17	1324.14	31.9756	3418.468
2017-18	1250.02	59.4	3787.22
2018-19	**3049.86**	67.1	4731.01
2019-20	1966.16	76.38	5021.22
2020-21	2561.33	90.89	5340.235
2021-22	3574.66	117.74	5606.09
2022-23	3352.38	140	5841.07
2023-24	2595.88	164	6082.15
2024-25	**4917.51**	210	6382.4

Source: University Grants Commission, Bangladesh

ANNEXE XI Education

The case of Comilla University (Second Campus)

Before the 11th Parliament Election in 2018, In October 2018, Comilla University authorities decided to acquire land for a second campus approximately 1.2 kilometres from the existing one. Allegations arose that this decision served the vested interests of the then Planning Minister (later Finance Minister) and his associates[334] in his electoral constituency and the greater Comilla region.

In November 2017, the Education Minister introduced the Sheikh Hasina University Bill, 2017 in Parliament, proposing the establishment of the university in Netrokona. Additionally, another bill was passed to establish Bangamata Sheikh Fazilatunnesa Mujib Science and Technology University in Jamalpur. The Minister stated that these initiatives aimed to advance higher education and research. A newspaper report quoted the then Deputy Minister for Education: 'As per the prime minister's instructions, we need universities in these districts. These new universities should focus on how to take over the district-level university colleges where undergraduate courses are taught, while also developing new postgraduate level courses and research and development'.[335]

Before the 12th National Parliament election in 2024, in October 2023, the UGC recommended establishing six universities in Rajbari, Bhola, Joypurhat, Cox's Bazar, Narail, and Barguna. This followed a request from the MoE regarding the feasibility of universities in nine districts. However, the UGC did not endorse the establishment of universities in Mymensingh, Rangpur, and Gaibandha. In August 2023, the UGC approved three new public universities to commence academic activities and enrol students for the 2023–24 academic year: Kurigram Agricultural University, Sunamganj Science and Technology University, and Bangabandhu Sheikh Mujibur Rahman Science and Technology University, Pirojpur. The university in Sunamganj was established in 2020, while the others were founded in 2022.

[334] https://www.youtube.com/watch?v=hQd01zAOh08

https://samakal.com/bangladesh/article/263015/%E0%A6%B2%E0%A7%81%E0%A6%9F%E0%A6%AA%E0%A6%BE%E0%A6%9F%E0%A7%87-%E2%80%98%E0%A6%AC%E0%A6%BF%E0%A6%B6%E0%A7%87%E0%A6%B7%E0%A6%9C%E0%A7%8D%E0%A6%9E%E2%80%99-%E0%A6%B2%E0%A7%8B%E0%A6%9F%E0%A6%BE%E0%A6%B8-%E0%A6%95%E0%A6%BE%E0%A6%AE%E0%A6%BE%E0%A6%B2

[335] Accessed at
https://www.dhakatribune.com/bangladesh/education/327194/ugc-recommends-six-new-public-universities

ANNEXE XII Education

At Chandpur Science and Technology University, allegations suggest that influential individuals, reportedly close to former Education Minister Dipu Moni and her relatives, orchestrated efforts to secure Tk 3.59 billion (359 crore) in excess government funds for land acquisition. A group of influential figures allegedly purchased approximately 62.5 acres of land at a price 20 times its actual value, significantly inflating costs beyond the government's initial assessment.[336]

- 23 December 2019: Cabinet approved the University Act.
- 18 May 2020: Influential groups began purchasing land.
- 9 September 2020: Parliament approved the Chandpur University Act.
- 6 April 2021: Administration-sanctioned land acquisition.
- 16 November 2021: District administration submitted a report after scrutinising land deeds.

The deeds recorded land prices over 20 times higher than market value.

[336] https://en.prothomalo.com/bangladesh/crime-and-law/web-of-corruption-of-ministers-men

ANNEXE XIII Education

This unholy nexus has not only prevailed in the 'recently announced/established' universities.

'ODHIKOTORO UNNAYAN project in Jahangirnagar University creating Odhikotoro nuisances in the academic sphere

On 23 October 2017, the ECNEC approved a Tk 1,445 crore development project for Jahangirnagar University. The university administration allegedly initiated construction without considering the master plan, which was designed by a renowned architect to preserve ecologically sensitive wetlands and vegetation that serve as a winter habitat for migratory birds. Despite concerns raised by students and faculty, the authorities ignored their objections. The controversy escalated when an audio recording surfaced:

- **September 2019:** An audio recording revealed a conversation between the university proctor and a factional vice president of the Chhatra League, alleging that the then VC provided Bangladesh Chhatra League (BCL) leaders with Tk 2 crore as an 'Eid gift'.
- The Chhatra League President and General Secretary allegedly demanded a '4 to 6%' commission from the Tk 1,445 crore project (as claimed by the VC).[337]
- After initially denying the allegations, the then-BCL president admitted that they had requested their 'fair share' for Eid-related expenses. He further alleged that the VC and her family had given Tk 1.6 crore to the Jahangirnagar University Chhatra League to prevent disruptions to the project.[338]
- **5 November 2019:** During a sit-in protest outside the VC's residence, demonstrating students and faculty members were attacked by Chhatra League affiliates.
- Later that day, the university authorities shut down the institution indefinitely and banned processions and rallies on campus. The VC responded, stating: 'It is a joyous day for me... I am very grateful to students, especially to Chhatra League members. They took responsibility and acted. I have called it a mass upsurge'.
- **7 November 2019:** The former Prime Minister asked protesters to provide evidence of corruption against the VC.
- The protesting students and faculty submitted documents regarding the allegations to the MoE.
- However, no investigation was conducted, nor was an inquiry commission formed. Allegedly, the former VC maintained strong ties with an influential member of the former Prime Minister's family and key bureaucrats.

[337] https://www.dhakatribune.com/bangladesh/politics/187391/central-chhatra-league-leaders-accused-of

[338] https://www.thedailystar.net/frontpage/bcl-president-secretary-demands-fair-share-in-jahangirnagar-university-project-1799683

University Authorities Sheltering Ruling Party Student Organisations: A Common Issue Across Campuses

The BCL has been widely accused of engaging in violence, torture, and extortion against students.

- **October 2019:** BUET undergraduate student Abrar Fahad was killed in his dormitory, allegedly after criticising the government online. Reports indicate he was beaten for several hours before succumbing to his injuries. His death shocked Bangladesh, highlighting the entrenched culture of violence in public universities. In response, BUET students launched protests,[339] which soon spread to Dhaka and other cities.
- At Islamic University, Kushtia, a female student was reportedly tortured in a dormitory, further exposing the normalisation of ragging and violence perpetrated by BCL members.[340] This climate of fear, allegedly reinforced by faculty members with political affiliations, has led to what some describe as a 'queendom of fear' among students.

[339] https://www.thedailystar.net/campus/news/abrar-murder-buet-we-dont-want-attend-classes-him-3390271; https://www.bbc.com/news/world-asia-49986893

[340] https://www.thedailystar.net/news/bangladesh/news/islamic-university-halls-run-bcl-diktat-3257186

ANNEXE XIV Education

Between 2012 and 2015, there were allegations of question leaks in 63 examinations. Notably, all questions from the Primary Education Completion Certificate (PSC) and JSC examinations in 2013 and 2014 were leaked.[341]

- In 2014, question papers from all Bangladesh public examinations were leaked. Initially, the government denied these allegations. However, days later, the then Minister of Education announced that swift action would be taken against those responsible.[342]
- During the HSC examinations that year, the Dhaka Board rescheduled the English examination due to leaks. Although other examinations were also compromised, no further action was taken.[343]
- In 2015, allegations surfaced regarding leaks in medical and dental entrance examinations.[344] The Health Minister denied these claims.[345] However, an inquiry confirmed the allegations and recommended a retest. Students and prominent educators in Bangladesh protested, demanding the examination be retaken. Nevertheless, no action was taken, with the Health Minister dismissing the protests as exaggerated.
- In 2018, the question paper for the Dhaka University D Unit (Gha Unit) entrance examination was allegedly leaked, a claim the government denied.[346]
- In 2020, the Criminal Investigation Department (CID) reported that at least 4,000 students had gained admission to medical and dental colleges through leaked question papers between 2013 and 2018.[347]

The group, involving PSC officials and employees, leaked at least 30 question papers of government recruitment tests, including BCS exams, over the last 12 years. This came to light after the CID of police picked up 17 people, including five PSC officials and employees. The arrests were made after CID got information that the questions for a railway recruitment exam held on July 5, 2024, were leaked.[348]

During a press conference in July 2024, following the former Prime Minister's visit to China, her remarks exacerbated public unrest. Regarding the leakage of the 46th BCS examination, she stated, ***'So, those who leak question papers and who buy these are both criminals. There's no doubt about it. But who'll find them out? Actions can be taken if the journalists can try and find them'.***[349] This statement suggested a lack of commitment from the highest level of government in addressing the issue. ***While investigative journalism could play a role in uncovering such misconduct, the primary responsibility lies with intelligence agencies and law enforcement, whose mandates and capabilities cannot be disregarded.***

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[341] Transparency International. (2015). *Question leakage in public examinations: Process, reasons, and way forward.*

[342] https://www.bbc.com/bengali/news/2014/06/140611_an_public_exam_question_leak

[343] সব পরীক্ষার প্রশ্ন ফাঁস. *Prothom Alo* (in Bengali). 10 April 2014. Archived from the original on 11 March 2018. Retrieved 9 March 2018.

[344] *'Now medical question paper leak!'. The Daily Sun. Archived from the original on 2018-03-11. Retrieved 11 March 2018*

[345] মেডিকেলে ভর্তি-ইচ্ছুকদের সঙ্গে স্বাস্থ্য অধিদপ্তরের বৈঠক. *Prothom Alo (in Bengali). 19 October 2015. Archived from the original on 11 March 2018. Retrieved 9 March 2018.*

[346] https://en.prothomalo.com/bangladesh/news/163697/DU-D-unit-admission-test-question-paper-leaked

[347] https://en.prothomalo.com/bangladesh/crime-and-law/4000-admitted-to-medical-dental-colleges-with-help-of-leaked-question-papers

[348] https://www.thedailystar.net/news/bangladesh/crime-justice/news/psc-question-papers-least-30-leaks-12-years-3652971

[349] https://bdnews24.com/bangladesh/5d3e4fc60fb7

Chapter XV. Between Rhetorics and Realities: Gender Issues*

15.1 Introduction

The social structure of Bangladesh is characterised by 'classic patriarchy'.[350] Society largely upholds rigid gender segregation and an ideology that links family honour to female virtue. While the growth of neoliberalism, an urban wage economy, and both internal and international migration have fundamentally transformed the social fabric, household structures, and family ideologies, significant disparities persist. Although the country has made progress on several gender equality indicators—such as gender parity in primary and secondary school enrolment, a reduction in maternal mortality, and a sharp decline in the TFR), which stood at 1.9 in 2024—issues such as violence against women, child marriage, human trafficking, risky female migration, and poor labour market outcomes remain prominent.

This chapter begins by identifying biases in the presentation of data that highlight positive gender outcomes while downplaying others. It reviews the broad spectrum of gender disparities in labour markets, education, health, and financial services, while separately addressing violence against women and child marriage. A critical review of laws and institutions designed to protect women's rights, as well as gender budgeting initiatives, follows. Finally, the chapter concludes with recommendations aimed at improving the well-being of women.

15.2 Overstated Performance on Women's Advancement: Selection Bias in Data Representation

Numerous global indices have been introduced by various international organisations to track progress towards gender equity. These indices promote a holistic approach to advancing gender equality, advocating for multi-stakeholder collaboration. However, there has been a strong selection bias in the presentation of data, often showcasing indices that demonstrate success while ignoring those that reveal negative trends.

One such index frequently cited by the GoB is the Global Gender Gap Index (GGGI), published by the World Economic Forum (see FY 2025 Gender Budget Document, Finance Division, Bangladesh, among others). The irony of the GGGI lies in its composite nature, where Bangladesh ranks high (59th in 2024), seemingly reflecting significant progress in gender equity. However, this ranking may give a false impression of the actual situation.

Bangladesh's high ranking is largely attributed to one component: women's political empowerment, where the country secured 7th position. This ranking is based on metrics such as women in parliament, in ministries, and as heads of state. However, the political culture in Bangladesh, shaped by the feudal supremacy of 'family aristocracy', may inflate the perceived political empowerment of women. The other three components of the GGGI—educational attainment (122nd), economic participation (139th), and health and survival (126th)—are far below satisfactory levels (see Table 15.1).

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* The chapter was prepared by Ms Sharmind Neelormi, Professor, Department of Economics, Jahangirnagar University, with contribution from Dr Kazi Iqbal, Research Director, Bangladesh Institute of Development Studies (BIDS); Dr Selim Raihan, Professor, Department of Economics, University of Dhaka and Executive Director, South Asian Network on Economic Modeling (SANEM) and Dr Imran Matin, Executive Director, BRAC Institute of Governance and Development (BIGD).

[350] Naila Kabeer, Subordination and Struggle: Women in Bangladesh; https://newleftreview.org/issues/i168/articles/naila-kabeer-subordination-and-struggle-women-in-bangladesh

Table 15.1: Global Gender Gap Index: Bangladesh Position

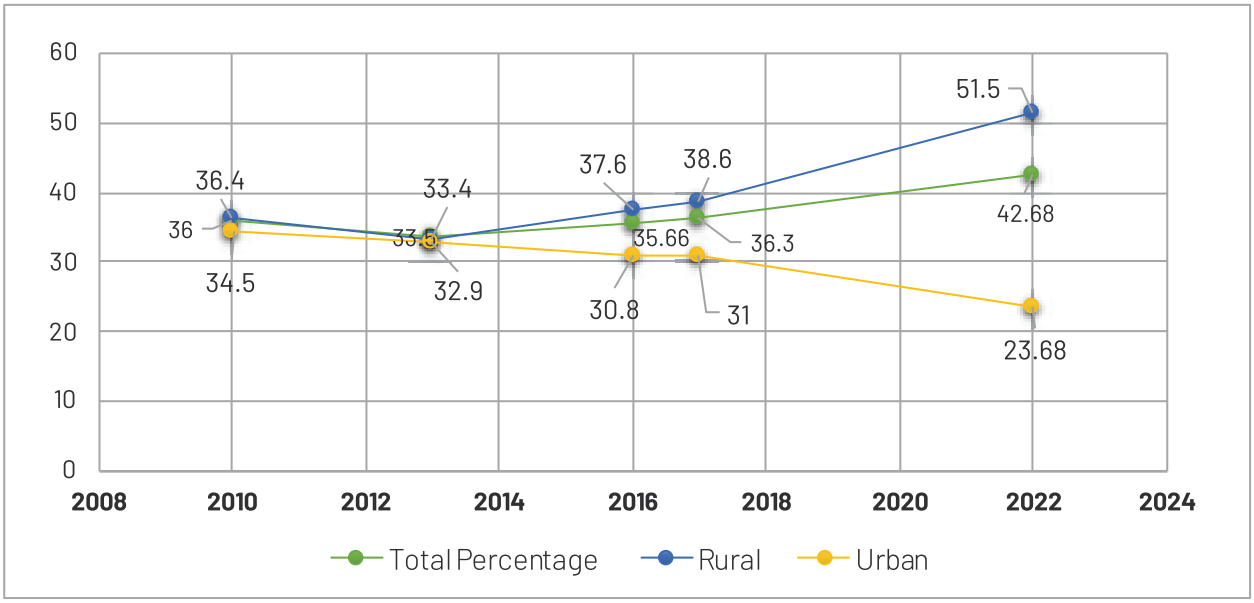
	Gender Gap Index- Rank (Score)	Economic Participation and Opportunity	Educational Attainment	Health & Survival	Political Empowerment
Bangladesh	99th (.689)	146th (.312)	125th (.940)	129th (.962)	7th (.543)
Nepal	117th (.664)	137th (.475)	130th (.923)	(82nd (.969)	51st (.288)
Cambodia	102nd (.685)	59th (.717)	108th (.968)	38th (.978)	127th (.080)

Source: Global Gender Gap Index, World Economic Forum.

15.3 Poor Outcomes in the Labour Market

At the national level, the Female Labour Force Participation Rate (FLFPR) in Bangladesh has been rising. However, concerns remain regarding declining participation in urban areas. This decline can be attributed to the reduced intake of workers in the RMG sector, as well as job losses in this sector post-COVID-19. Additionally, there is a lack of institutional support for substituting domestic services in urban areas.

Figure 15.1 Female labour force participation in Bangladesh from 2010 to 2023



Source: Bangladesh Bureau of Statistics (BBS). Labor Force Survey. Various Years. Statistics and Informatics Division, Government of Bangladesh

Rising Female Employment in Agriculture: By Choice or Necessity?

In Bangladesh, female participation in agriculture is increasing at a faster rate than in any other agriculture-based country. Currently, 74.1% of total female employment is in agriculture. However, this increase is characterised by low-skill and low-return work.

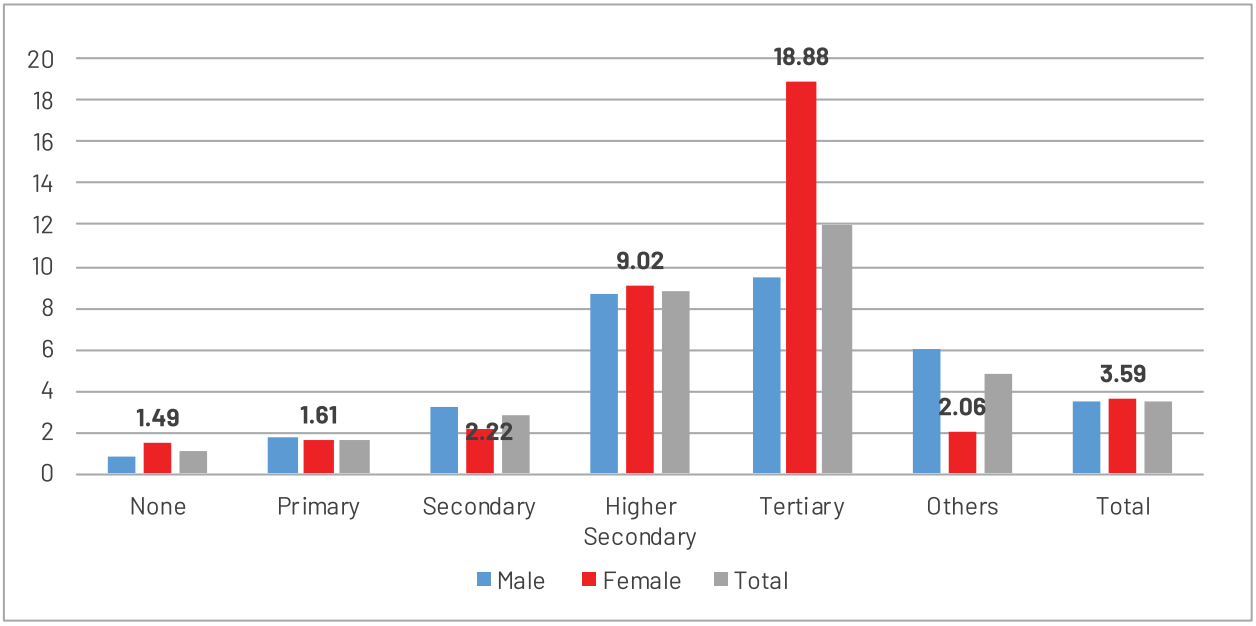
High 'Not in Education, Employment, or Training' Rates Among Women

Young women aged 15-24 are significantly more likely than men to be not in education, employment, or training (NEET). Although the share of NEET among young women aged 15-24 decreased from 60.7% to 52.87% between 2016 and 2022 (HIES, 2022), it remains far higher than that of young men (12.28% in 2022). Among the NEET youth aged 15-29, 65.5% are women, compared to 34.5% men. This overrepresentation of young women in NEET can be partly explained by societal expectations and traditional gender roles, which place a greater caregiving and household burden on women. Unequal access to education, skills formation, earning opportunities, and pressure to prioritise family over personal development further exacerbate this gender gap.

Reaping Demographic Dividend—Not the Case for Women and Girls

The 15-29 age group constitutes the largest proportion (50.28% in 2022) of female employment in Bangladesh, with a significant portion of women working in agriculture. However, the country has not been able to reap the demographic dividend for women as effectively as for men.

Figure 15.2: Unemployment rate by education level and sex



Source: Bangladesh Bureau of Statistics (BBS), Labour Force Surveys, 2023, Statistics and Informatics Division. Government of Bangladesh.

Figure 15.2 illustrates the distribution of the unemployed based on education level. Interestingly, the unemployment rate is highest among those with tertiary education in both urban and rural areas, reflecting the informal nature of employment. Notably:

- The highest unemployment rate is among women with tertiary education (18.88% of unemployed women have tertiary education), particularly in urban areas.
- Among urban women with tertiary education, 40.1% are unemployed, compared to 28.9% in rural areas.

Vulnerability and Domesticity of Employment

Despite the increase in female labour force participation, the performance in employment has been underwhelming. The overwhelming majority of employed women are in 'vulnerable employment' (80.8% in 2022), [351] working in sectors with low productivity and returns. Only 3% of employed women are in paid jobs that provide employer contributions to pension or retirement funds.[352]

Middle-class and wealthier families increasingly invest in their daughters' education, yet 33.4% of girls from the wealthiest families are married before the age of 18, and the figure is around 50% for middle-class girls. It is assumed that post-COVID-19, there may be a reversal of migration to rural areas due to joblessness in the RMG and other sectors. The declining FLFPR and high unemployment rates among women with tertiary education can be attributed to road safety and security concerns, inadequate public transportation, lack of institutional childcare support, violence in public and workplace spaces, and the distance from law enforcement and the judiciary.

Social norms about the 'ideal woman' often force women to quit jobs or refrain from pursuing careers outside the home. However, this is frequently framed as a 'choice' to be a homemaker rather than a career professional. In Bangladesh, housework and family duties are the primary reasons (64.5%) for women not seeking employment.[353]

Middle-class urban families have developed a '**Housewife PLUS**' model, where women's education is valued as a means of becoming a 'good wife' and 'good mother.' These societal norms often disguise themselves as personal choices, subtly influencing career decisions and reinforcing traditional customs. The role of tradition in shaping familial decisions leaves women with limited options, which are often portrayed as personal agency.

Gender-biased Technological Change in Ready-made Garment Industries

The emergence of the RMG industry in Bangladesh has driven significant social change by creating considerable employment opportunities for women outside the family unit. This sector, which relies heavily on low-paid female labour, seeks to maximise profits in a highly competitive global market. The RMG industry underwent extensive restructuring, especially after the Rana Plaza disaster, becoming more capital-intensive. Critics argue that new technologies disproportionately replace female workers over their male counterparts. According to the Survey of Manufacturing Industry (SMI) conducted by the BBS, the ratio of female to male workers in the RMG sector was 1.81 in 2012. By 2022, this ratio had decreased to 1.44.

Risky Female Migration: Stories of Deprivation

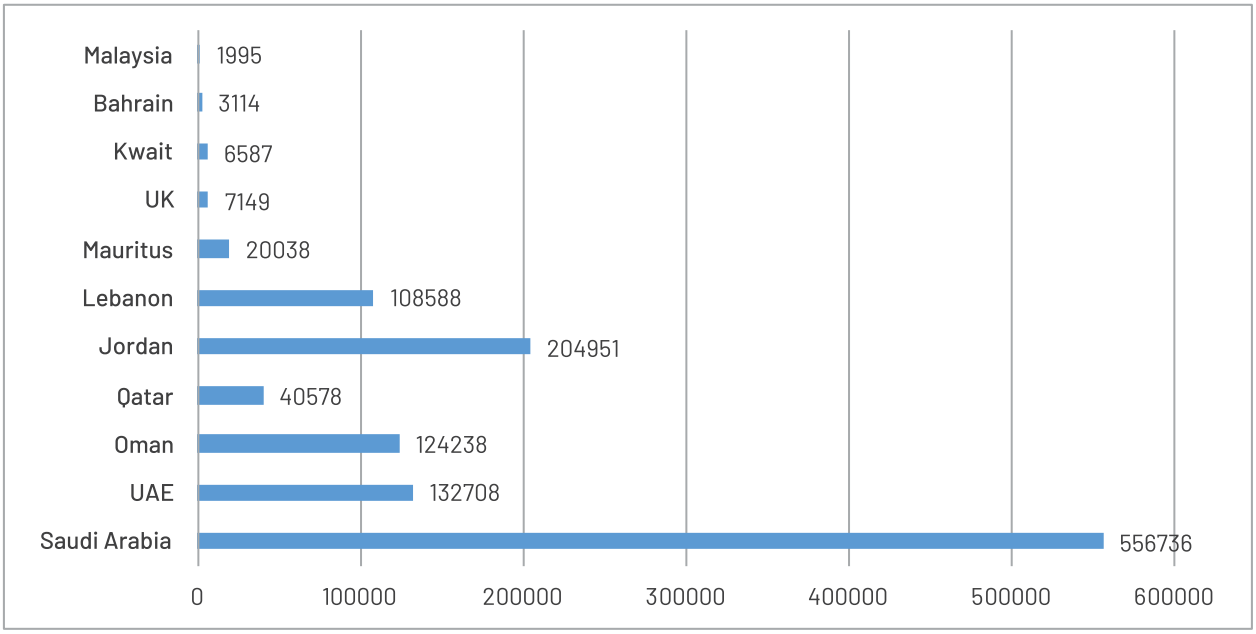
Figure 15.3 shows that Middle Eastern countries, particularly Saudi Arabia, Jordan, the UAE, Oman, and Lebanon, are the most popular destinations for female labour migration. These migrations are typically characterised by low-wage, low-skill employment.

[351] BBS (2022): Contributing family labour refers to individuals who work in self-employment within an establishment operated by a relative, with minimal involvement to be considered a partner. Own-account workers are those who hold self-employment jobs without employing others on a continuous basis.

[352] BBS (2022): Only 3% of employed women in rural areas have employer contributions to pension or retirement funds.

[353] Bangladesh Bureau of Statistics (BBS), Labour Force Surveys, 2023, Statistics and Informatics Division. Government of Bangladesh.

Figure 15.3 Number of female international labour migrants



Source: BMET, 2023 .[354]

From 2015 to 2019, more than 100,000 females annually migrated. After COVID-19, the number of female migrants is reducing. From 1991 to 2023, a total of 11,820,030 female workers have migrated abroad for employment (RMMRU, 2023) .[355]

A study by UN Women highlights the multifaceted contributions of female migrants beyond remittances. It asserts that the social capital of women migrants—encompassing ideas, skills, knowledge, attitudes, and networks—can significantly contribute to socioeconomic development, gender equality, and women's empowerment in their countries of origin (UN Women, 2013).

According to a study by BRAC,[356] approximately half a million international labour migrants returned to Bangladesh during or immediately after the COVID-19 pandemic, with 50,000 of them being women. Among these female returnees, one-third reported a decline in economic conditions compared to before their migration. The study also revealed that 52% of these women were forced to work, 7% faced sexual harassment, and 38% experienced physical violence during their time abroad.

15.4 Disparity in Education: Unseen Elephant

Bangladesh is globally recognised for its remarkable progress in increasing school enrolment rates, particularly in primary education. Gender parity in primary school enrolment has been achieved, and recent progress has been notable at the secondary level. The gross enrolment rate of female students in secondary schools has increased, with a corresponding rise in completion rates (approximately 54% before COVID-19).

[354] Bangladesh Bureau of Manpower, Employment and Training (BMET), 2023.

[355] RMMRU, 2023. Labor Migration from Bangladesh, 2023: Achievements and Challenges

[356] https://www.dw.com/bn/%E0%A6%AC%E0%A6%BF%E0%A6%A6%E0%A7%87%E0%A6%B6-%E0%A6%AB%E0%A7%87%E0%A6%B0%E0%A6%A4-%E0%A7%AE%E0%A7%AB-%E0%A6%AD%E0%A6%BE%E0%A6%97-%E0%A6%A8%E0%A6%BE%E0%A6%B0%E0%A7%80-%E0%A6%B6%E0%A7%8D%E0%A6%B0%E0%A6%AE%E0%A6%BF%E0%A6%95-%E0%A6%B9%E0%A6%A4%E0%A6%BE%E0%A6%B6/a-59341792

This progress has been supported by various governmental and non-governmental interventions (Ahmed et al., 2007). In particular, the Female Stipend Programs (FSPs)—Conditional Cash Transfer programmes offering stipends and tuition fee waivers—have been instrumental in closing the gender gap in education enrolment (Ahmed et al., 2007[357] ; Asadullah, M. N., & Chaudhury, N., 2009[358]). These programmes have also been found to improve school attendance for younger siblings (Begum et al., 2017[359]) and delay early marriage and childbearing (Hahn et al., 2018[360]).

Despite these advances, gender disparities persist in higher education, especially in STEM fields. While 77.34% of female students are enrolled in secondary school, only 20.84% enrol in tertiary education, highlighting significant barriers to advanced education for women. This gap is further exacerbated by the underrepresentation of women in STEM fields, where they constitute only 20.6% of graduates compared to 79.4% of male graduates.

Although there has been a notable increase in female enrolment at the basic education level, challenges such as low completion rates, inefficient participation in higher education, poor learning outcomes, and the irrelevance of education to the labour market continue to hinder the realisation of the benefits of gender parity at the primary level.

The GoB has made efforts to address the challenges historically faced by female students in enrolment and retention. However, national policies have not sufficiently addressed emerging issues, nor have they adequately considered how socioeconomic and geopolitical factors influence parental decisions regarding education. For example, while early marriage is recognised as a social issue in the 8th FYP, it fails to acknowledge the complex cost-benefit trade-off that parents, especially those with limited resources, face when deciding whether to marry off their daughters. Similarly, while poverty is often cited as a barrier to female secondary education, it does not fully explain why some poor parents still choose to send their daughters to school, whereas financial assistance fails to prevent others from dropping out.

There are concerns that the gender gap in education may have widened due to the prolonged closure of educational institutions during the COVID-19 pandemic. A report by the Bangladesh Bureau of Educational Information and Statistics (BANBEIS) indicates that ***high school graduation rates have declined,*** while ***the dropout rate among female students has risen,*** corroborating predictions made by international and national organisations during the early stages of the COVID-19 outbreak.

15.5 Disparity in Health Outcomes: Physical and Mental

The proportion of women aged 15–19 who have begun childbearing in Bangladesh has declined from 30% in 2011 to 24% in 2022. Despite this improvement, one in four women in this age group has been pregnant, and almost one in five has given birth (BDHS, 2022). Bangladesh has made progress in

[357] Ahmed, A., M. Adato, A. Kudat, D. Gilligan, and R.Colasan. 2007. Impact Evaluation of the Conditional Cash Transfer Program in Turkey: Final Report. International Food Policy Research Institute,Washington, DC.

[358] Asadullah, M. N., & Chaudhury, N. (2009). Reverse Gender Gap in Schooling in Bangladesh: Insights from Urban and Rural Households. The Journal of Development Studies, 45(8), 1360–1380. https://doi.org/10.1080/00220380902935824

[359] Begum, L., Islam, A., & Smyth, R. (2017). Girl Power: Stipend Programs and the Education of Younger Siblings. The Journal of Development Studies, 53(11), 1882–1898. https://doi.org/10.1080/00220388.2016.1277020

[360] Youjin Hahn, Asadul Islam, Kanti Nuzhat, Russell Smyth, and Hee-Seung Yang, 2018. Education, Marriage, and Fertility: Long-Term Evidence from a Female Stipend Program in Bangladesh. Economic Development and Cultural Change, Volume 66, Number 2. The University of Chicago Press Journals. https://www.journals.uchicago.edu/doi/abs/10.1086/694930

maternal health, reducing maternal mortality to 123 per 100,000 live births (NIPORT et al., 2013).[361] In the lowest wealth quintile, 47% of women now receive assistance from trained health professionals during childbirth, compared to just 10% in 2011. In the highest wealth quintile, this figure increased from 61% in 2011 to 87% in 2022. Despite these improvements, Bangladesh still lags behind most South Asian countries and is far behind some Southeast Asian nations, such as Vietnam and Malaysia.

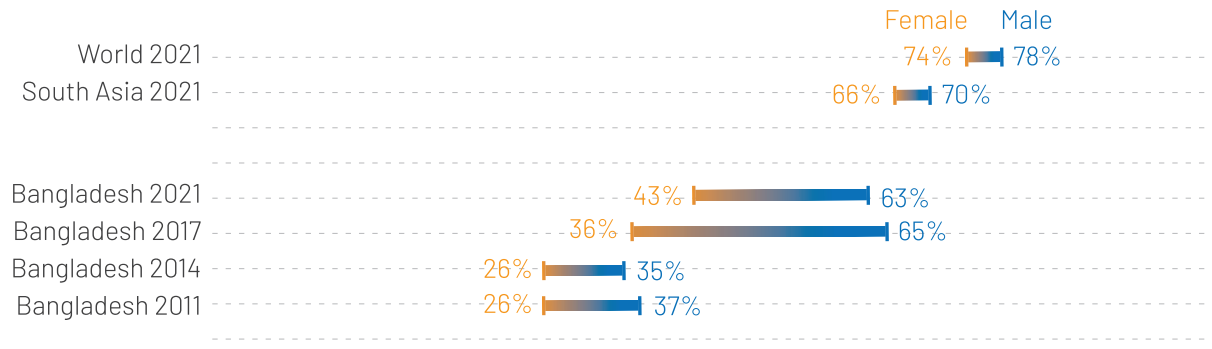
Around one in four pregnant women in the lowest asset quintile lack access to trained antenatal care (BDHS, 2022).[362] Poor maternal nutrition, especially among adolescent girls, contributes to an intergenerational cycle of malnutrition and poverty.

15.6 Women's Financial Inclusion: Still A Far Cry

Bangladesh has made strides in narrowing the gender gap in financial inclusion. Women and men engage in financial transactions through banks, microfinance institutions (MFIs), and mobile financial service providers (MFSPs) for various purposes. Women own 37.5% of all bank deposit accounts, and 33.9% of MFI accounts are owned by women. The majority of MFI deposit accounts are held by women, as they are the primary target for microcredit loans. MFSPs have gained popularity, particularly since the COVID-19 outbreak, with 41.7% of accounts held by women. However, women's use of MFSPs is often limited to receiving remittances or salaries, receiving SSN benefits, and paying utility bills.

According to the World Bank's Findex database, the gender gap in financial inclusion decreased by 10% from 2017 to 2021 (Figure 15.4). This trend can be attributed to the increased adoption of MFSPs during the COVID-19 pandemic, particularly for receiving salaries, SSN benefits, and paying bills. However, the gender gap in loan accounts remains wider than in deposit accounts, with MFSPs accounting for the largest share of deposit accounts (224 million), followed by banks (142.3 million).

Figure 15.4 Gender gap in account ownership in Bangladesh—Global Findex Database



Gender Gap in Account Ownership in Bangladesh-Global Findex Database
Chart: Findev Gateway

Source: Findex database, The World Bank, 2021

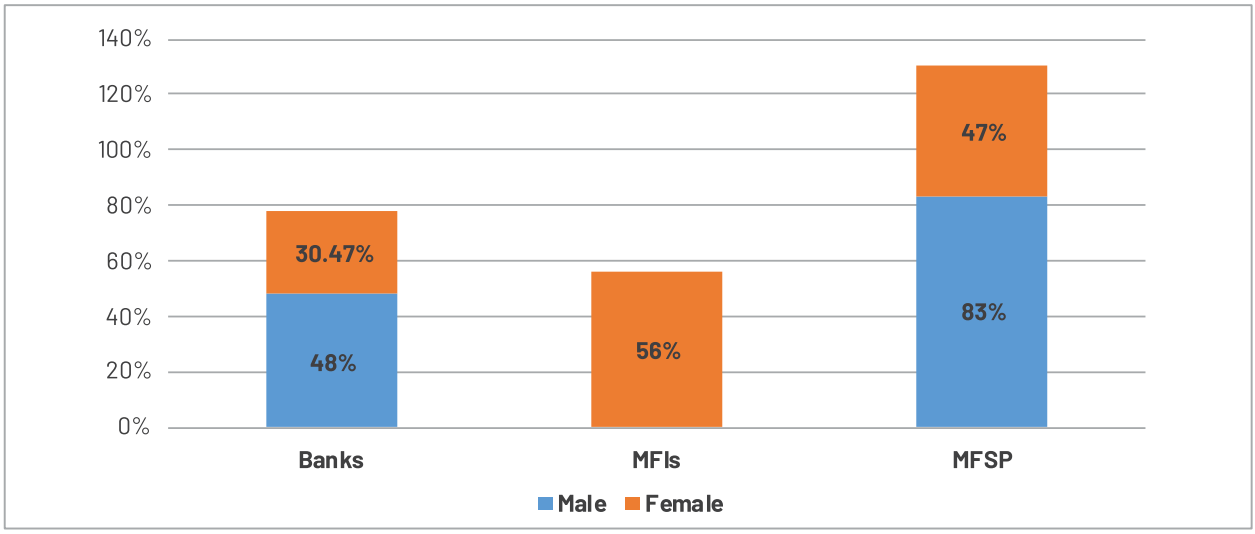
[361] National Institute of Population Research and Training (NIPORT), Mitra and Associates, & ICF International. (2013). *Bangladesh Demographic and Health Survey 2011*. Dhaka, Bangladesh: NIPORT, Mitra and Associates, and ICF International.

[362] Bangladesh DHS (2022).

A study involving 7,500 individuals from 3,300 households across 56 districts[363] shows that the gender gap in financial inclusion has narrowed to 6.96%. In banks, the gender gap has reduced to 17.28%, with 48% of accounts held by men and 30.47% by women. The gap remains at 35% in MFSPs, while MFIs show a gender gap favouring women (Figure 15.5).

Social norms restricting mobility, women's lack of asset ownership to offer as collateral, and limited financial literacy are key factors maintaining the gender gap in financial inclusion. Furthermore, the digital divide, which favours men, forces women to rely on male family members for mobile device access. In some cases, women become passive users of financial services, with their earnings or loans being controlled by male relatives.

Figure 15.5 Gender gap in financial Inclusion in Bangladesh, 2024



Source: Banu et al., 2024.[364]

15.7 Child Marriage: Inadequate Efforts to Address Girls' Early Marriage

Bangladesh has one of the highest rates of child marriage globally. While progress has been made in reducing the proportion of women aged 20-24 married before 18—from 65% in 2011 to 50% in 2022—over 63% of girls under 18 were married in 2022, marking a significant 10% rise from the previous year. Furthermore, more than one in four girls (27%) marry by age 16, and 8.2% of girls under 15 were married in 2023, an increase from 6.5% in the prior year. Early marriage is particularly prevalent in rural areas.

The Child Marriage Restraint Act (2017) and the Child Marriage Restraint Rule (2018) lowered the minimum legal age for marriage to 16, despite significant opposition from various civil society groups. At the Girl Summit 2014 in London, the former Prime Minister committed to ending child marriage for girls under 15 by 2041. However, the GoB justified this policy, citing the social ostracism of pregnant adolescent girls, particularly in rural areas, who would be excluded from their communities if they could not marry. The government permitted marriage in 'special cases', such as pregnancy, rather than prioritising efforts to improve the socioeconomic conditions for girls to prevent early marriage. Research indicates that child marriage correlates with school dropout, limited employment opportunities, and a higher prevalence of domestic violence.

[363] Personal communication with Dr. Lila Rashid, Ex Director, Bangladesh Bank, who is leading the study.

[364] Banu A., Rashid, L., Bidisha, SH, Rahman, MM. 2024. Towards Inclusive Transformation: A Study on Gender Gap in Financial Inclusion in Bangladesh. Unpublished research report by Centre for Research and Development (CRD).

In an open letter to the Prime Minister, former United Nations Secretary-General Kofi Annan warned of the dangers of lowering the minimum age for marriage, not only for girls but for their communities and the country as a whole. To date, no comprehensive assessment has been conducted on the impact of this Act on child marriage, school dropouts, or other social outcomes.

15.8 Gender-Based Violence in Bangladesh

In December 1993, the Declaration on the Elimination of Violence Against Women recognised that such violence violates women's rights and fundamental freedoms, urging states and the international community to eradicate it. The same year, the Vienna Declaration and Programme of Action reaffirmed the obligation to eliminate violence against women in both public and private life.

Framing GBV against women and girls as a human rights violation represents a crucial shift in perspective. It underscores that violence is not the result of accidental circumstances or inherent vulnerability, but of deep-rooted structural discrimination, which the state is obligated to address.

The GoB also recognises GBV as a human rights violation. However, despite progress in normative and policy frameworks, the rates of Violence Against Women and Girls (VAWG) remain alarmingly high. Bangladesh has enacted several laws, policies, and plans to combat VAWG, including the National Action Plan to Prevent Violence Against Women and Children (2018-2030) and the National Action Plan to End Child Marriage (2018-2030). Some key statistics illustrating the prevalence of VAWG include (BBS, 2024[365]):

- Lifetime prevalence of any form of violence among ever-married women remains high across all age groups, peaking at 78%. Lifetime prevalence of intimate partner violence is higher among women with lower education, with the highest rates among women with no education (80% lifetime).
- Most survivors among ever married women (64%) did not tell anyone about their experiences of violence, while only 36% came forward to share them. Among survivors (ever-married women) who took legal action for physical or sexual violence committed by their husbands, urban women report the highest legal action rate at 9.5%, compared to 6.5% of rural women.

In the digital era, GBV has increasingly manifested in online spaces, presenting challenges related to technological tracking, inadequate regulatory frameworks, and a lack of technical expertise to manage such incidents.

Bangladesh has demonstrated its commitment to gender equality through the formulation and amendment of discriminatory legal provisions. Nevertheless, some laws remain incompatible with the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW). Calls have been made to remove all discriminatory provisions in legislation and align them with international conventions, including withdrawing reservations on CEDAW Articles 2 and 16(1c), enacting the draft Sexual Harassment Prevention and Protection Act (2022) for workplaces and educational institutions, redefining 'family relationship' in the Domestic Violence Act (2010), and amending the legal definition of rape in laws concerning GBV.

[365] Bangladesh Bureau of Statistics (BBS), 2024. Key Finding of Violence Against Women Survey, Bangladesh, 2024. Statistics and Informatics Division, Ministry of Planning.

A culture of impunity has developed, supported by a nexus of elites, businessmen, and politicians. Law enforcement agencies often appear powerless, and allegations suggest that some officers are complicit in this network. Several high-profile cases of abduction, murder, and rape have not led to justice, as exemplified by the cases in Box 15.1.

BOX 15.1: A Few Examples

- **Tonu Case (2016):** Tonu, a student at Cumilla Victoria Government College and a theatre activist was raped and murdered within the highly restricted Cumilla Cantonment on 20 March 2016. Despite investigations by four separate law enforcement agencies, no arrests have been made. Authorities have also failed to submit a probe report, with approximately 48 court dates passing in the Cumilla Sadar Court.
- **Munia Case (2021):** In April 2021, the Police Bureau of Investigation (PBI) submitted a report clearing all eight accused in the alleged rape and murder of Munia. The accused are highly influential in business and politics. In October 2024, the High Court accepted an appeal for a re-investigation, challenging the PBI's report, which allegedly exonerated a key suspect.
- **Kalpona Chakma Case (1996):** Kalpona Chakma, Organising Secretary of the Hill Women's Federation, was abducted from her home in Rangamati in June 1996. Sixteen years later, the Awami League government reopened the case, briefly renewing public hope. However, in April 2024, a Rangamati court accepted the final police report—submitted in 2016—without identifying any perpetrators. The court also dismissed a Naraji (no-confidence) petition filed by the victim's family challenging the report.
- **Sagar Sarwar and Meherun Runi Case (2012):** Justice remains elusive for the families of slain journalists Sagar Sarwar and Meherun Runi, 12 years after their murders. Despite numerous court deadlines for submitting the probe report, investigators have failed to comply, seeking 107 extensions over the years, perpetuating a cycle of delay and frustration.

These cases highlight several social issues, including the culture of violence, weak rule of law, gender inequality, victim-blaming, impunity, legal loopholes, governance failures, and socio-cultural prejudices. This pervasive lawlessness stems from a broader societal environment characterised by unaccountable law enforcers and a flawed justice system.

It is important to note that the lawlessness and lack of accountability extend beyond GBV and permeate all aspects of governance in Bangladesh. Given that GBV and VAWG are rooted in socioeconomic inequality, exacerbated by political patronage, there is little hope that any political party, regardless of who forms the next government, will effectively address these issues. Instead, it is likely that only through the collective efforts of civil society will meaningful progress be achieved.

15.9 Institutions and Laws: Are They Enough for Protection?

Bangladesh is a signatory to the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) and the Beijing Platform for Action. However, reservations remain on Articles 2 and 16.1(c) of CEDAW.[366] The government justifies these reservations by citing conflicts with Sharia law, based on the Holy Quran and Sunnah. Furthermore, the government cites potential opposition from Islamic fundamentalist groups against the removal of these reservations.

[366] Article 2 of the Convention is crucial to its objectives. It requires state parties to ratify the convention by committing to enshrine gender equality in domestic legislation, including the constitution. This entails repealing discriminatory laws, enacting provisions to protect women against discrimination, taking legislative and administrative measures to prohibit such discrimination, ensuring legal protection for women's rights, refraining from enacting discriminatory policies, and implementing strategies to eliminate discrimination against women. Article 16.1(c) guarantees 'the same rights and responsibilities during marriage and at its dissolution'.

Consequently, steps are being taken cautiously to avoid undermining the application of CEDAW principles.

The Constitution of the People's Republic of Bangladesh explicitly states that 'the state shall not discriminate against any citizen on grounds only of religion, race, caste, sex, or place of birth',[367] and that 'women shall have equal rights in all spheres of the state and public life'.[368] These provisions are recognised as fundamental rights for all citizens.

The Constitution, the legal framework, and the National Action Plan on Violence Against Women (2013-2025) have played key roles in advancing women's rights and combating VAWG.

Despite the constitutional supremacy over conflicting laws and the explicit guarantee of women's equal rights, the practical exercise of these rights remains challenging, particularly for women in remote areas and marginalised communities. Women and girls with disabilities are especially deprived of their rights and access to justice. Furthermore, existing laws do not address the concerns of persons with disabilities.

Although a directive from the lower courts mandates the completion of sexual violence trials within 180 days from the date the case is filed, only one case (involving the murder and rape of a woman in Madhupur) was resolved in 172 days. Efforts to turn directives on sexual harassment into law have failed, despite more than a decade of advocacy by women activists and lawyers. Some educational institutions have established anti-sexual harassment cells, but these often remain inactive or serve as political tools. Discussions with women's groups and practitioners indicate that Technical and Vocational Institutions do not adhere to anti-sexual harassment directives, with many complaints going unaddressed. Moreover, there have been numerous instances in which the female wing of the then-ruling party's student front harassed female university and college students on their campuses.[369]

There were instances of deceptions and political influences regarding formulation and enactment of laws and regulations.

The Parliament passed the Evidence Act (Amendment) Bill, 2022, to prevent character assassination of rape victims committing that "rape victim's character can no longer be questioned" (through this Bangladesh amended colonial law that allowed questioning of rape victim's character, sexual behavior).

In reality the clause is just rephrased victim can be questioned on her 'general immoral character' and 'previous sexual behavior' with a permission from the "Adalot/ Court. The whole political notion was to buy civil society and women activists' confidence that the government was in favour of removing repressing clauses and to lift women from the colonial old repressive judiciary system.

Nexus among political elites and musclemen, government institution and often media to protect the oppressors had been normalized in Bangladesh. On December 31, 2018, a day after the 11th National election in Bangladesh, a mother of four was gang-raped in Subarnachar upazila of Noakhali.

[367] Article 28(1), Constitution of the peoples' Republic of Bangladesh

[368] Article 28(2), Constitution of the peoples' Republic of Bangladesh

[369] https://thotkata.com/2023/02/25/%e0%a6%aa%e0%a6%be%e0%a6%af%e0%a6%bc%e0%a6%9c%e0%a6%be%e0%a6%ae%e0%a6%be-%e0%a6%a8%e0%a6%be-%e0%a6%96%e0%a7%81%e0%a6%b2%e0%a6%b2%e0%a7%87-%e0%a6%9c%e0%a6%be%e0%a6%ae%e0%a6%be-%e0%a6%96/

The rape is widely being acknowledged as election violence. except the National Human Rights Commission (NHRC) did not agree.[370]

15.10 Gender Budget

Bangladesh has engaged in gender budgeting since 2009. Initially, the report covered only four ministries, but it has since expanded to include all 44 ministries and 62 divisions. Gender-Responsive Budgeting (GRB) is a key strategy for addressing gender disparities. Its purpose is to integrate gender mainstreaming into the budgetary system, ensuring that budget allocations at all levels are determined with a gender perspective in mind (Khatun, Behtarin, Feroz, & Nawrin, 2022).[371]

Recently, the Recurrent, Capital, Gender, and Poverty (RCGP) model was developed to track gender allocation in the national budget, though it had not previously been integrated with the iBAS++ system. For FY 2024-25, a new methodology was introduced for GRB, which includes tracking gender financing across different ministries and divisions.

The Finance Division developed a separate finance module in iBAS++ using the 'Gender Finance Tracking' model, aimed at generating reliable results. This initiative has been welcomed by professionals advocating for the integration of result-based finance tracking in the RCGP model. However, the initiative remains to be fully assessed. As in previous years, the formulation of the GRB continues to rely on assumed weightings for gender-relevant allocations, as shown in Table 15.2.

Table 15.2 Process of assigning weightage as gender-relevant allocation

Gender relevance in a project	% of Allocation for the Project
Fully Relevant	100%
Strongly Relevant	67-99%
Moderately Relevant	34-66%
Somewhat Relevant	1-33%
Not Relevant	0%

Source: Finance Division, 2024. Progress Towards Equality. Gender Budget Report, 2024-25. Ministry of Finance, Government of Bangladesh.

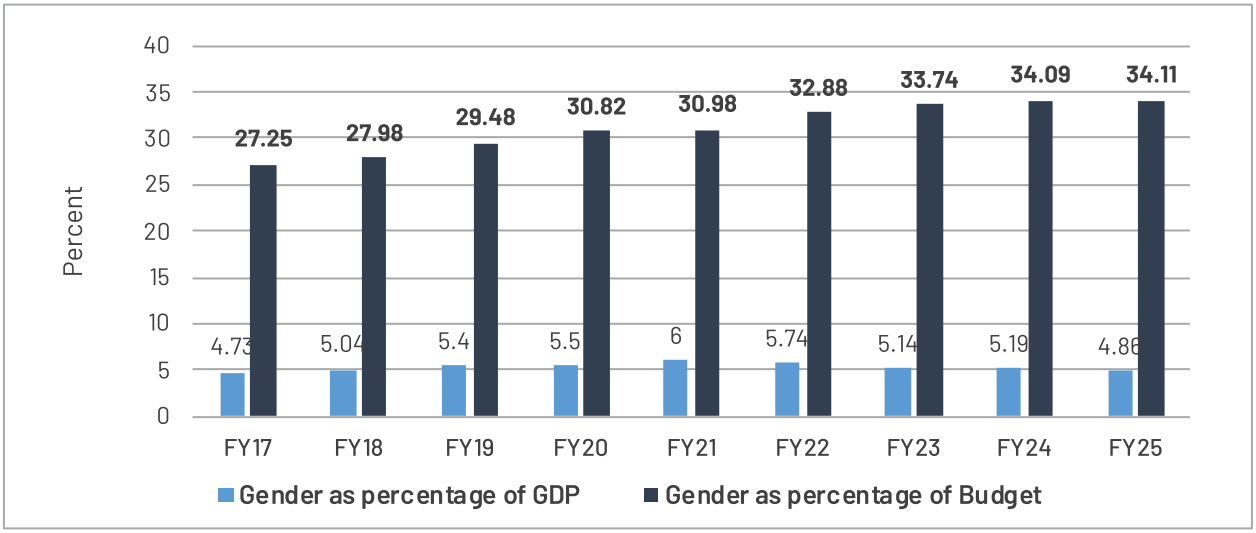
Given the scarcity of sex-disaggregated data, the exercise of assigning gender-relevant weightings to allocations may be subjective, leading to significant technical flaws in marking gender-relevant expenditure. Despite its potential, gender budgeting remains largely symbolic, with tokenism driving the assessment of gender-relevant allocations. Women's groups have repeatedly called for better tracking of actual expenditure; however, there has been no initiative from the Finance Division or the IMED of the Planning Commission to address this gap.

In FY 2025, the gender budget allocation accounted for 34.11% of the total national budget and 4.6% of GDP (Figure 15.6). Although the nominal amount increased, the gender budget as a percentage of GDP declined from 5.19% in FY 2024 to 4.86% in FY 2025. It is common for gender budget allocations to be reduced during budget revisions. The priority accorded to women in the development budget should not be diminished during revisions, to ensure focused activities and actual spending on gender-relevant development.

[370] https://www.thedailystar.net/star-weekend/human-rights/news/was-the-subarnachar-rape-linked-the-election-1688935

[371] Fahmida Khatun, Jobaida Behtarin, Programme Associates, Kashfia Feroz, Director-Girls' Rights, Nadia Nawrin. Budget Framework Analysis on Challenging Fear of Violence. Plan International, 2022.

Figure 15.6 Trend of proposed gender budget, FY2017 to FY2025



Source: Author's calculation form Labor Force Surveys by BBS, various years.

15.11 Diversity of Gender Identity and Expression

On 11 November 2013, the Bangladeshi Cabinet passed a law recognising the hijra, a local term for individuals who do not identify as either male or female, as a separate gender, following the lead of other South Asian countries. Both Bangladesh and Pakistan have formally acknowledged this gender, with Pakistan recognising it as the 'third gender' in 2012 after a protracted legal battle. This decision was the result of a ruling by the Supreme Court of Pakistan to include the third gender option on national identity cards. Nepal and India had already granted legal recognition to this gender prior to Pakistan. The Pakistani Supreme Court's decision was grounded in human rights principles rather than Sharia law, a position also taken by Bangladesh. The Bangladeshi government's recognition of the 'other' gender is based on universal human rights principles.

15.12 Conclusion

This chapter leads to the following five key observations:

1. Despite progress in indicators such as maternal health and primary education gender parity, deep-rooted structural challenges—such as labour market disparities, high child marriage rates, and limited financial inclusion—continue to hinder gender equality.
2. The selective emphasis on favourable global indices, such as Bangladesh's ranking in women's political empowerment, obscures underperformance in other areas, including economic participation, educational attainment, and health outcomes, offering an incomplete picture of progress.
3. Existing policies and frameworks, including gender budgeting and laws addressing GBV, are often poorly implemented, suffer from technical and systemic flaws, and fail to reach marginalised groups, particularly in remote areas.
4. Prevailing societal norms, traditional gender roles, and inadequate economic opportunities perpetuate the marginalisation of women, particularly in sectors like agriculture and the RMG industry, which are characterised by low skills and low returns.
5. Addressing gender disparities requires an integrated approach, encompassing effective implementation of GRB, comprehensive legal reforms, addressing systemic impunity, and fostering collective agency for sustained advocacy and accountability.

ANNEXE I

Index-based results to assess advancement towards gender equity

INDEX	PROGRESS	RESULT
Global Social Norms Index 2023[372] (UNDP) The Global Social Norms Index (GSNI) draws upon data from 91 countries. It is calculated using data from the World Values Survey, which employs questionnaires that assess social, political, economic and cultural values and norms	The GSNI reveals pervasive patriarchal bias in Bangladesh. The survey assesses societal attitudes towards gender equality based on responses to statements such as: - 'Women having the same rights as men is essential for democracy'. - 'Men make better political leaders than women'. - 'University education is more important for men than for women'. - 'Men should have greater job opportunities than women'. - 'Men make better business executives than women'. - Proxies for intimate partner violence and reproductive rights are also considered	Almost all respondents (99.37%) hold at least one gender bias, and 92% exhibit at least two. While attitudes toward education show relatively greater gender inclusivity (i.e. fewer people agree that university is more important for men), significant biases persist in political, economic, and personal integrity dimensions
Social Institution and Gender Index, 2023 (OECD)	Root Causes: Discriminatory legal frameworks, unequal power dynamics, restrictive masculinities, and entrenched biases and stereotypes. Outcomes: Gender disparities in STEM, limited agency, gender-based violence (GBV), wage and labour gaps, and underrepresentation in politics	Bangladesh ranks high in gender discrimination within legal and institutional frameworks. Its overall score is below the regional average, with particularly high levels of discrimination within the family
Women, Business and the Law Index 2023 (World Bank)	The Women, Business and the Law 1.0 index assesses women's legal rights across eight key indicators: Mobility, Workplace, Pay, Marriage, Parenthood, Entrepreneurship, Assets, and Pensions. The Women, Business and the Law 2.0 index introduces a refined approach to measuring the gap between legal provisions (de jure) and their implementation in practice (de facto). It analyses legal and supportive frameworks, incorporating expert opinions on the status of women's rights. This version also introduces two additional indicators: Safety and Childcare, alongside revisions to existing measures	Bangladesh scores 49.4 out of 100, significantly below the regional average of 63.7

[372] UNDP. (2023). Coverage of GSNI: The Global Social Norms Index accounts for the share of individuals with patriarchal biases in four dimensions of political, educational, economic, and physical integrity across 80 countries and territories, representing 85% of the world population.

INDEX	PROGRESS	RESULT
Gender Gap Index, 2024 (World Economic Forum)	Ranked HIGH, demonstrating higher achievement in lessening the gender gap. The index assesses gender disparities across four key dimensions: economic participation (income, employment, and leadership gaps), educational attainment (literacy rates and enrolment levels), health and survival (life expectancy and sex ratio), and political empowerment (women's representation in parliament, ministerial roles, and executive leadership)	Bangladesh ranks high in closing the gender gap, primarily due to its strong performance in political empowerment (7th globally). However, this significantly outweighs its lower rankings in education (122nd), economic participation (139th), and health and survival (126th)

Chapter XVI. Employability and Labour Market Dynamics: The Ticking Time Bomb*

16.1 Introduction

The labour market has faced significant challenges in creating decent jobs, improving the employability of the workforce, and addressing mismatches within the market. This chapter aims to present key facts regarding labour market dynamics and explore the challenges of employability and skill mismatches, with a focus on youth and women. Additionally, it briefly examines aspects of labour market governance and highlights data-related issues, suggesting areas for improvement.

The analysis primarily draws on secondary data sources, including the Labour Force Survey (LFS), the Socioeconomic and SMI, the BANBEIS, and existing literature. These data are supplemented by surveys conducted by local research organisations, such as the BIDS and the BRAC Institute of Governance and Development (BIGD). Consultation workshops with youth, graduates, TVET participants, and the BBS also contributed to the findings.

16.2 Major Labour Market Trends: Some Arithmetic

The size of the labour force has increased substantially, both in terms of numbers and as a share of the working-age population. In 2022, the labour force stood at approximately 73 million, reflecting a 29% increase since 2010. One-third of the labour force was female, and two-thirds male, with roughly one-fourth located in urban areas and three-fourths in rural areas (Table 16.1).

Table 16.1 Labour force by sex and rural-urban (million)

Indicator	2010	2022
Labour force	56.7	73.05
Male	39.5 (69.7)	47.27 (64.7)
Female	17.2 (30.3)	25.78 (35.3)
Urban	13.3 (23.5)	18.36 (25.1)
Rural	43.4 (76.5)	54.69 (74.9)

Note: Parentheses indicate the percentage of each classification by year
Source: Labour Force Surveys, Bangladesh Bureau of Statistics.

The growth in the LFPR has been slow. It increased from 59% in 2010 to 61% in 2022 (Table 16.2).

* The chapter was prepared by Dr Kazi Iqbal, Research Director, Bangladesh Institute of Development Studies (BIDS) and Dr Imran Matin, Executive Director, BRAC Institute of Governance and Development (BIGD).

Research support received from Mr Kazi Zubair Hossain, Research Associate (temporary), BIDS is duly acknowledged.

The paper benefitted from discussions with Dr Binayak Sen, Director General, Bangladesh Institute of Development Studies (BIDS); Dr Fahad Khalil, Professor of Economics, University of Washington; Dr Md. Yunus, Research Director, BIDS; and participants of the focus group discussion - students of BIDS' MDE program, researchers of BIGD, local youths of Tala sub-districts of Satkhira organised by BIGD Math Kendra.

Table 16.2 Labour force participation rates by gender, 1999–2022 (%)

Year	Labour force participation rate (%), age 15 and above		
	Female	Male	All
1999-2000	23.9	84.0	54.9
2002-2003	26.1	87.4	57.3
2006	29.2	86.8	58.5
2010	36.0	82.5	59.3
2013	33.5	81.6	57.1
2016-17	36.3	80.5	58.2
2022	42.8	80.0	61.2

Source: Labour Force Surveys, Bangladesh Bureau of Statistics.

Female labour force participation has risen significantly, primarily due to increased self-employment in agriculture. Female participation rose from 24% in 2000 to 36% in 2010, reaching 42.8% in 2022. In contrast, male participation has remained largely stable at above 80% (Table 16.2). Notably, the feminisation of agriculture is evident, with 46% of females engaged in agriculture in 2000, rising to 74% in 2022. While the definition has remained unchanged, this significant rise raises concerns regarding data quality.

The manufacturing sector has absorbed more labour from agriculture than the services sector. In 2000, approximately 51% of the labour force was employed in agriculture, 36% in services, and 12% in manufacturing (Table 16.3). By 2022, agriculture's share had decreased to 45% , while manufacturing's share increased to 17% .

Table 16.3 Sector composition of employment by gender, 1999–2022 (% of column total)

Sector	1999-2000			2010			2022		
	Total	Male	Female	T	M	F	T	M	F
Agriculture	50.8	51.9	46.2	47.6	40.2	64.8	45.4	29.7	74.1
Industry	12.4	10.7	18.9	17.3	19.0	13.2	17.0	21.5	8.7
Service	36.1	36.7	33.7	35.4	41.1	21.9	37.6	48.8	17.2

Source: Labour Force Surveys, Bangladesh Bureau of Statistics.

Most employment is in the informal sector, with 85% of jobs falling within this category. In rural areas, this share is even higher, at 88% . The transition to formal employment has been slow, with the share of informal jobs declining by only 2.6 percentage points over the past 12 years (Table 16.4).

Table 16.4 Formal and informal jobs (million)

Indicator	2010	2022
Employed population	54.1	70.5
Formal	6.8 (12.6)	10.7 (15.2)
Informal	47.3 (87.4)	59.8 (84.8)

Note: parentheses indicate column percentage

Source: Labour Force Surveys, Bangladesh Bureau of Statistics.

Self-employment remains the dominant form of employment, although the share of salaried employees has increased significantly. Approximately 50% of the labour force was self-employed in 2022, reflecting a 10 percentage point increase from 2010. This growth in self-employment is largely driven by increased female participation in agriculture. The share of salaried employees rose from 15% in 2010 to 38% in 2022 (Table 16.5).

Table 16.5 Structure of employment by status, 1999–2022 (% of total employment)

Status	1999- 2000	2002-03	2005-06	2010	2013	2016-17	2022
Self-Employed/Own-Account Workers	35.1	44.8	41.9	40.8	40.7	44.3	50.6
Male	49.4	50.6	50.0	47.5	52.2	46.5	41.3
Female	10.8	24.5	15.9	25.1	12.3	39.3	68.3
Employee	12.6	13.7	13.9	14.6	23.2	39.1	38.1
Male	15.1	13.8	14.5	17.0	22.2	42.6	49.1
Female	8.2	13.4	11.7	8.9	25.5	31.2	17.9
Contributing Family Helper	33.8	18.4	21.7	21.8	18.2	11.5	6.8
Male	10.2	9.9	9.7	7.1	5.1	4.0	3.7
Female	73.2	48.0	60.1	56.3	50.1	28.4	12.5
Day Labourers	18.3	20.0	18.2	19.7	15.5		
Male	25.0	22.9	21.9	25.8	18.9		
Female	7.8	9.6	6.5	5.3	7.2		

Source: Labour Force Surveys, Bangladesh Bureau of Statistics.

The labour force with secondary education constitutes the largest group, surpassing those with only primary education. In 2000, individuals with secondary education accounted for 17% of the labour force, rising to 36% in 2022. This increase is primarily due to the growing number of females with secondary education, whose share increased from 12% in 2000 to 43% in 2022. In contrast, the proportion of the labour force with primary education increased marginally from 23% in 2010 to 26% in 2022 (Table 16.6).

Table 16.6 Labour force by level of education, 1999–2022 (% column total)

Level of Education	1999-2000			2010			2022		
	Total	Male	Female	T	M	F	T	M	F
No education	48.1	41.5	59.1	40.1	39.9	40.6	19.6	20.8	17.4
Primary	25.0	25.7	23.8	22.8	22.9	22.7	26.1	27.1	24.4
Secondary	16.6	19.5	12.0	29.5	28.6	31.4	35.9	31.9	43.3
Higher Secondary				3.7 4.0	3.0		8.3 8.9	7.3	
Tertiary	3.2	4.5	1.1	3.5 4.2	2.0		9.1 10.3	6.9	
Others				0.3 0.4	0.2		0.9 1.0	0.8	

Source: Labour Force Surveys, Bangladesh Bureau of Statistics.

The proportion of the labour force with tertiary education has increased significantly, from 3.5% in 2010 to 9% in 2022. Among females, this increase is particularly notable, rising from 2% in 2010 to 7% in 2022 (Table 16.6).

16.3 Critical Issues and Challenges of the Labour Market

1. ***Low employability of the labour force is the biggest problem***

   This analysis focuses on the non-farm labour market, which is highly heterogeneous in terms of human capital and employability. Consequently, improving employability presents diverse challenges. Based on education, training, and occupational structure within Bangladesh's industrial and service sectors,[373] the labour force can be categorised into four groups:

[373] According to the Bangladesh Standard Classification of Occupations (BSCO), 2020, eight major groups are relevant for the industry and service sectors. These groups are categorised into: i) managers, ii) professionals, iii) junior professionals and technicians, iv) sales and clerks, and v) plant operators and assemblers (floor workers). These groups have varying levels of education, with some overlap. For instance, the Primary Group consists mainly of floor workers, the Secondary Group includes technicians and salesclerks, the TVET Group comprises technicians and junior professionals, and the Tertiary Group includes managers and professionals.

i. Primary group: Individuals with primary or lower education (including no formal education), with or without formal training.
ii. Secondary group: Those with junior secondary, secondary, or higher secondary education (or equivalent), with or without formal training.
iii. Tertiary group: Individuals with tertiary education.
iv. TVET group: Those holding a TVET diploma.

i. Primary Group: Low education and inability to learn new things

This group represents the weakest segment of the labour force, comprising individuals who either dropped out early or never had the opportunity to attend school. It constitutes approximately 46% of the labour force, the largest among the four categories. In rural areas, non-farm activities are primarily carried out by this group.[374] While a small fraction of them have some formal training,[375] most have acquired their skills through 'learning by doing' and informal apprenticeships. In manufacturing, this low-educated workforce is predominantly employed as floor workers, helpers, and office assistants (e.g. cleaners, guards).[376]

Notably, the unemployment rate for this group decreased from 3.2% in 2010 to 1.4% in 2022 (Table 16.7). This decline reflects the organisational structure of enterprises as well as the economy, but it also stems from the fact that these workers cannot afford prolonged periods of unemployment while searching for jobs. Access to decent employment is extremely limited for this group. Furthermore, real wages in urban areas have declined between 2016 and 2022 (Table 16.8).

Table 16.7 Level of education and unemployment rate

Educational attainment	Unemployment rate	
	2010	2022
No education - class V	3.2	1.4
Class VI-XII1	7.0	3.9
Tertiary	4.9	12.0
Others[2]	4.0	4.9

[1] diploma is considered in this category; 2 consists of non-equivalent religious education; Source: LFS reports 2010 and 2022

Table 16.8 Level of education and unemployment rate

Educational Attainment	National				Urban				Rural			
	2005	2010	2016-17	2022	2005	2010	2016-17	2022	2005	2010	2016-17	2022
No class passed	1002	1393	1354	1938	1239	1779	1783	1420	981	1302	1240	2005
Class 1-5	1441	1774	1450	2177	1775	2380	1916	2438	1326	1561	1320	2085
Class 5-10	1813	2048	1945	2508	2168	2426	2705	2753	1660	1881	1603	2385
SSC, HSC, equivalent	2418	3195	2462	3170	2433	4030	3043	3739	2407	2556	1992	2702
Graduate	3611	3996	3240	4324	4072	4720	3827	5198	2767	2860	2357	2875
Postgraduate	4851	4425	4347	5910	5772	5130	5275	7062	2210	2902	2538	3305

[374] Vehicle drivers, sales workers, and service-related workers in rural areas make up about one-third of rural non-farm jobs. This composition has remained largely unchanged over the years (Iqbal et al., 2024).
[375] The requirement for enrolling in a 360-hour training course at government training centres (TTC, TSC) is completion of Class VIII.
[376] A recent BIDS study on light engineering (Iqbal et al., 2022) found that approximately 80% of workers in blue-collar jobs (floor workers and technicians) have education at the primary level or below. Notably, blue-collar jobs account for about 91% of total jobs in this industry, according to the LFS.

This group is significantly impacted by learning deficiencies at the primary education level, which has led to high dropout and repetition rates. According to the NSA conducted by the MoPME, only 25% of grade five students demonstrated learning competency in Bangla in 2011, a figure that fell to 12% in 2017. In Mathematics, 33% had learning competency in 2011, which dropped to 17% in 2017. With such low levels of competency, this group can only access jobs that require minimal literacy and numeracy. Due to an inability to follow written instructions, their learning is restricted to practical, hands-on experience, limiting their potential for skill development.

No targeted TVET programmes exist for this group. The minimum qualification for BTEB-approved 360-hour courses is grade eight. Consequently, this group does not benefit from government-run interventions like the Accelerating and Strengthening Skills for Economic Transformation (ASSET) project. The 'Reaching Out of School Children' programme, implemented by the MoPME, should aim for a more effective integration of general and vocational training.

ii. Secondary Group: The Most Critical Mass of the Labour Force with Some Technical Knowledge

This group represents the core of the labour force, accounting for approximately 44% of the total workforce. It includes a significant proportion of craftspeople, plant workers, and technicians in manufacturing (Iqbal, 2022). The group is notably dominant in the service sector.[377] Most individuals in this category have learned a trade either through experience ('learning by doing') or formal training. This is the target demographic for short courses, such as the 360-hour BTEB-approved programmes. Graduates from both public and private Technical Schools and Colleges (TSC) fall into this group. The unemployment rate for this group declined from 7% in 2010 to 3.9% in 2022 (Table 16.7). However, real wages for workers with 5-10 years of education have seen minimal growth over time, and in urban areas, wages have decreased.

A significant portion of this group comes from the Madrasah stream, though it is difficult to separate them from other groups in the LFS due to their classification in equivalent grades. Unemployment among Madrasah graduates has reached as high as 75% (Behera, 2013).[378]

The supply of technical schools is insufficient to meet the needs of this large group. There are only 149 public TSCs and 110 public TTCs, with private investment in this sector being minimal. The limited availability of technical education forces many secondary students to pursue general education, which lowers their employability. Tracer studies indicate that graduates from technical schools secure jobs more quickly and earn higher wages than those with general stream qualifications.

There is also a lack of demand-side interventions, such as career counselling, which would help this group make informed decisions about their career paths. Establishing career coaching centres at the union level, with collaboration from both government and non-governmental organisations, could help address this gap. Social engineering is necessary to improve the social recognition of the technical and vocational streams.

[377] In the urban economy, sales workers in markets and shopping malls, junior managers and servers in restaurants, technicians in mobile, AC, and refrigerator repair centres, and service delivery personnel in the gig economy belong to this labour force group.

[378] Recent studies (Ahmed et al., 2022; Asadullah & Chaudhury, 2013) have found that demand-side factors, such as poverty, are the primary reasons behind enrolment in the madrasa stream.

iii. Tertiary Group: Oversupplied, Mismatched, and Ill-prepared for Market

The tertiary group consists of university and college graduates, including those from the Madrasah stream.[379] This group represented about 9% of the labour force in 2022, up from around 4% in 2010. As noted earlier, only about 9% of jobs in the economy are white-collar, primarily managerial and professional positions (Table 16.9). Although the share of graduates in the service sector is higher, job opportunities remain limited.[380] The unemployment rate for this group rose from 4.9% in 2010 to 12% in 2022. Despite the rise in unemployment, it is paradoxical that this group is the only one to experience an increase in real wages, especially after 2016/17 (Table 16.8). The new public sector pay structure announced in 2015 may have contributed to this trend.

Table 16.9 Employment type by manual intensity (row %)

Sector	Employment type?	
	Blue Collar	White Collar
Industry	90.9	9.1
Service	76.8	23.2

Note: As per ILO, white collar refers to non-manual workers and blue collar to manual workers

Source: LFS 2022.

The oversupply of tertiary graduates is mismatched with the needs of industries. Over the past 12 years, the number of tertiary graduates has increased by approximately 2.5 times, comprising about 9% of the total labour force in 2022. This growth is mainly due to an increase in honours stream graduates (Tables 16.10 and 16.11). Tertiary college enrolment grew from around 1.5 million in 2010 to approximately 2.7 million in 2023. However, this high number of graduates is incompatible with the demands of industries and the economy, which primarily require junior professionals and technicians (e.g. those with SSC/HSC qualifications or TVET graduates) rather than university graduates. According to the LFS, only about 9% of jobs in industries are white-collar.

Year	Tertiary colleges					
	Degree		Honours		Master's	
	freq	% of total	freq	% of total	Total	% girls
2010	1,270	85.2	126	8.5	94	6.3
2011	1,270	82.1	172	11.1	105	6.8
2012	1,172	72.7	316	19.6	123	7.6
2013	1,190	70.9	364	21.7	124	7.4
2014	1,214	70.1	392	22.6	125	7.2
2015	1,178	67	445	25.3	136	7.7
2016	1,182	65	482	26.5	155	8.5
2017	1,126	60.5	568	30.5	168	9
2018	1,121	59.2	596	31.5	175	9.2
2019	1,088	57.2	634	33.3	180	9.5
2020	1,081	56.3	649	33.8	191	9.9
2021	1,048	54	695	35.8	198	10.2
2022	1,048	54	695	35.8	198	10.2
2023	1,048	54	695	35.8	198	10.2

Source: Bangladesh Education Statistics 2023, BANBEIS.

[379] Currently, approximately 1.05 million students are enrolled in 55 public universities (68% of students) and 116 private universities (32% of students). Additionally, there are 1,941 tertiary-level colleges, awarding degrees, honours, and master's degrees, with approximately 4.18 million students enrolled.

[380] In the service sector, major employers of graduates include civil administration, banks and other financial institutions, mobile operators, healthcare providers, universities and colleges, and media organisations.

Table 16.11 Students in tertiary colleges, 2010-2023

Year	Nos. of students in tertiary colleges					
	Degree colleges		Honours colleges		Master's colleges	
	Total	% girls	Total	% girls	Total	% girls
2010	1,003,014	47.9	336,703	41.0	585,813	36.5
2011	1,133,832	49.4	429,769	44.3	826,807	42.6
2012	996,462	49.4	614,747	46.7	882,532	35.9
2013	1,052,932	50.5	698,044	46.4	869,409	39.2
2014	1,098,029	50.6	780,335	46.9	1,037,071	42.2
2015	1,103,355	50.7	869,887	46.9	1,078,460	39.3
2016	1,075,441	51.1	912,501	46.2	1,138,608	42.3
2017	963,881	52.3	1,067,007	47.1	1,192,248	44.9
2018	968,064	52.9	1,169,628	47.8	1,399,454	42.5
2019	928,361	53.8	1,228,195	47.5	1,447,207	44.3
2020	924,782	54.8	1,329,851	50.1	1,550,738	47.4
2021	868,118	54.3	1,382,014	49.9	1,652,530	48.0
2022	864,869	53.8	1,417,259	49.6	1,678,515	47.9
2023	935,082	53.7	1,492,137	49.9	1,753,992	49.0

Source: Bangladesh Education Statistics 2023, BANBEIS.

Graduates are ill-prepared for the labour market, with inadequate technical skills. Of the public university students, about 60% are enrolled in arts and social science programmes, 24% in commerce, and only 12% in STEM fields. The proportion of STEM graduates is even lower in tertiary colleges (Iqbal, 2022a). The low share of STEM graduates may reflect the structure of the economy, which has limited demand for such graduates. Unless the economy is driven by high-tech industries and services (e.g. ICT), the demand for STEM graduates will remain low. This creates a 'catch-22' situation, highlighting the importance of integrating education policy with industrial policy.

Industries are struggling to find workers with the appropriate level of education, leading to significant vertical mismatches in the labour market. A recent study by BIDS indicates that smaller firms are hiring workers with lower educational qualifications than they require, while larger firms are hiring workers with more education than they need (Iqbal, 2022b). In times of high competition and limited job availability, workers often overinvest in education as a signalling mechanism. In smaller firms, recruitment tends to be informal, with workers relying on private networks to signal their potential. The social costs of over-education and under-education are considerable.

iv. Technical and Vocational Education and Training Group (Diploma): Undersupplied, Underprepared, and Under-recognised

The proportion of the labour force with a TVET diploma is approximately 0.69%, a significant increase from 0.14% in 2010.[381] Diploma engineers, particularly in civil and electrical engineering, form the backbone of any engineering firm. The unemployment rate for TVET graduates was about 1% in 2013 (ADB, 2016).

Both the quantity and quality of polytechnic institutions are insufficient to meet current demand. Stakeholder discussions indicate a strong market demand for four-year diploma graduates, yet public institutions are unable to meet this need. The country has only 45 public

[381] According to the 2015 TVET Census, about 1.7 million students were enrolled in four types of TVET streams: 360-hour short courses (77%), SSC/Dakhil (vocational) (8%), HSC (vocational)/Business Management (7%), and diploma graduates (8%). Annually, around 750,000 students enrol in the TVET system.

polytechnic institutes and five monotechnic institutes, together enrolling just 42,900 students annually. The quality of these institutions is hindered by inadequate classrooms, labs, and instructors. Tracer studies reveal that approximately one-third of these diploma graduates pursue further studies, suggesting that the polytechnics fail to adequately prepare students for the job market.

Shifting tertiary students to the TVET stream poses a major challenge. While the labour market outcomes for TVET diploma holders are more favourable than those for their counterparts in the general stream, the greater number of tertiary college graduates compared to TVET graduates indicates a market failure. This failure stems from inadequate information and prevailing social stigma.

Redirecting a large proportion of potential tertiary students to the TVET stream must begin at the secondary level. Increased enrolment in vocational SSC and HSC programmes would likely reduce enrolment in tertiary colleges while boosting polytechnic enrolment. This requires a fundamental policy shift and substantial public investment in TVET. Although TVET institutions are more costly to build than general stream institutions,[382] innovative low-cost solutions are essential.

2. ***Development partner-led skill development 'projects' have fallen short of desired impacts.***

Despite significant public investment, the tangible impacts of development partner-led skill development projects are not evident at the national level. Virtually all development partners now feature skill development projects in their portfolios, with two large projects— ASSET and Skills for Employment Investment Programme (SEIP)—funded by the World Bank and the ADB, respectively. The ASSET project is implemented by the DTE, while the SEIP is managed by the Finance Division. The involvement of the Finance Division in the implementation of a skill development project raises concerns about the government's commitment. These two projects, costing a combined BDT 8,000 crore with substantial contributions from the GoB, have had minimal national-level impact.

According to the 2022 LFS, only 1.46% of the labour force received training in the past 12 months, a decrease from 1.7% in 2016-17. The impact of these projects has also been negligible in altering the skill composition of international migrants, with low-skilled migrants continuing to dominate. Additionally, no independent third-party impact evaluation of these projects has been conducted.

A lack of national-level coordination has led to the duplication of training programmes. The LFS data show that training is concentrated in a few sectors—computer skills (33%), RMG (16%), agriculture (10%), driving and motor mechanics (8%), and health services (5%). This concentration suggests considerable overlap in government and NGO interventions. Implementing agencies operate in silos, resulting in the oversupply of easily implemented training programmes. Lessons from the Sector-wide Approach (SWAp) used in the primary education and health sectors could be applied to the TVET sector to improve resource efficiency and reduce duplication through enhanced coordination.

16.4 Female Labour Force Participation: Breaking the Glass Ceiling?

Female labour force participation has risen from 36% in 2010 to approximately 43% in 2022, largely driven by increased participation in agriculture. However, opportunities for women in non-farm occupations, both in rural and urban areas, remain limited, except for the RMG sector. According to the LFS, the proportion of women in salaried employment dropped from 31% in

[382] The government's budget allocation for a Technical School and College (TSC) is BDT 75 crore (BSS, 29 August 2023).

2016-17 to 18% in 2022. This decline is matched by an increase in female self-employment, primarily in home-based activities, suggesting that women often combine income-generating work with household duties.

Gender parity in the labour market remains elusive. Although gender parity was achieved in degree colleges in 2011 and honours colleges in 2020, and the share of female students in both public and private universities has increased significantly over the past decade, the labour market outcomes for female graduates remain poor. The underrepresentation of women in top management positions and the tech industry is particularly disheartening (World Bank, 2022). While non-market outcomes of female education, such as empowerment and improvements in children's education and health, are significant (Ahmed & Iqbal, 2016), the ROI in female education is diminished if their labour market outcomes are poor. Achieving gender parity in education should be complemented by parity in the labour market.

Structural barriers to non-farm employment for women remain substantial. Cultural norms (Kabeer et al., 2021) and discrimination in the labour market (Sultan et al., 2016) continue to restrict women's opportunities. Female graduates from secondary or tertiary institutions in rural areas face limited job prospects, with NGO jobs being among the few available. Even these positions are rarely local. To seek employment, women must often travel to district towns or larger cities, where the lack of female-only accommodation presents an additional challenge. Furthermore, even when women secure employment, housing for single women is scarce. The situation becomes even more difficult if they choose to have children, as few workplaces offer daycare facilities.[383] Unless the state assumes greater responsibility, female labour force participation in the non-farm sector is unlikely to improve.

16.5 Youth Unemployment: Mismatched Aspirations

The demographic dividend presents both opportunities and challenges, particularly in terms of creating new jobs for the growing youth population. According to the LFS, the unemployment rate for youth (aged 15-29) was 8%, compared to 3% at the national level. This rate was 5% in 2010 and has fluctuated between 5% and 11% over the past few decades. However, Murshid et al. (2019) found a much higher unemployment rate of around 40% among educated youth (aged 18-35).[384]

The prolonged job search process has led to increased frustration. Graduate tracer studies indicate a rising average job search period (Table 16.12). Consultations with youth reveal that the labour market has not kept pace with their heightened aspirations. Over the past decade, the number of first-generation graduates has risen significantly, with many harbouring high hopes for upward mobility. This optimism is partly fuelled by a growing desire for public sector jobs, which have become more attractive in recent years, particularly after the introduction of a new pay scale in 2015. This scale brought public sector salaries in line with those in the private sector at the entry level. Moreover, public sector jobs have become more desirable socially, particularly in the marriage market. As a result, the search for public sector jobs has lengthened the job search period.

[383] A recent study by the Asian Center for Development (2020) showed that 87.5% of the RMG factories surveyed had childcare facilities; however, only 11.7% of mothers utilised them. The study suggested that the distance from home to the factory contributed to the low usage of daycare centres and recommended the establishment of daycare centres closer to workers' homes rather than near the factories.

[384] This was a Facebook-based online survey, and the unemployment rate was defined based on a one-week reference point.

Table 16.12 Summary of tracer studies

	ADB CSE	BIDS HEQEP	WB CEDP	BIDS CEDP I	BIDS CEDP II	DTE BIDS TVET	DTE EU TVET	BANBEIS Diploma
	University graduates		College graduates			TVET graduates		
Year of survey	2018	2018	2017	2020	2023	2015	2020	2021-22
Tracing period	2013-18	2015-16	2013	2017	2018	2012-13	2018-19	2015-19
Sample description	CSE/IT graduates from nine universities	Graduates from 82 departments of 36 universities	Graduates from 35 colleges of NU	Graduates from 54 colleges of NU	Graduates from 61 colleges of NU	TVET graduates	TVET graduates from five govt. TVET institutes	Diploma graduates from nine polytechnic institutes
Sample size	1216 graduates	975 graduates	2,350 graduates	1,639 graduates	1,345 graduates	1305 diploma & 1905 other TVET graduates*	1188 diploma & 604 other TVET graduates*	760 diploma graduates
Share of graduates in the labour market (Total)	LF: 90%; Employed: 86% of LF	LF: 79%; Employed: 51% of LF	LF: 65%; Employed: 29% of LF	LF: 89%; Employed: 24% of LF	LF: 91%; Employed: 71% of LF	[Diploma] LF: 69%; Employed: 64% of LF	30% of the sample is employed & 40% is NEET**	LF: 84%; Employed: 58% of LF
Share of graduates in the labour market (Male)	LF: 92%; Employed: 89% of LF	LF: 81%; Employed: 54% of LF	LF: 72%; Employed: 35% of LF	LF: 94%; Employed: 33% of LF	LF: 96%; Employed: 80% of LF			
Share of graduates in the labour market (Female)	LF: 79%; Employed: 74% of LF	LF: 69%; Employed: 36% of LF	LF: 60%; Employed: 23% of LF	LF: 83%; Employed: 14% of LF	LF: 84%; Employed: 66% of LF			
Share of graduates pursuing further studies (Total)	5.5% of the sample	15% of the sample	34% of the sample	7% of the sample		[Diploma] 31% of the sample	29% of the sample	16% of the sample
Share of graduates pursuing further studies (Male)		14% of male in the sample		5% of male in the sample				
Share of graduates pursuing further studies (Female)		18% of females in the sample		9% of male in the sample				
Share of graduates in the labour market with permanent jobs (Total)	79% of LF		16% of LF	20% of LF	49% of LF	[Diploma] 46% of LF		36% of LF
Share of graduates in the labour market with permanent jobs (Male)			20% of LF	24% of LF	58% of LF			
Share of graduates in the labour market with permanent jobs (Female)			13% of LF	12% of LF	34% of LF			

	ADB CSE	BIDS HEQEP	WB CEDP	BIDS CEDP I	BIDS CEDP II	DTE BIDS TVET	DTE EU TVET	BANBEIS Diploma
	University graduates		College graduates			TVET graduates		
Share of graduates in the labour market with temporary jobs	7% of LF		13% of LF	4% of LF	22% of LF	[Diploma] 18% of LF		22% of LF
Average monthly salary in permanent jobs	BDT 38,78 (current; permanency not specified)	BDT 28,652 (permanency not specified)	BDT 14,283 (starting)	BDT 15,272 (current; permanency not specified)	BDT 15,974 (current)	[Diploma] BDT 12,130	About 44% earn less than 1 lac annually; 38% earn between 1-2 lacs BDT annually	71% earned between BDT 10,001 20,000 monthly***
Average monthly salary in temporary jobs			BDT 10,042 (starting)		BDT 7,305 (current)			
Average waiting time before getting permanent jobs	About 50% of those who got a job got it within 6 months of graduation		About 50% of those who got a job got it within 18 months of graduation	around 30 months	60% of the graduates have been unemployed for more than two years after graduation	[Diploma] 6 months	About 82% of those who got a job got it within 6 months of graduation	

Completion of a BCS batch intake takes more than three years. While no formal statistics on repeaters exist, anecdotal evidence suggests that this number is notably high. With preparation and repetition, many tertiary graduates seeking public sector jobs remain in the labour market for 4-5 years before abandoning their efforts and settling for lower-paying jobs.

As noted earlier, white-collar positions in the private sector are limited and highly competitive. Consequently, many graduates have few options but to take on less desirable blue-collar jobs after several years. This leads to a strong sense of failure in attempts to climb the social and economic ladder.

16.6 Labour Market Governance

Labour market governance, encompassing labour market institutions, laws, and policies—including minimum wage setting, worker safety, employment protection, and mandatory benefits—is weak.

One of the key legislative frameworks for labour regulation in Bangladesh is the Bangladesh Labour Act, first enacted in 2006 and amended in 2013 and 2018. The Act addresses various aspects of employment, such as working hours, wages, occupational health and safety, and workers' rights to form trade unions. The 2013 amendments, prompted by international pressure following the Rana Plaza collapse, strengthened workplace safety standards, mandated insurance for workers, and simplified union formation procedures. While buyers' pressure has led to improved social and environmental auditing in export industries, labour law violations remain widespread in domestic industries. Workers in informal sectors face even worse conditions: the 2018 amendment did not extend sufficient protections to informal workers, who lack job security. Child labour in informal sectors remains inadequately addressed. The DIFE, responsible for monitoring compliance, suffers from significant capacity constraints, limiting its effectiveness. Furthermore, the mechanisms for inspection and law enforcement are weak.

Minimum wages are set based on sector productivity rather than a defined minimum threshold, such as the poverty line. Some issues in the economy should prioritise human rights, and setting the minimum wage is certainly one of them. The country should aim for a universal minimum wage for industrial workers, which could vary geographically according to the cost of living.

A significant criticism of the Bangladesh Labour Act is that it still fails to create a conducive environment for unionisation. Although reducing the unionisation threshold from 30% to 20% was a step forward, workers continue to face substantial obstacles in forming unions. Additionally, union rights in EPZs remain limited. Employers often resist unionisation due to fears of political capture by union federations. Shielding unions from political influences and local thugs remains a major challenge. Labour leaders have expressed concerns over physical abuse and harassment of unionists. Anti-union discrimination in the workplace, lack of legal support, and weak leadership are also factors contributing to the ineffectiveness of unions.[385] A win-win institutional solution for both workers and employers is crucial for industrial development in the country.

The Bangladesh Labour Act (2006) stipulates those industries employing at least 50 workers must have at least 10% apprentices. However, there is little enforcement of this law, and the tripartite national advisory committee for apprenticeships is non-functional.

[385] Interestingly, consultations with labour leaders suggest that they are aware of the potential threat posed by AI and are keen to receive training in this regard. The role of labour unions in the era of AI needs to be reconsidered.

16.7 Data Issues

The sole source of data on labour force and employment is the LFS, conducted by the BBS. While the International Labour Organization (ILO) provides technical support for the survey, it is hindered by frequent changes in definitions, inconsistent estimates of key indicators, and a lack of crucial labour market indicators such as skills (both hard and soft) and skill mismatches. For example, until 2013, employment was categorised into four groups,[386] but from 2016-17, the 'day labourer' category was eliminated and subsumed under 'employee', making it impossible to compare time series data. Cyclical patterns in certain variables also raise doubts about data quality. For instance, the female youth unemployment rate was 9.8% in 2013, increased to 15% in 2016-17, and dropped to 5.2% in 2022.[387]

The LFS reports that the FLFPR increased by 5.5 percentage points between 2017 and 2022. This increase, which has not been attributed to a change in definition, is mainly due to an increase in rural female employment aged 15-29 in agriculture (both crop and non-crop), where women are classified as 'own-account workers' (self-employed with no employees). Whether this increase reflects a genuine shift or is the result of measurement errors requires further investigation.

The absence of data on foreign workers in Bangladesh has also become a recent issue. The SMI and the Economic Census conducted by BBS should address this gap.

The BBS defines employed persons as those engaged in any activity to produce goods or services for pay or profit, own consumption, or unpaid family work during the past seven days for at least one hour. While this definition facilitates cross-country comparisons, it has limited practical value for policy or intervention design. The BBS could generate alternative measures of unemployment based on different thresholds for work engagement, such as at least 20 or 40 hours in the past week. A similar approach is used in Sri Lanka, where the minimum engagement is set at 20 hours. This issue warrants further discussion.

The ILO recently introduced a new concept for defining unemployment, acknowledging that some individuals outside the labour force desire employment but are neither seeking nor available. Similarly, some who seek work may not be available. This concept is encapsulated in the 'job gap', defined as follows (Figure 16.1):

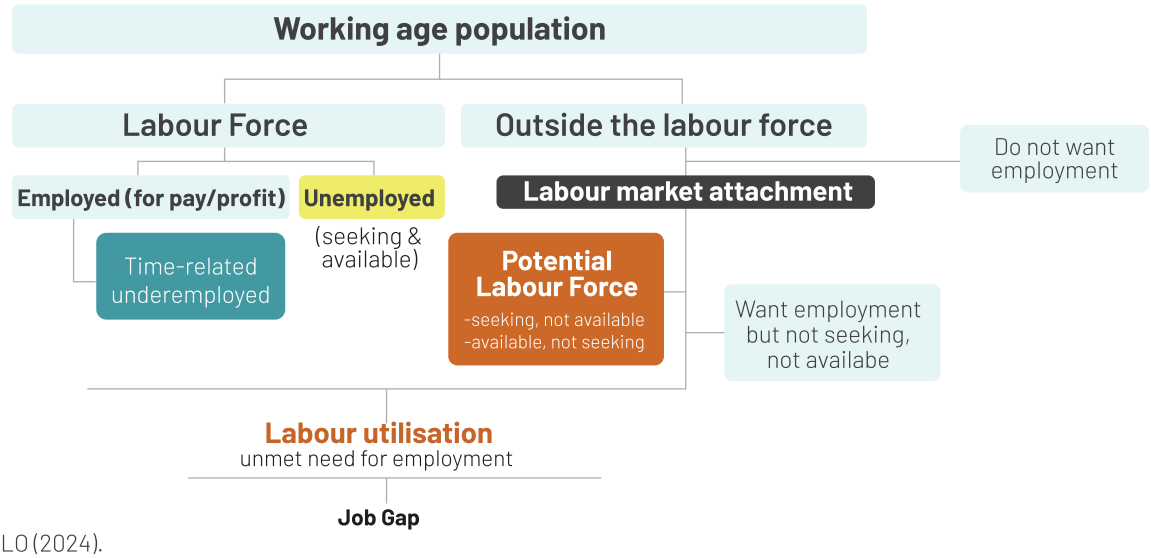
Job gap = Unemployed (seeking and available) + Potential labour force (seeking but not available or available but not seeking) + Those wanting employment but not seeking or available.

While the LFS measures the first two components, it does not account for the latter. The BBS should consider adding questions to the LFS to estimate the full job gap.

[386] These four categories are: self-employment, employee, contributing family helper, and day-labourer.

[387] Other limitations of the LFS data include: i) the dataset does not include a codebook, making the replication of various estimates impossible. For instance, the sample weights' use is unclear, and it is not known how to pool four quarters and adjust sampling weights to create a nationally representative sample for the year. ii) Several variables have unusually large numbers of missing values. For example, the important variable 'EDU_04' has 115,749 missing values out of 349,927. iii) BSCO codes are essential for categorising employment. Out of 198,870 employed persons, 30,489 are missing the BSCO4 code. However, all BSCO04 codes are accounted for in the final report. Additionally, there are many erroneous entries of BSCO codes.

Figure 16.1 Components of the job gap



Source: ILO (2024).

16.8 Conclusion and Way Forward

The labour market faces three major challenges. First, the employability of the workforce is low due to inadequate foundational training in schools and a lack of job-readiness training. Second, mismatches between supply and demand are prevalent: the education system produces more graduates (e.g. from tertiary colleges) than the market can absorb, particularly in arts and social sciences, which are less in demand. Third, both the public and private sectors are unable to create enough jobs to absorb new entrants. Given the industrial structure, opportunities for tertiary graduates are limited. In fact, there is no available data on the number of decent jobs created annually.

Based on this analysis, we propose three major recommendations:

i. Massive Public Investment in Technical and Vocational Education and Training Should Be the Priority

Substantial government investment is needed to expand technical schools, such as TSC and Technical Training Centre (TTC), to the union level to increase enrolment in the TVET stream. Low-cost, indigenous solutions should be prioritised.

ii. Demand-side Interventions

Although TVET education is known for its high employability and decent pay, it struggles to attract talented students. The image and social recognition of TVET graduates must be improved through well-designed pilot projects.[388]

iii. Alignment of Policies and Strategies Is Critical for Minimising Mismatches

There is no labour market strategy aligned with the country's growth strategy. Long-term plans, such as the growth strategy, are inconsistent with sectoral policies, such as education and skill development. There is no clear government strategy for industrial development or human capital development. We lack data on how many STEM graduates are needed over the next 5-10 years, or how many TVET graduates align with growth aspirations. This policy incoherence has led to mismatches in the labour market.

[388] A few innovative suggestions emerged from our discussions with the youth and other stakeholders: (i) changing the name 'polytechnic' to a more 'dignified' term; (ii) incorporating a chapter on the prospects and prestige of TVET professions in primary school textbooks; (iii) convincing parents is more important than persuading students; (iv) electric media can play a significant role in enhancing the social recognition of TVET professionals.

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Chapter XVII. Unloved Remittance Warriors*

Key takeaways:

- *A powerful group of recruiting agents linked to the former ruling party siphoned off USD 2 billion from poor migrants between mid-2021 and mid-2024 by establishing a recruitment syndicate for Malaysia.*
- *Bangladeshi workers incur the highest migration costs in Asia. For example, a Bangladeshi male worker pays 4 to 5 times more than a Nepali migrant. A Bangladeshi worker may need to work for 17 months to recover these costs.*
- *A significant portion of work visas is acquired informally. The BB does not permit recruiting agencies to remit for such purposes, forcing them to rely on unofficial channels. Over the past decade, these agencies have transferred BDT 1.34 trillion through unofficial means for work visas—equivalent to four times the construction cost of the Dhaka MRT 06.*
- *Potential migrants are discouraged from acquiring skills due to the low employability of TTC graduates. Until training quality meets labour market standards, Bangladesh will continue sending low-skilled workers, where exploitation and fraud are prevalent.*
- *The allocation for international labour migration, Bangladesh's highest net foreign exchange-earning sector, is just 0.08% of the national budget for fiscal years 2020-22 to 2023-24. A minimum allocation of 1% of the national budget is required for this sector.*

17.1 Overview

International short-term labour migration has significantly improved the livelihoods and well-being of many Bangladeshis (World Bank, 2022; Ahmed et al., 2021; Raihan et al., 2017; Siddiqui et al., 2018; Siddiqui, ed., 2022). In 2023, remittances accounted for 3.3% of Bangladesh's GDP, four times the value of overseas development assistance and seven times that of FDI (GoB, 2024). Remittances constitute over half of the country's foreign reserves. In 2023, 1.3 million people entered the labour force,[389] and international migration generated 1.3 million jobs. In 2020, the poverty rate for remittance-receiving households was 40% lower than for those who did not receive remittances (Shabab, 2022). Households with international migrants are better equipped to withstand external shocks, such as the COVID-19 pandemic or global financial crises (Siddiqui, 2020).

However, studies highlight several challenges in the migration process that make it less rewarding for migrants. This chapter explores why, despite an extensive nationwide institutional framework, policies, and regulations, the labour migration system remains poorly managed. It argues that under the previous government (2008-2024), a convergence of interests among policymakers, senior bureaucrats, and recruiting agencies has not only hindered migration governance but also undermined its positive impacts on migrants, their families, and both local and national economies.

This chapter draws on both primary and secondary sources. Primary data include workshops, consultations, town hall meetings, interviews with key informants of Bureau of Manpower, Employment and Training (BMET), Wage Earners' Welfare Board (WEWB), and field visits to two

* * The chapter was prepared by Dr Tasneem Siddiqui, Professor, Department of Political Science, University of Dhaka and Founding Chair, Refugee and Migratory Movements Research Unit (RMMRU).

[389] The total labour force is 73 million.

Technical Training Centres (TTC) and a District Employment and Manpower Office (DEMO) of the (BMET). Secondary data comprises of published books, articles, newspaper reports, and BMET records.

From 1976 to 2024, 17,087,456 Bangladeshi workers migrated for employment, with the highest number (1,305,453) recorded in 2023 (BMET, 2024). In 2024, 1,011,969 workers migrated, of whom 6.04% were female. A system to record return migrants has yet to be established. In 2024, 90% of Bangladeshi migrants went to just six countries: Saudi Arabia, Malaysia, Oman, the UAE, Qatar, and Singapore. Saudi Arabia remains the most significant destination, receiving 62.1% of migrants, both male and female (RMMRU, 2024).

BMET categorises Bangladeshi migrant workers into four skill levels: professional, skilled, semi-skilled, and less-skilled.[390] Most Bangladeshi workers belong to the semi-skilled and less-skilled categories. From January to November 2024, only 4.6% were professionals, 23.6% were skilled, 17.6% were semi-skilled, and 54.23% were less-skilled. Bangladesh is the eighth-largest remittance-receiving country globally, receiving BDT 3,213,166,190,000 (USD 26.9 billion) in remittances (Bangladesh Bank, 2024) .[391] The main source countries of remittances include Saudi Arabia (11%), the UAE (17%), the USA (16%), the UK (10%), and Kuwait (6%) (RMMRU, 2025). In the years 2021 to 2023, remittance growth has slowed or even declined. However, in 2024, following a change in government, a 23% increase have been noticed compared to the previous year. Remittance data is not disaggregated by gender.

17.2 Eight Key Challenges

Over the last decade, eight key challenges in migration governance have intensified. These are: high migration costs, non-transparent visa procurement and worker recruitment processes, protection of female migrants, erosion of confidence in banks and slow growth in remittance transfer, entrapment in the less-skilled and semi-skilled job market, unstable country-specific labour markets, and the poor functionality of institutions.

High Cost of Migration

In theory, migration for work should incur no cost. However, migrants do face costs, and Bangladeshi migrants pay the highest costs in South Asia. In 2018-19, the cost of migration in the Qatar-Bangladesh corridor was USD 4,000, compared to USD 1,000 for a Nepali migrant (four times higher). In the Bangladesh-Malaysia corridor, the cost was USD 2,900, while for Nepali migrants, it was USD 690 (4.2 times more). In the Bangladesh-Saudi Arabia corridor, the cost was USD 3,200, compared to USD 760 for Nepali workers, again 4.2 times higher (Bossavie & Wang, 2021; World Bank, 2022).

The major costs include passport fees, training, recruiting agency fees, sub-agent fees, airfare, medical and emigration clearance fees, contributions to the Wage Earners' Welfare Fund (WEWF), insurance, and 'speed money' payments. Bangladeshi recruiting agencies, however, identify two main charges that inflate the migration cost: visa purchase and Ikama fees, particularly in Saudi Arabia. For Nepali workers, the migration cost to Malaysia is equivalent to three months' wages, whereas for Bangladeshi workers, it is equivalent to seven months' wages.

[390] Doctors, engineers, architects, teachers, accountants, computer programmers, pharmacists, nurses, foremen, diploma engineers, paramedics, and salesmen are considered professional workers. Mechanics, welders, masons, electricians, painters, cooks, drivers, plumbers, garment workers, and certified caregivers are considered skilled workers. Farmers, gardeners, and helpers in various professions, such as garment manufacturing and retail, are regarded as semi-skilled workers. Cleaners, domestic workers, and menial labourers are classified as less-skilled workers.

[391] As per the exchange rate of 2024

In Saudi Arabia, the difference is slightly smaller: a Nepali requires six months' wages to recover migration costs, while a Bangladeshi requires nine months' wages. BBS (2021) estimates that, on average, a Bangladeshi male worker pays USD 5,500 to migrate.[392] A migrant may need to work for 17 months to recover this amount.

Migration costs also vary by visa type, skill level, and gender. Skilled workers and female migrants tend to incur lower costs, and migration costs are lower when employers are companies rather than individuals. BBS (2020) and Bartl (2022) find that the cost of female migration in Bangladesh is approximately USD 1,100. However, in Nepal, depending on the destination, the cost of female migration ranges from USD 305 to USD 1,145 (Kharel et al., 2023).

Non-transparent Recruitment Process

Recruiting agents derive their influence from their involvement in the political process. During the tenure of the previous government, four recruiting agents, who were part of the Bangladesh-Malaysia labour recruitment syndicate, served as MPs, including a retired general. Two of these individuals held significant cabinet positions, while two others were key office bearers of the Jubo League. Another was a praesidium member of the Awami League. Three others served as city corporation commissioners or upazila chairmen. Their positions within the government and the ruling party enabled them to set the terms of labour recruitment outside the bounds of relevant laws and policies. Two examples of transparent and non-transparent recruitment during the last Awami League government are the Government-to-Government (G2G) agreement and syndication of migration to Malaysia.

G2G Agreement: In 2012, the GoB and the Government of Malaysia signed a G2G agreement for worker recruitment. Under this G2G system, 13,000 Bangladeshi workers secured employment in Malaysia at a cost of BDT 35,000 (USD 449) each. Unholy alliance of policy-makers and recruiting agencies of both countries allegedly linked with governments led to the abandonment of this agreement (Wickramasekara, 2016). In 2013, the agreement was amended to introduce the G2G+ arrangement, allowing private recruiting agencies to participate in the process. Under G2G+, the cost rose to BDT 300,000 (USD 3,846) and beyond.[393] The government did not take action against the recruiting agencies involved but instead suspended a BMET official for the failure of the G2G arrangement.

Syndication of Malaysia's Labour Market, 2016: In 2016, a syndicate was established by Dato Amin, a Malaysian of Bangladeshi origin, and Ruhul Amin, an influential member of Bangladesh Association of International Recruiting Agencies (BAIRA). Dato Amin allegedly influenced Malaysian authorities to permit only 10 Bangladeshi recruiting agencies to send workers. Ruhul Amin succeeded in convincing the government to accept this syndication. In the following years, large number of workers were sent to Malaysia, but the cost of migration was extremely high, many workers faced job shortages, and other irregularities occurred. The Malaysian government subsequently suspended the Memorandum of Understanding (MoU) due to these issues. Bangladesh lost its important market[394] but the then government did not investigate, and the members of the syndicate were not held accountable.

Syndication of Malaysia's Labour Market, 2021: Another MoU was signed between the two countries in 2021. The immediate history of syndication was repeated by the same Dato Amin and his company Bestinet. This time as well the syndicate was planned with 10 RAs. After significant protests from

[392] In the exchange rate of BDT to USD in 2020.
[393] As per the exchange rate of 2013
[394] In 2023, 27 percent of the total migration flow from Bangladesh was towards Malaysia, in 2024 it came down to 10 percent and in 2025, Bangladesh experienced zero migration to Malaysia (RMMRU 2024 and RMMRU 2025).

BAIRA members, the number of participating agencies was increased first to 25 and then to 101. Each of the aspirant recruiting agencies had to pay BDT 5 Crore (USD 458,716)[395] to become a member of the syndicate[396]. From 2022 to mid-2024, under these 101 licences, 878,375 workers migrated. Instead of procuring work visas themselves the syndicate members engaged in the unethical practice of securing the services of other non-member RAs of Bangladesh to procure work visas and process them through syndicate members against payment of a sum of BDT 152,000 per recruitment[397]. As a result, the average cost of migration increased to BDT 550,000 (USD 5,046). Dato Amin and his allies have embezzled almost USD 2 billion[398] (BDT 238,992,770,000)[399] from the poor migrants of Bangladesh; a sum exceeding the initial budget for the MRT-06 project and three-quarters of its final construction cost. This money was laundered from Bangladesh to Malaysia. In collusion with unscrupulous employers in Malaysia, in many instances, workers were recruited against jobs that did not exist. Even in 2024, 40,000 to 50,000 workers remained jobless only in the construction sector (Ara 2024), many others survived by accessing reverse remittances from their parents and many, returned untimely. After the interim government took office, the ACC filed charges against four parliamentarians involved in the syndication. Cases were also filed against Dato Amin and Ruhul Amin under 'The Prevention and Suppression of Human Trafficking Act', 2012. On October 24, the GoB requested Malaysian authorities to arrest and extradite these two persons to face charges of money laundering, extortion, and trafficking of migrants.[400]

Invisibility of *Dalals* and Scope for Fraudulence: Most Bangladeshi recruiting agencies are based in the capital, relying on *'dalals'* (sub-agents) to source workers.[401] For decades, the government refused to acknowledge the role of sub-agents in the migration process. This lack of transparency has allowed some recruiting agencies and sub-agents to commit fraud while evading accountability by shifting blame. A survey of 5,000 migrant households revealed that 19% of aspirant migrants who paid partial costs (BDT 194,000 on average) failed to migrate. If this financial loss is projected nationally over the last decade, it would amount to BDT 283,070,638,000 (USD 2,596,978,330), which is close to the construction cost of Metro Rail MRT-06.[402] The amended Overseas Employment and Migration Act (2023) has formalised the role of sub-agents (GoB, 2020), and rules are currently being developed. However, recruiting agencies continue to oppose this move.

Erosion of confidence in banks and slow growth in remittance

From 2000 to 2009, remittance inflows to Bangladesh grew exponentially, with annual increases ranging from 12% to 37%. Between 2011 and 2020, remittance flows continued to grow, at a rate of 10% to 18%, except in 2013, 2016, and 2017 (Siddiqui, 2023). Since 2021, the pace of remittance growth has slowed, with a 3.53% negative growth recorded in 2022. Even accounting for the lag time between migration and remittance flow, the growth rate remains sluggish.

[395] As per the exchange rate of 2023
[396] KII of Mohammed Fakhrul Islam, 6 October 2024
[397] USD 1394 as per the exchange rate of 2023
[398] The Coverage (2024, August 20). Bangladeshi & Malaysian Official RM8.9 Billion Scandal – Syndicate Supplying Workers To Malaysia. Available at: https://www.thecoverage.my/6284/bangladeshi-malaysian-official-rm8-9-billion-scandal-syndicate-supplying-workers-to-malaysia
[399] As per the exchange rate of 25.11.2024
[400] CNA. (2024, November 6). Bangladesh asks Malaysia to arrest and extradite 2 businessmen over alleged migrant worker trafficking and extortion in Channel News Asia. Available at: https://www.channelnewsasia.com/asia/malaysia-bestinet-aminul-islam-migrant-workers-bangladesh-anwar-4729621
[401] In the context of labour migration from Bangladesh, a sub-agent is defined as an individual informally authorised by a recruiting agency to recruit workers on its behalf at the grassroots level.
[402] As per the exchange rate of 2019

The previous government attributed this slowdown to international factors such as the Russia-Ukraine war, the COVID-19 pandemic, inflation, and global price hikes, which adversely affected the real income of migrants. However, other explanations exist. In 2019, during monthly courtyard and marketplace meetings organised by RMMRU in 12 districts, members of migrant households expressed their distrust of the banking system, which had been affected by political interference. Newspaper reports on the siphoning off bank resources by government-affiliated powerful groups further eroded migrants' confidence. Many migrants returned to the practice of hundi,[403] with some even returning to Bangladesh to withdraw their savings. The growth in remittance flow after the fall of the previous government supports this argument.

Other factors contributing to the rise in hundi include discrepancies between official and unofficial exchange rates, the practice of under-invoicing imports to evade taxes, financing smuggling, and the central bank's policy of pursuing three exchange rates, which allegedly facilitated money laundering. The authorities' ineffectiveness in monitoring and recruiting agencies' purchase of work visas at inflated costs also contributed to the use of hundi.

Recruiting agencies often purchase a substantial portion of work visas informally. Since BB does not allow these agencies to remit money for this purpose, unofficial channels are used. Over the past decade, 7,679,618 Bangladeshis migrated for work. If 80% of their visas were purchased in destination countries at an average cost of USD 2,000, the total visa purchase cost over these years (at the 2023 exchange rate) would amount to BDT 1,339,325,379,200 (USD 12,287,388,800). This sum is four times the construction cost of MRT-06. Those involved in labour recruitment often pay visa brokers by collecting remittances from migrants in destination countries and making payments to their families in Bangladesh. This resource can be termed as 'lost remittances'.

Protection of Female Migrants

Until 2003, only men had access to the formal overseas labour market, with restrictions or bans on female labour migration. Once these restrictions were lifted, female migration from Bangladesh increased significantly. Female migrants, however, tend to come from more disadvantaged backgrounds than their male counterparts. Officially, female migrants to Saudi Arabia are supposed to receive financial assistance; however, in practice, they are required to pay around BDT 100,000 (USD 1,176) for the migration process (Neelim, 2022). Female migrants face specific challenges, such as isolation, mental and physical abuse, and, in some instances, sexual violence (ADB, OECD, ILO, 2023). Furthermore, they often lack access to justice and face untimely returns. Some women suffer incarceration, torture, or even unnatural deaths in the countries of destination, while others experience forced returns. The number of shelter homes in these countries remains inadequate, and regular communication between female domestic workers and embassy staff has yet to be institutionalised.

Instability in the Country-specific Labour Market

A major drawback of overseas labour migration is its reliance on a single market at any given time.[404] Countries that serve as the primary destination for Bangladeshi workers for several consecutive years often abruptly cease to accept workers or significantly reduce migration flows (Siddiqui, 2023). For example, in 2008, approximately 132,000 Bangladeshis migrated to Saudi Arabia, but this number sharply dropped to 14,660 in 2009 and further declined to 7,069 in 2010. Saudi Arabia imposed a restriction on male migration from Bangladesh in 2010, lasting for six years, allowing only female migration. Male migration rebounded in 2016 (RMMRU, 2013).

[403] Round Table on remittances organised by Samakal and RMMRU

[404] Bayron and Mahmud (2023, November 28) *'Dui bochore sthayibhabe deshe fireche char lakh cheshotti hazar obhibashi'* in The Daily Star, available at: https://archive.ph/G46lh

In 1996, 32% of Bangladeshi migrant workers went to Malaysia, making it the second-largest destination. However, the migration flow to Malaysia plummeted in 1997, 1998, and 1999 to 1.24%, 0.21%, and 0%, respectively. In 2023, more than 351,000 workers (27% of total migration) migrated to Malaysia, only for the government to impose a ban on Bangladeshi migration in 2024. A similar trend is evident in Qatar and Bahrain. Efforts to access new labour markets have yielded limited success. After several years of a ban, the Maldives reopened its market to Bangladeshi workers in 2023, only to re-impose the ban within months. That same year, Oman and Bahrain also imposed restrictions on issuing work visas to Bangladeshis.

The instability in the labour market is largely attributed to malpractice in visa procurement. Some recruiting agencies obtain visas without adequately assessing the capacity of the employers.[405] Furthermore, embassy staff often fail to conduct or are discouraged from conducting, thorough background checks on employers. Weak accountability further exacerbates the issue.[406] There is a strong argument for blacklisting recruiting agencies and outsourcing companies from destination countries that engage in unethical practices. The attempt to enter the Romanian labour market faced a setback when the country closed its consulate in Dhaka in October 2023, allegedly due to the influence of certain recruiting agencies on the screening process.[407]

Trapped in the Low-skilled and Semi-skilled Market

BMET operates 110 TTCs, offering training in 55 vocations, with 46 providing language training.[408] However, evidence of success in accessing overseas employment for TTC trainees is scarce. Several challenges hinder access to the skilled labour market. The lack of overseas employability for TTC graduates (Iqbal & Matin, 2024) deters potential migrants from seeking skills development. Moreover, recruiting agencies are not motivated to promote skilled migration, as they can extract greater profits and evade accountability by processing the migration of unskilled workers.[409]

Further obstacles include the absence of projections for in-demand skills in major destination countries and the failure to update curricula periodically. Nearly half of the positions for trainersand principals at TTCs remain vacant, and Training of Trainers[410] sessions are irregular. Additionally, most of the training provided does not meet the standards of international certifying organisations.[411] Apart from a few exceptions, there is no system for recognising the equivalency of Bangladeshi certificates with those of major labour-receiving countries. Prior learning certificates are only issued to returnee migrants who have completed their SSC; however, 91% of returnees lack this qualification. The BMET's three-month training is not recognised by the National Skill Development Authority of Bangladesh. Although TTCs are constructed under the development budget, minimal resources are allocated in the annual revenue budget for staffing, training, and purchasing equipment. New training centres are only delivering one-third of their targeted training.[412] The recent establishment of 40 new TTCs in upazilas, costing BDT 16.67 billion (USD 140,313,015),[413] was undertaken without a comprehensive feasibility study.

Moreover, till date resource allocation for filling the posts of these newly formed TTCs are yet to materialise.

[405] Dr. Nurul Islam, Former Director, BMET, MoEWOE on the BCSM workshop held on 5th September 2024.
[406] Abul Kalam, Former Joint Secretary, BMET, MoEWOE on the BCSM workshop held on 5th September 2024.
[407] Abul Kalam, same as 14
[408] Japanese, English, Arabic, Korean, and Cantonese language.
[409] Interview of Salim Reza, Former Secretary, MoEWOE, 20 October 2024.
[410] Abul Kalam, same as 14.
[411] Tovesood, City and Guild, DNVGL.
[412] Islam, S. (2024, October 26). *Lokkhomatrar ek-tritiyangsho proshikkhono dite parche na BMET*. Dhaka: Banikbarta. Available at: https://archive.ph/oUEhv
[413] As per the exchange rate of 25.11.2024

Elaborate Laws and Institutions: Poor Functionality

A complex institutional structure governs international labour migration in Bangladesh, encompassing the Ministries of Expatriates' Welfare and Overseas Employment (MoEWOE), Foreign Affairs (MoFA), Home Affairs (MoHA), Civil Aviation, BB, BMET, DEMOs, TTCs, the Wage Earners' Welfare Board (WEWB), and *Probashi Kallyan Bank* (PKB). Numerous policies, laws, and regulations are also in place.[414] BMET, under the MoEWOE, is responsible for market exploration, employment creation, immigration clearance, skills and awareness-raising training, and managing the WEWF. However, BMET's institutional coherence was compromised in 2011 when the WEWB was established to manage the WEWF, leading to significant functional overlap between BMET and WEWB. These two agencies operate under separate laws: the Overseas Employment and Migration Act of 2013 and the WEWB Act of 2018. Both are responsible for pre-departure briefings, social protection measures, and managing welfare desks at airports, which results in tension. Functional overlap also exists between the ministry and BMET, as the ministry frequently overrides BMET's recruitment decisions. TIB has documented corruption in various stages of recruitment processing, including the issuance, suspension, and cancellation of licences, as well as in the payment of compensation for deaths and other incidents (Khoda & Akram, 2017).

Unprecedented growth of recruiting agencies: Under Rules 4, 6, and 11 of the 2019 Regulation on Recruiting Agencies, BMET is responsible for issuing, renewing, and suspending licences for private recruiting agencies. Over the past decade, political factors and corruption have been key drivers behind the rapid expansion of licensed agencies. From 1976 to 2015, the government issued licences to 935 recruiting agencies (RMMRU, 2016), with an annual average of 20 to 30 new licences issued and some errant agencies having their licences suspended or revoked. However, between 2018 and 2023, 1,185 new licences were granted, with 800 issued in 2022 and 2023 alone[415]. Aspiration to become a part of syndicate for Malaysian labour market and corruption have been identified as major reasons behind the sharp rise in this number. Monitoring and regulating such a large number of RAs by BMET has become a challenge.

Unnecessary privatisation: In February 2021, the MoEWOE entered into an agreement with 'Than Systems', later replaced by 'Ami Probashi Ltd', to privatise the issuance of documents and certificates for BMET. The company collaborated with the ICT Division of the GoB and signed a MoU with BRAC to promote an app for aspiring migrants.[416] Prior to this arrangement, BMET issued all relevant certificates directly. The new system imposes additional charges on migrants, such as BDT 100 for online registration, an average of BDT 525 for a clearance certificate, BDT 100 for a skills training certificate, BDT 100 for a pre-departure orientation certificate, BDT 250 for online correction of smart cards, and BDT 100 for a housekeeping certificate. A preliminary calculation suggests that, between mid-2021 and 2024, migrants may have paid an additional BDT 1,052,839,400 (USD 8,809,002)[417] in service fees. More critically, the control of operations now rests with the private service provider, which also manages access to migrants' personal data.

[414] These include the Overseas Employment and Migrants Act 2013; Overseas Employment Policy 2016; Overseas Employment and Migrants Management Rules, 2017; WEWB Act, 2018; Recruiting Agencies (License and Conduct) Rules, 2019; Overseas Employment and Migrants (Classification of Recruiting Agents) Rules, 2020; WEWB Rules, 2023; Overseas Employment and Migrants (Amendment) Act, 2023; Overseas Employment and Migrants (Recruiting Agent and Sub-Agent License, Registration and Conduct) Rules (Draft).

[415] KII of Saleh Ahmed Mujaffor, DG, BMET

[416] Ami Probashi App Website: https://www.amiprobashi.com/

[417] As per exchange rate of 25.11.2024

Unfair use of migrants' subscriptions: The WEWF was established in 1990 to manage contributions from migrant workers. In 2018 WEWB was created to manage and operationalise the fund. Initially, migrants paid a subscription fee of BDT 100, but over time this amount has been arbitrarily increased to BDT 3,500. While some migrant-specific services are funded by the WEWF, other expenditures, such as staff salaries of WEWB, market exploration tours, and the interior decoration of ministry offices, equipment purchase are also financed by the fund, raising questions about the fairness of these allocations. There is no public disclosure regarding the total amount generated or the investment strategies for the fund. Migrant households often complain about delays in compensation and scholarships, as well as the requirement for speed money. Accountability mechanisms, such as public hearings in Parliament on labour migration and the WEWF, are virtually non-existent. The role of parliamentary standing committees remains weak, and the criteria for selecting migrant representatives for the WEWB are inadequately defined. Statutory bodies, such as the CAG, the ACC, and the National Human Rights Commission, have been notably absent in the governance of labour migration.

Poor performance of PKB: The PKB was established to provide loans to departing migrants and assist in the reintegration of returnee migrants. It was founded following a prime ministerial announcement in 2011, with an initial capital of BDT 95 crore from the WEWF and an additional BDT 5 crore from the government. Despite an initial commitment to refrain from further reliance on the WEWF, the bank later extracted an additional BDT 380 crore from the WEWB to become a specialised financial institution. The bank is managed by a board comprising representatives from various ministries, many of whom lack expertise in banking. Due to weaknesses in planning, inefficient staffing (primarily due to a flawed recruitment process), a limited resource base, and its inability to establish formal connections with other scheduled banks, the PKB has only been able to provide migration finance and economic reintegration loans to a small number of migrants and their families. Moreover, it has yet to introduce other basic banking services for migrants.

Foreign missions and labour attaches (LAs): LAs offer services to migrants, particularly those in low-skilled sectors who face various forms of exploitation in their destination countries. Of the 30 LA posts, eight are located in countries that are not major destinations for semi-skilled or low-skilled Bangladeshi labour migrants (Australia, Russia, Spain, Switzerland, Japan, South Africa, Mauritius, and Hong Kong). Additionally, DEMO and BMET officials, who are directly involved with migrants, are not eligible to serve as LAs, as the posts are reserved exclusively for administrative cadre officers (Abrar et al., 2014).

Earning the highest and receiving the lowest: International labour migration is Bangladesh's highest net foreign exchange earner. Despite this, the allocation for the MoEWOE remains disproportionately low. From 2010-11 to 2023-24, the ministry's average budget allocation was just 0.08% of the total national budget.

Bilateralism vs Multilateralism

The discussion above shows that Bangladesh and for that matter most of the other source countries deal with labour migration bilaterally. But it is an important multilateral issue as well. From the perspective of migrants' rights, the 'International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families (ICRMW), 1990' is an important instrument. The Colombo Process and Abu Dhabi Dialogue are two other important initiatives of the governments of Asian countries. The Global Compact for Safe, Orderly, and Regular Migration (GCM) is a recently (2022) framed non-binding multilateral framework. Unfortunately, due to the disinterest of the receiving countries, UN bodies have shied away from the 1990 Convention. Other multilateral initiatives are yet to produce significant results in addressing challenges such as minimum wage, decent work conditions, right to social protection for migrant workers, etc. in multilateral forums. Bangladesh is at the forefront of these platforms. However, it is yet to make effective use of these forums in ensuring the rights of male and female migrants.

17.3 Way Forward

Bangladesh has made significant progress in establishing laws and policies to govern labour migration. However, their implementation remains inadequate. The key challenges in labour migration governance over the past decade are multifaceted, with institutional weaknesses being one of the primary issues. Although several institutions manage labour migration, there is functional overlap. The establishment of additional TTCs, the creation of a separate bank for migrants, and the formation of the WEWB without securing a national budget allocation reflect interventions that lacked proper planning and feasibility studies under the previous governments.

Transparency issues have arisen, as a powerful group of recruiting agents with links to the ruling party has used its parliamentary influence to shape policies in their favour, bypassing fair competition. This syndication resulted in the siphoning of USD 2 billion. The unprecedented expansion of recruiting agencies also indicates government involvement in corrupt practices. The government's reluctance to regularise sub-agents, the misplacement of LAs in regions with low migration, the high cost of migration, and the syndication of labour markets are further consequences of the convergence of interests between policymakers, senior bureaucrats, and recruiting agencies. Visa trading may have led to a loss of BDT 1.3 trillion in remittances. The decline in remittance flows since 2021 is also linked to migrants' eroded confidence in the banking sector, following the takeover and loan defaults by powerful business groups tied to the ruling party. Female migrants, who predominantly work as domestic workers, still lack long-term policies for targeted skill development, and their protection in destination countries remains insufficient. To alleviate some immediate hardship some short-term measures, and some policy and administrative reforms are suggested below.

To alleviate immediate hardship

The government should immediately issue a circular to ensure that the recruiting agencies return money to the concerned migrants if they are unable to send the letter within 6 months of receiving the amount. This can begin with the recent calling visa cases in Malaysia. The number of shelter homes in major female migrants receiving provinces/states/districts should be increased from the government's resources or the fund of WEWB.

Offices of labour attach from countries with low rates of labour migration (Australia, Russia, Switzerland, Japan, South Africa, Mauritius, and Hong Kong) can be immediately relocated to countries and provinces with excess demand for labour attaché services according to market needs. Exploring new job opportunities should be left with the Bangladesh foreign missions of those countries.

An independent committee needs to be formed to review existing licenses issued to agencies during the last 10 years. The committee should suggest ways for identifying and suspending/cancelling licenses of fraudulent recruiters. Also, licences issued to the immediate family members of existing licence holders should be rescinded.

Policy Reforms

Following the 2009 recommendation of the parliamentary standing committee on the Ministry of Expatriates' Welfare and Overseas Employment (EWOE), a dedicated cadre service should be introduced to retain and utilise the knowledge and experience of officials within the ministry. The BMET should be restructured into a department with multiple directorates. The resources of the WEWF should be used exclusively for direct migrant benefits, and the current system of funding WEWB officials' salaries from the WEWF should be replaced with an allocation from the revenue budget.

An assessment should explore ways to reduce the welfare fees charged to migrants. Additionally, the WEWB should annually publish updated information on the status of the WEWF.

To enhance the efficiency of the PKB, the original selection criteria for its Chairman, which allows experienced retired bankers to hold the position, should be reinstated. The number of bureaucrats on the PKB Board should be reduced, with more bank management professionals appointed. The PKB should expand its network with other banks to offer migration and reintegration loans and conduct an assessment of its financial viability.

The rules for implementing the Overseas Employment and Migrants (Amendment) Act, 2023, should include clear criteria for selecting countries and cities for the establishment of LA offices. LAs in countries with low migrant populations should be reassigned to areas with higher demand. Along with those in administrative cadre officials of BMET and DEMOs should also be allowed to serve as LAs. The regularisation of sub-agents, as stipulated by the Overseas Employment and Migrants (Amendment) Act, 2023, should be promptly enacted, with the necessary rules for sub-agent regularisation formulated without delay.

To prevent conflicts of interest, elected parliamentarians involved in recruiting businesses must be prohibited from engaging in such activities. The government must demonstrate its commitment to the labour migration sector by allocating sufficient funds in the national budget. At least 1% of the annual national budget, or 5% of annual remittance flows, should be dedicated to this sector.

Administrative Reforms

Accountability measures, such as public hearings in parliament and the regular functioning of parliamentary standing committees, must be ensured. Criteria for migrant representation in the PKB and WEWB should be established and adhered to. CSOs should be represented in BMET arbitration. The Overseas Employment and Migrants (Classification of Recruiting Agents) Rules, 2020, should be implemented. To rationalise the number of recruiting agencies, licences for non-performing agencies and those involved in fraud should be cancelled. The recent surge in recruiting licences should be investigated to ensure decision-maker accountability. Prosecution and punishment of key actors involved in the 2016 and 2021 syndications to Malaysia should be prioritised. Restoring migrant confidence in the banking sector requires transparency regarding measures undertaken to stabilise it.

To reduce migration costs, the government should raise the issue of visa trading in multilateral forums and bilateral negotiations. Strict controls should be placed on recruiting agencies to prevent arbitrary increases in visa costs that could disadvantage South Asian competitors. In BMET arbitration and local mediation, compensation for premature migrant returns should be set at five times the government-determined cost. Skills development must be recognised as a critical pathway to decent employment. The training of TTCs should be reorganised, with adequate funding from the revenue budget.

To expand female migrant employment opportunities beyond domestic work, skills training programmes for women should be diversified. Following the best practices of the Philippines, an embassy monitoring system and the establishment of shelter homes should be introduced as needed. In cases of suspected unnatural deaths, a second autopsy in Bangladesh should be mandated. To ensure reliable migration data, the BBS should incorporate a migration module into the population census, and BMET should implement an integrated data management system that includes return migration.

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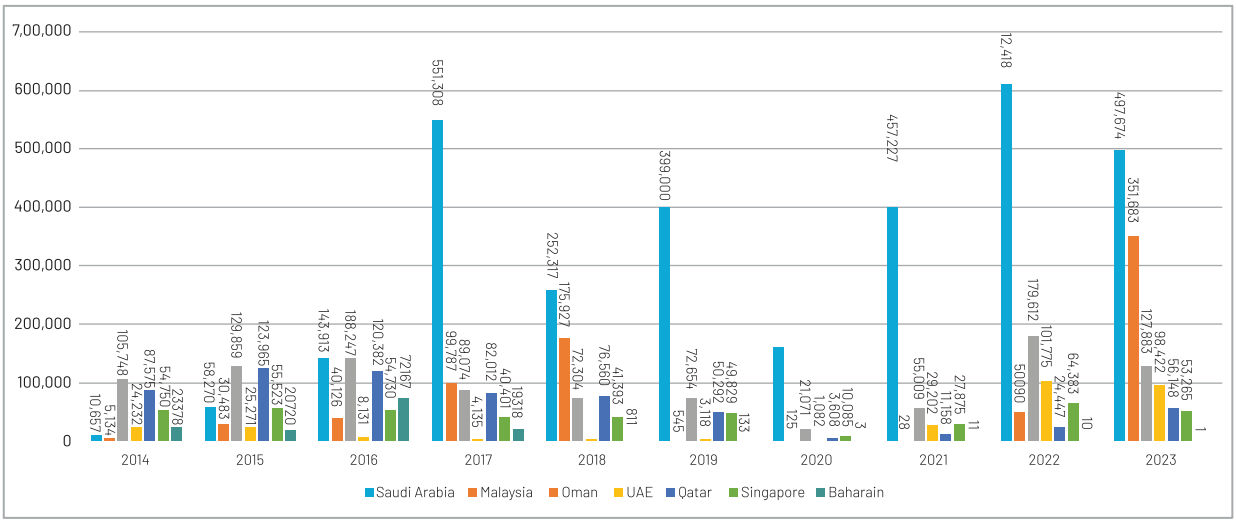
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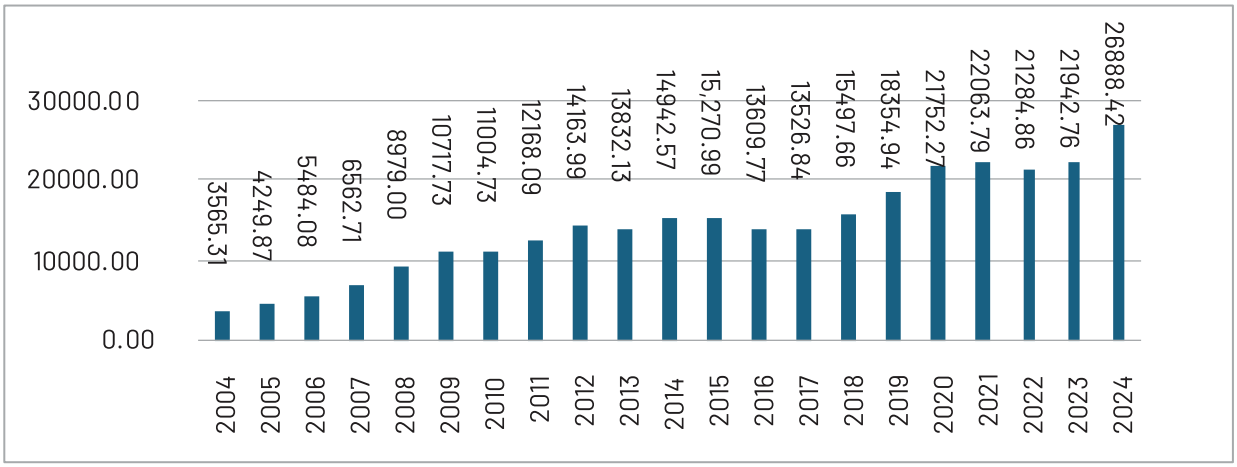
ANNEX 1

Chart: Annual migration flow to selected countries



Source: Prepared by RMMRU from BMET Data

Chart: Total remittance 2001 - 2024



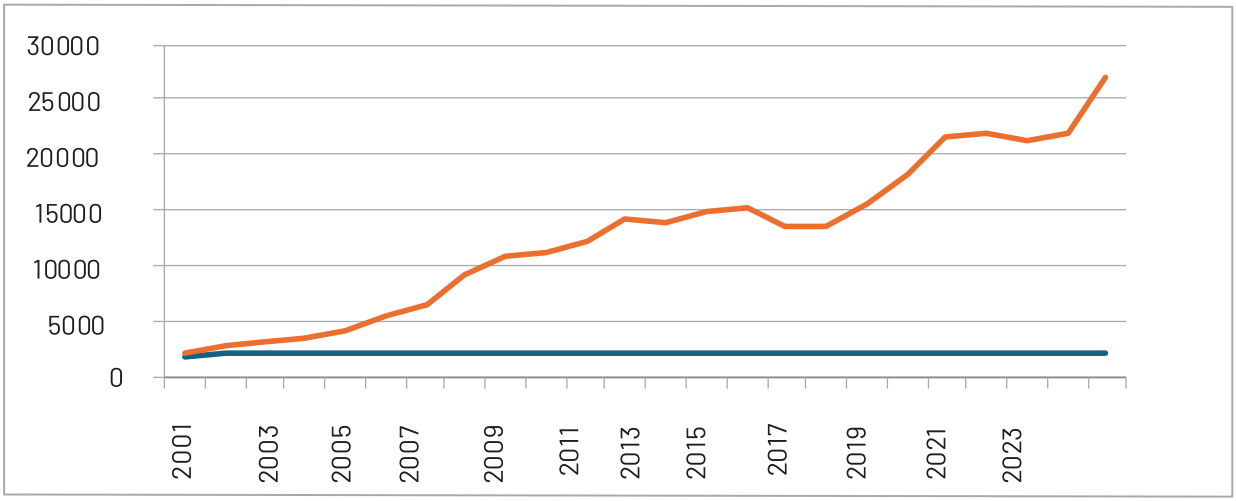


Chart: Wage earners remittance inflows - Country wise in 2024

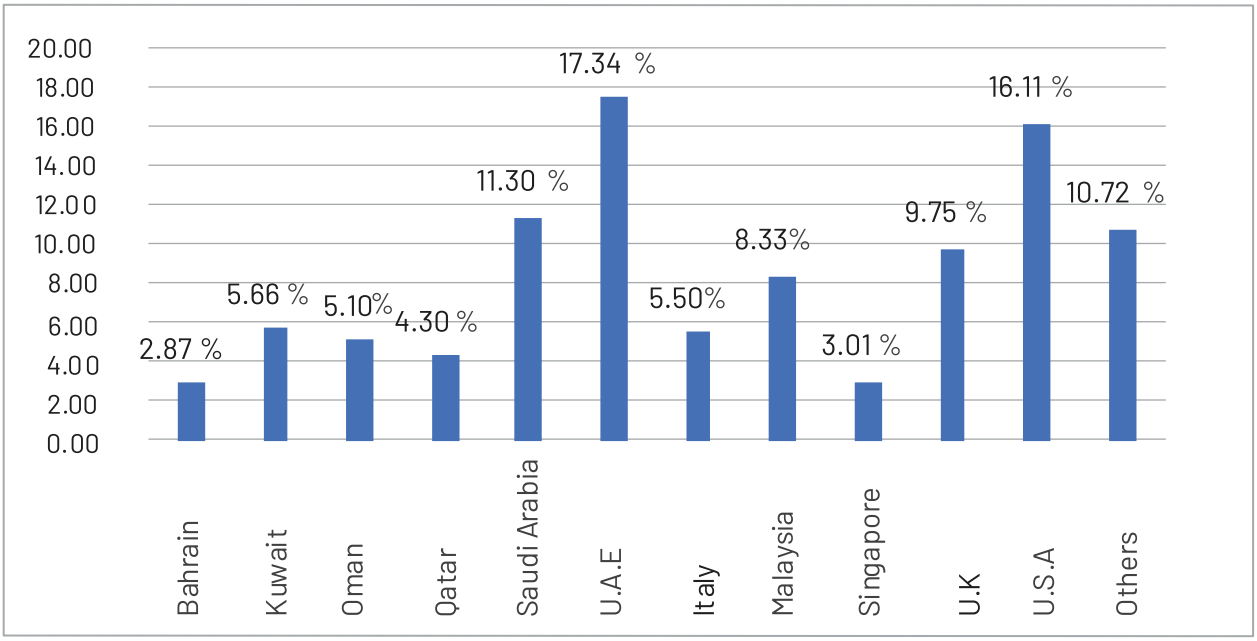
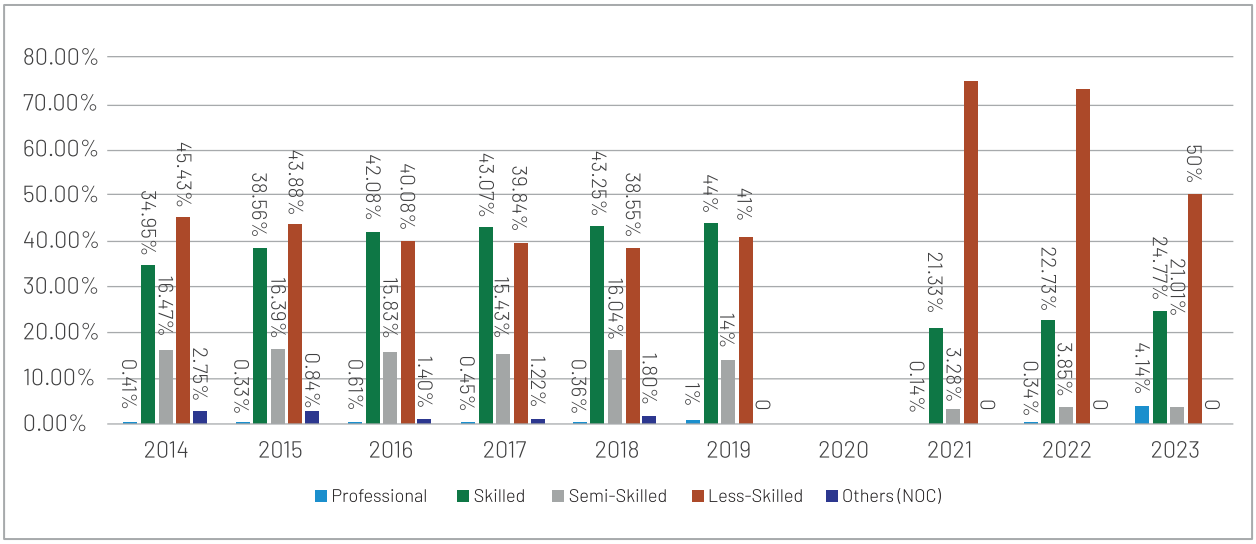


Chart: Year-wise percentage of skill composition of international migrants (2014-2023)



Source: Prepared by RMMRU from BMET Data

Chapter XVIII. Environment and Climate Change: A Disaster in the Making*

State of the Environment: Glass Half Full

18.1 Mixed Bag of Successes and Failures

The environmental situation in the country has generally worsened, despite a few positive developments: (a) at least 224 manufacturing units have attained the highest global standard ratings (Leadership in Energy and Environmental Design, LEED)[418] by adopting pro-environmental measures; (b) the imposition of a moratorium on harvesting Hilsha fish (Hilsha Illisha) during the peak spawning season, combined with modest compensation for open-water fishermen, has initiated a reversal in the decline of Hilsha availability; (c) air pollution from brick kiln operations has been partially mitigated through regulatory and policy measures; (d) community forestry has been promoted, notably through co-management of roadside forestry. Furthermore, the GoB has adopted the National Conservation Strategy, a policy aimed at ensuring the sustainability of natural resources.

Recently, the GoB has acknowledged the development of biodegradable plastic material from jute fibre. This innovation provides an opportunity to replace widely used plastic bags and could significantly reduce plastic pollution in water bodies and on land. However, despite the official ban on the production and use of polythene bags under the Bangladesh Conservation Act 2002, these non-degradable bags continued to be used and dumped in open areas. This not only polluted land and water bodies but also exacerbated urban drainage congestion by obstructing drainage outlets. Previous administrations largely ignored the public violation of the Act and failed to utilise media outlets to discourage the disposal of such polluting substances.[419]

However, several pervasive environmental challenges persist:

a. widespread plastic waste disposal, despite the national ban enacted 22 years ago;
b. the continued use of bindi nets to capture small fish fries, in defiance of the 2013 ban on the production, sale, and use of such nets, which threaten fish biodiversity;
c. the unchecked bioaccumulation of carcinogenic poly-chlorinated biphenyls in small fish species in rivers near Dhaka, due to the illegal dumping of waste transformer oil;
d. inadequate environmental impact assessments (EIA), particularly when GoB institutions are involved as proponents, and a lack of attention to potential environmental concerns (e.g. poor EIAs for the Rampal power plant and a road construction project obstructing haor drainage and worsening floods in Nikli);
e. Dhaka's resurgence as the most polluted city globally, due to deteriorating air quality;
f. the continued decline in the canopy cover of remaining forests, despite the Bangladesh Forest Department's planned management approach;
g. these issues suggest that while Bangladesh has made some progress in environmental protection, it has often faltered, losing momentum and straying from its goals.

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[418] As of July 11, 2024, 88 factories have achieved Platinum LEED certification, and 122 units have achieved Gold LEED certification. Among these, 59 out of the top 100 highest-rated LEED-certified factories in the world are located in Bangladesh!

[419] The current regime imposed a second ban starting 1 October 2025, which apparently reduced usage but did not eliminate it to a significant extent.

18.2 Managing Urban Air Quality: The Reversal of Misfortune

At the turn of the century, Bangladesh appeared to have turned the tide in its battle against air pollution. Dhaka had been competing with Mexico City for the title of the most polluted city but managed to reverse this trend. In 2002, the government replaced two-stroke engines in tri-wheelers with four-stroke engines and switched fuel from diesel to compressed natural gas (CNG). Tax incentives were provided, and roadside CNG fuelling stations were established in the early 2000s. By the end of the decade, approximately 90% of the polluting tri-wheelers had been removed from the streets (100% from Dhaka), and the city was no longer considered one of the most polluted cities globally.

In addition, the introduction of long chimneys in brick kilns, coupled with strong regulatory enforcement by the DOE, contributed to improved air quality. However, the rapid growth of the transportation sector, particularly in urban areas, has led to the persistent burning of fossil fuels, resulting in the emission of carbonaceous gases, NOx, PM10,[420] and the particularly hazardous PM2.5 – the latter being a leading cause of air pollution-related deaths in urban centres.

By 2022, Dhaka had regained its status as the most polluted city. Despite the commencement of metro-rail operations on one of its six designated routes, the high number of polluting vehicles and the continuous emissions from vehicles stuck in traffic congestion remain the primary causes of deteriorating air quality. Factors contributing to this regression include: a) rapid growth in the number of vehicles; b) rising CNG prices, leading to a decline in the conversion of vehicles to CNG; c) rationed CNG refuelling times; and d) increased construction activities due to economic growth. Nevertheless, other cities, such as Chattogram and Narayanganj, enjoy better air quality than Dhaka.

18.3 Towards Cleaner Transportation: The Role of Hybrid and Electric Vehicles

There is growing optimism that the introduction of hybrid vehicles and, eventually, battery-run electric vehicles (EVs) will lead to cleaner transportation. A combination of metro-rail systems and EVs could reduce reliance on liquid petroleum fuels, thereby decreasing air pollution over the coming decades. However, the feasibility of this transition depends on international oil prices, the convenience of refuelling with liquid petroleum fuels, and consumers' refuelling behaviour.

Moreover, the introduction of EVs raises new concerns, particularly regarding the disposal of used batteries. If not managed properly, this could exacerbate soil and water pollution. While incentives are being developed to encourage the adoption of less polluting EVs, disincentives are equally necessary to address the environmental risks posed by spent batteries. A battery recycling centre, supported by an enforceable protocol, must be established for the proper disposal and recycling of EV batteries. At present, efforts to recycle used car batteries (particularly lead-acid batteries) are inadequate due to the existence of a clandestine market for used batteries. A thorough analysis is required to make informed decisions on this issue.

18.4 Balancing Economic Growth with Environmental Responsibility

Over the past four decades, Bangladesh has experienced significant growth in the RMG industry. However, this progress has been accompanied by several disastrous incidents, such as the collapse of the Rana Plaza and the fire in Sitakunda Upazila, both of which resulted in loss of life. In recent years, factories, under pressure from international buyers, have sought to achieve high LEED rankings. Despite this, it is unwise for Bangladesh to rely on external certification bodies. Instead, the country should collaborate with researchers to establish local certification institutions. This would save foreign exchange and create domestic employment opportunities.

[420] Gaseous particulate matters (PM) smaller than 10 micron (i.e, 10-10m) can easily enter human lungs, causing immediate deterioration of lung function and triggering respiratory diseases. PM2.5 particles are the worst air pollutants.

The RMG and textile industries frequently handle large quantities of hazardous chemicals, particularly for dyeing and fabric treatment. For instance, a denim-producing facility in Kaligonj uses over 700 tonnes of chemicals per day. Transporting such large quantities of chemicals poses significant risks and requires the establishment of clear safety guidelines. An accident involving these chemicals could endanger thousands of lives.

Furthermore, the RMG sector continues to pollute rivers and canals. The Bongshi River in Tangail has become lifeless due to contamination from the RMG industry. Dyeing, fabric washing, and garment factories fall under the Orange-B category in the Environment Rule 1997, which mandates an Initial Environmental Examination (IEE). Based on the IEE, an EIA may also be required. However, no RMG or textile factories have undergone this scrutiny, and the reports are not publicly available. This represents a violation of regulations, and the DoE has been largely inactive in this regard.

Despite evidence that Effluent Treatment Plants are ineffective in controlling environmental pollution, the DoE continues to mandate their implementation. This has imposed a substantial financial burden on industries, while the need for Centralised Effluent Treatment Plants (CETPs) remains largely unaddressed. Ironically, when tannery factories were relocated to Savar in a newly built industrial estate, the CETP was not operational, resulting in the pollution of the previously clean Dhaleswari River.

The failure of the DoE to enforce its own regulations is perplexing. This may be due to kickbacks received by DoE officials or the political influence exerted by the tannery and RMG associations, which have had considerable sway in the parliament until recently.

18.5 Challenges and Controversies in the Environmental Impact Assessment Process

EIA were made mandatory under the Environment Rules of 1997 to mitigate environmental pollution, rendering EIA certification a critical concern for industrial entrepreneurs. Additionally, these entities are required to renew their Environmental Clearance Certificates (ECC) annually. However, the application of this process is inconsistent.

There have been allegations that the EIA process is often neglected during project formulation, even when an EIA is conducted. In many cases, the relevant documents are not made available for public review, nor are public hearings conducted as mandated by the regulations. Furthermore, private investors have raised concerns about lengthy processing times and arbitrary decision-making, which have created opportunities for corruption.

The Environment Rules of 1997 apply equally to all private and public projects and investments. Yet, there have been instances where EIA approval was granted to public projects without proper public scrutiny until a CSO raised concerns. For example, the **EIA for the Rampal coal-powered power plant** underwent multiple revisions before being accepted, largely due to the involvement of an expert body formed by an advocacy group.

Similarly, a **29.73-kilometre road**, constructed between 2016 and 2020 at a cost of ৳874.08 crore to facilitate communication in **the haor region of Kishoreganj** (Itna, Mithamoin, and Astagram), has caused untimely flooding and damaged thousands of hectares of paddy crops. The road impedes the flow of upstream water into the rivers through the haor. As per the Environmental Rules of 1997, local road construction falls under the Orange-B category, requiring an IEE. However, **no such examination was completed**, as confirmed by the relevant official from the DoE. Despite this, the former Prime Minister officially inaugurated the Itna-Mithamoin-Austagram road, presenting it as a gift from former President Abdul Hamid during Mujib Borsho (Mujib Year).

The relocation of Hazaribag tanneries to Dhaka, prompted by concerns over pollution in the Buriganga, resulted in the establishment of a new tannery estate in Savar. Ironically, no EIA was conducted for the construction of this new estate, which is located by the Dhaleswari River and falls under the Red category in the Environment Rules of 1997. According to these rules, such estates are required to obtain an ECC annually; however, no such steps have been taken.

During public consultations with the White Paper Committee in Sylhet and Rajshahi, local residents expressed concerns about establishing hi-tech parks in wetlands. The Environmental Assessment of Sylhet Hi-Tech Park states:

> **The proposed project site is situated on the eastern side of Sylhet... It is a Khash Land and The Ministry of Land gave their concurrence to hand over these 162.83 acres of land to Bangladesh Hi-Tech Park Authority for establishing the proposed Sylhet Electronics City (SEC).** The transferring process has been made under section 10 of 'Non-Agricultural Khas Land Settlement Policy, 1995'. There is no dispute over the land and no legal impediments to using the land for developing the proposed SEC. ... **The site is almost 15 feet lower than the Sylhet – Bholagonj road. It usually remains under water for 3 to 4 months during the rainy season but also has the possibility of enduring flash floods during the rainy season ...**

The description fails to define the area as a 'wetland' or explain the connection between this low-lying land and the adjacent haors and beels, despite local concerns.

Allegations of malpractice within the DoE have also surfaced. TIB reported that some EIA-specialist firms and consultants have 'connections' with DoE officials responsible for EIA certification. The quality of many EIA reports is questionable, with many being mere copies of other documents. The belief among DoE officials that government offices may bypass environmental clearance requirements for their projects is a clear violation of the Environment Act and the Environment Rules.

The construction of roads in floodplains without adequate environmental analysis has increased flooding incidents. Many believe these roads, which obstruct the drainage of rainwater, have worsened flooding in nearby areas, causing substantial damage to public and private property and creating hardship for millions.

The government has identified 13 Ecologically Critical Areas (ECAs) since 1999, with four of them designated since 2009. Ideally, decisions related to ECAs should be made solely by the Environmental Committee (EC), chaired by the Prime Minister. Unfortunately, the EC has held only two meetings in the past two decades. Political leaders often use rhetoric regarding environmental issues and promote conservation measures, such as awarding national environmental prizes at ceremonies. However, these efforts are largely symbolic and part of political rituals.

Clearly, the actions of the government and the provisions of the Act do not align. Such selective implementation of laws and regulations contradicts the principles of justice and fairness, resulting in widespread suffering. Government organisations and ministries remain unaccountable, while violations of rules by government officials and political leaders contribute to anarchy. This situation has been labelled a form of 'greenwashing' by the government.

18.6 Declining Awareness of Environmental Conservation

Public awareness of environmental issues has remained largely unchanged over several decades of the DOE's existence. For instance, local media often report instances of mob killings of tigers in Shyamnagar Upazila or dolphins in the Ganges or Dhanu rivers. If public awareness were high

regarding environmental conservation, such incidents would not be as widespread in the media. The awareness level among environmental specialists is also questionable. Following proper EIA procedures, the Chattogram to Cox's Bazar train line was established by the previous government. In October 2024, a Chattogram-Cox's Bazar commuter train struck an elephant, as the rail line passed through an elephant habitat. The EIA report recommended creating a 'safe passage' for elephants using an overpass; however, the planning was inadequate. Critics argue that the overpass should have been for the train, not the elephants, highlighting the weak quality of the EIA report.

18.7 Forest Without Trees

Bangladesh officially claims that 11% of its land area is covered by forests (FAOStat), with 2.6 million hectares designated as forest land. However, nearly 6% of the total land, or 35% of the designated forest land, has been deforested naturally or through human intervention. Some of these areas are now designated as ECAs. Unfortunately, the management of ECAs falls under the DoE, which faces a conflict of interest. As a regulator, the DoE is expected to enforce rules, but as an implementing agency, it cannot regulate its own actions, leading to non-compliance. Critics argue that vested interests within the DoE may contribute to this issue.

Official records show that the Bangladesh Forest Department (BFD) experienced an average annual loss of 2,600 hectares of primary forest between 1990 and 2015. While there may have been a reversal in the deforestation rate within BFD-managed forests, areas outside the Sundarbans and remaining sal forests have significantly diminished in canopy cover, to the extent that further deforestation is no longer possible. Bangladesh now has official forest lands without forest canopy (Global Forest Watch).

Nevertheless, the state of alternate greening efforts in rural villages should not be overlooked. During the afforestation month (1st June to 30th June: *Jatiyo Bonayon Mash*), rural residents have taken on the responsibility of planting trees along rural roads. This annual ritual has led to villages becoming greener, as confirmed by satellite and drone imagery. Villagers value living trees, often comparing them to bank accounts that can provide emergency funds when needed. The incentives offered by the BFD have encouraged villagers to collectively establish roadside plantations, making villages appear greener than before.

Since 1989, Bangladesh has implemented a moratorium on tree cutting in its forested areas. As a result, there is a need to shift the focus of the Forest Department from forest management to wildlife management, which could attract tourists and generate income. Many countries have rebranded their Forest Departments as Departments of Parks to better promote the care of both terrestrial and aquatic animals.

18.8 Groundwater Depletion: Whither Compromising With Food Security of Future Generations?

Scientific reports based on 38 years of groundwater (GW) hydrological data indicate that GW in approximately two-thirds of the country's irrigated areas has either been depleted or marginally depleted (Mojid et al., 2019). The gradual decline of aquifer systems has been confirmed in certain regions. The depletion of GW resources suggests that groundwater is being extracted without sufficient replenishment, thereby compromising the food security of future generations (Shamsuddoha et al., 2022). Apart from the implementation of a minimum distance rule between adjacent irrigation tubewells, there is no systematic protocol for the allocation of GW resources nationwide. Furthermore, disagreements between agencies persist regarding the definition of several critical aspects of this resource. In response, the relevant ministry issued an order to enforce the Water Act, which also instructed the Bangladesh Water Development Board (BWDB) to develop a plan for establishing a coordinating agency responsible for GW allocation at various

governance levels. A draft organogram has been produced and shared with the BWDB, but the outcome has been pending since December 2020. To ensure the justifiable use of this vital resource, a Directorate for GW Monitoring, Allocation, and Management needs to be established.

18.9 Overall Understanding Regarding Environmental Management

Although the country may appear to have made progress in addressing certain environmental issues, significant management failures remain, despite some achievements. The ministry responsible for environmental management has faced increasing challenges in recent years. Since 2018, the ministry has been tasked with leading the country's response to climate change. However, this added responsibility has not been accompanied by a corresponding increase in human resources or financial support relative to the overall budget. As climate change is a relatively new issue, the ministry lacks the necessary expertise to formulate policies and provide technical advice to other ministries. While the inclusion of climate change in the ministry's remit has led to opportunities for officials to participate in international meetings, this has, at times, diverted attention away from the ministry's core responsibilities of environmental management.

Mainstreaming Climate Change—Only Sizzle, but No Steak

18.10 Climate Change and Bangladesh

Bangladesh is widely recognised as one of the most vulnerable countries to climate change. As such, it faces severe impacts from global warming and must implement strategies for adaptation to climate-related disasters. The GoB's National Adaptation Plan (NAP) 2022 provides a detailed framework for such adaptation efforts.

18.11 National Adaptation Plan: Ambitious Initiatives Amid Concerns Over Transparency and Effectiveness

The NAP allocates approximately $220 billion for adaptation activities in Bangladesh (MOEFCC, 2022). These funds are primarily intended to mitigate climate threats that are expected to affect millions of people. In 2009–10, the Government established the $480 million Bangladesh Climate Change Trust Fund (BCCTF) under the MoEFCC to finance climate-related projects.

According to NAP documents, 800 projects focused on adaptation, mitigation, and climate change research have been initiated.

While the scope of these projects is commendable, an independent audit is necessary. Critics argue that the projects resemble a 'cunning fox and foolish crocodile' scenario. Many projects were not entirely new, and funds were distributed to numerous NGOs with no prior experience in climate issues—often affiliated with ruling party MPs or influential government officials in their constituencies. As a result, the trust fund has been labelled a 'Mistrust Fund' due to its lack of transparency.

Heatwaves, Dengue, and Other Emerging Threats

Despite global attention on Bangladesh's climate change efforts, the country remains ill-prepared for heatwaves, a significant climate stressor. Data shows that from 1990 to 2020, the average annual temperature was approximately 0.8°C higher than during the 1960–1990 period. The rate of temperature increase from 2011 to 2020 has been particularly rapid. In 2024, Bangladesh recorded its first daytime temperature exceeding 40°C, leading to heat stress and fatalities.

As temperatures continue to rise, vector-borne diseases such as dengue and malaria have become more prevalent. In 2024, dengue cases extended beyond their usual peak months of April to June, affecting the entire country. Yet, Bangladesh remains inadequately equipped to address this growing health threat.

18.12 Climate Variability on Rainfall Patterns and Flooding in Bangladesh

Rainfall patterns in Bangladesh, in contrast to temperature trends, exhibit significant variability, which is also influenced by global warming. These shifts are likely to alter both the total rainfall and the duration of the rainy season, affecting flooding patterns, including riverine and flash floods. Such changes will pose a greater risk to agricultural production, thus threatening food security and livelihoods.

Basak et al. (2013) analysed rainfall data and found that total rainfall in the monsoon and post-monsoon seasons had increased, while winter rainfall decreased, with pre-monsoon rainfall remaining unchanged. This trend puts Aman season crops at risk. In 2024, several districts experienced flooding even in late September, a deviation from previous patterns, due to heavy rainfall in river catchment areas. The government's failure to predict and prepare for such a disaster highlights Bangladesh's unpreparedness for climate variability.

During the late monsoon of 2024, cloudbursts caused sudden flooding in Parshuram (Feni), Cumilla, Cox's Bazar, Lalmonirhat-Thakurgaon, and Sherpur districts from late August to September. Additionally, the breach of the embankment on the Gomati River exposed weaknesses in flood infrastructure. Despite millions of dollars spent on embankment construction through the BCCTF, the Gomati embankment was not included in adaptation plans. This failure underscores the corruption that has plagued resource allocation under the BCCTF.

18.13 Threats of Sea Level Rise and Coastal Vulnerability in Bangladesh

Sea level rise presents a significant threat to coastal Bangladesh, particularly if polders are not maintained adequately. The NAP 2022 predicts that some inner-coastal districts, previously unprotected by polders, may face inundation due to rising sea levels. Districts such as Faridpur, Chandpur, Pirojpur, Shariatpur, and Gopalganj could be at risk from tidal surges.

While some argue that not all observed changes can be attributed to climate change, the physical impact of sea level rise is evident. The disappearance of South Talpatti Island in the Bay of Bengal is a clear example of the threat posed by rising sea levels. Islanders along the coast report that peak tides, even during the November-December period, now reach heights previously unseen. While lacking systematic data, anecdotal evidence from local residents, along with the disappearance of South Talpatti Island, strongly suggests that sea level rise is already affecting the coastal zone.

These developments indicate that Bangladesh must urgently secure additional funds for adaptation. In 2021-22, the country spent nearly $2.96 billion on adaptation (MOEFCC, 2022). However, the unpreparedness demonstrated during the 2024 floods raises serious concerns about the effectiveness of these expenditures and the potential misappropriation of funds.

18.14 Trends Observed Concerning Climate Change Policy Making

Rhetorics, Not Integrated Actions

Bangladesh has garnered global recognition for its leadership in the climate change policy arena, particularly in bridging the gap between science and policy. The concepts of 'community-based

adaptation (CBA)' and 'locally led adaptation' originated from Bangladesh's experimentation with micro-scale adaptive measures. The country has been a pioneer in (a) developing a National Adaptation Action Plan (NAPA) and the Bangladesh Climate Change Strategy and Action Plan (BCCSAP); (b) establishing the BCCTF using its own resources; (c) forming the Most Vulnerable Forum for the most climate-vulnerable countries; (d) analysing national investments in climate-sensitive sectors; and (e) integrating climate change concerns into all project designs, culminating in the publication of a revised DPP manual.

However, many of these pioneering initiatives have remained largely unfulfilled, primarily due to the failure of successive governments to translate policies into concrete actions. There has been inadequate institutional preparation, inter-agency coordination, and financing. Despite these initial steps, much of the policy development has been perceived as rhetoric designed to secure more adaptation funding. The Delta Plan 2100, for example, was based on unrealistic assumptions with no clear scientific evidence, while the Mujib Climate Prosperity Plan (2022–2041) appeared to serve as election propaganda. Many of these documents remain isolated efforts, lacking coordination and synergies.

Table 18.1 summarises the status of various climate change plans and actions announced in recent decades:

Table 18.1 Policy and strategy regarding climate change and their implementation status

Instrument	Year of pronouncement	Current status
NAPA (National Adaptation Programme of Action)	2005	The programme has been abandoned. Only one component was implemented through a project. Mitigation was not considered.
BCCSAP (Bangladesh Climate Change Strategy and Action Plan)	2009	None of the 77 items in this holistic document have been fully implemented. The Ministry of Environment, Forest and Climate Change (MoEFCC) failed to engage other stakeholders. Even the most relevant ministries and agencies have shown limited interest in implementing the action plan. Efforts to update or revise the plan (2019–present) have resulted in a draft currently under review by the MoEFCC. The draft has not been accepted, reportedly due to poor quality (as indicated during consultations with the WPC).
CCGAP (Climate Change Gender Action Plan) (BCTF & UN Women, 2024)	2013, updated in 2023	The updated plan outlines six sectoral activities but lacks prioritisation or specific timeframes. Both the original 2013 plan and the 2024 update fail to align with other strategies. No designated custodian has been appointed to ensure its implementation.
Bangladesh Delta Plan 2100	2018	A perspective plan for the current century, with a significant focus on climate change and adaptation. The Ministry of Planning (MOP) led its development through a consultative process. However, it suffers from a lack of inter-institutional coordination and limited buy-in, while human resource challenges persist.
NAP (National Adaptation Plan, 2023–2050)	2022	The adaptation costs outlined in the plan are unjustified and lack methodological rigour. The plan does not facilitate coordinated efforts among the identified stakeholders. Implementation is in its early stages, but lack of inter-agency support may hinder its success.
Mujib Climate Prosperity Plan (2022–2041)	2022	A 20-year plan addressing both adaptation and mitigation. Developed by the MoEFCC, it fails to present a cohesive climate or prosperity strategy. The plan reflects the priorities of the previous regime, with exaggerated implementation costs. The estimated figures are unrealistic, both in terms of benchmark costing and institutional capacity to finance the plan. Furthermore, the plan lacks the necessary institutional framework for successful execution.

The regime and its loyal bureaucracy have begun to assert that climate change actions were primarily achieved through the country's fiscal processes, regardless of the planning approach. At the governance level, there is a prevailing belief that climate change initiatives are being effectively implemented, fostering a sense of complacency. Targets have been overstated, particularly with regard to the mobilisation of climate finance from domestic resources. While the estimated target for financial mobilisation was over $90 billion between 2022 and 2030, with much of this expected from international sources, Bangladesh managed to secure approval for projects[421] worth less than $0.5 billion from the Green Climate Fund (GCF) between 2015 and 2024. Moreover, development partners withdrew from the Bangladesh Climate Change Resilience Fund (BCCRF) within four years of its establishment in 2009.

18.15 Failed Integration of Climate Concerns at Planning Levels

The GoB implemented only one initiative from the NAPA, despite its initial promise as a model for many LDCs, Small Island Developing States, and African nations. A subsequent effort, the BCCSAP (MOEF, 2009), was similarly hailed as a pathfinder but failed to be effectively mainstreamed, as relevant actors were not adequately involved.

To facilitate BCCSAP implementation, the MoP initiated a process to integrate climate change into all national project-led activities and revised its DPP. However, the MOEFCC did not undertake a systematic initiative to build the capacity of GoB officials or retain such capacity across ministries. As a result, planning cells within various ministries struggled to integrate climate change concerns, often disregarding the revised DPP (MOP, 2014) and simply stating that 'climate change would not affect the project significantly'. National documents typically acknowledged the vulnerability of multiple sectors to climate change,[422] but development projects rarely reflected this concern, neglecting to incorporate remedial measures.

To address climate change concerns in the context of SDGs, the government recognised climate change as a major barrier to development for the first time. A section dedicated to climate change was introduced in the 6th FYP, highlighting actions and their cross-linkages with other ministries and technical bodies. However, this section remained isolated and lacked integration with other parts of the plan, undermining its impact on resource allocation.

Similarly, the 7th FYP incorporated climate change again, leading to a misplaced sense of achievement. The claim that 'Bangladesh has done almost everything' was bolstered by an analysis indicating that '21% of all investments under the annual development plan are linked to climate change', which appeared to justify complacency. This perception of progress may explain why the MoEFCC initiated an unrealistic planning process to develop the Multi-Climate Change Plan, aiming to impress the Prime Minister during Mujib Year. The plan promised to create a resilient Bangladesh by 2041, though its feasibility remains unclear.

As a signatory to the Paris Agreement (COP#21, 2015), Bangladesh committed to limiting global temperature rise to 'well below 2 degrees' Celsius by 2100 (relative to 1990 levels). The revised Nationally Determined Contribution (NDC) sets a voluntary target to reduce emissions by 6.73% using domestic financing, with the possibility of a 15% reduction by 2030, contingent upon international support. BB has also provided financial resources to promote energy efficiency. However, the lack of key policy instruments hinders the effective achievement of the emissions reduction target amidst rising emissions from a growing economy.

[421] The actual mobilisation of funds has been less than 25% of the committed amount to date. The mobilisation of finance has not yet begun for any mitigation project, valued at US$256 million, from the GCF sources, endorsed by the GCF Board in 2022. The total value of the project is estimated at US$340.5 million.

[422] Communicated through the pronouncement of the Second and Third National Communications to the UNFCCC, and the Biennial Updated Report presented to the UNFCCC, the 6th and 7th Five Year Plans, BCCSAP, NAP, and the Delta Plan.

18.16 Climate Financing: The Achilles Heel That Could Not Be Guarded

Bangladesh has struggled to access global climate funds due to its inability to provide scientific evidence supporting its climate change mitigation activities. To secure funding, the government must present research-based evidence demonstrating that its mitigation projects meet expert review standards. Additionally, Bangladesh drafted national policies ahead of many international directives, which, while timely, posed challenges in proving the principle of additionality required under international climate agreements.

Much of the funding received by Bangladesh, such as from the Global Environment Facility, was intended to prepare the country for accessing further funds. However, this initiative has faltered for several reasons. First, knowledge about climate finance was not integrated into higher education, resulting in a shortage of green experts. Second, those who received training were often NGO activists or government officials. Frequent transfers of government officials to other departments led to a loss of expertise, while NGO workers, though skilled in raising awareness, often struggled to translate their knowledge into actionable outcomes. As a result, financing remains a significant obstacle. Recently, the two national organisations, PKSF and IDCOL, were designated as focal points for disbursing GCF resources, but their success in building resilience and mitigating emissions remains unproven.

Story of a Not-so-trustworthy Fund Manager

A key frustration in climate financing has been the performance of the Climate Trust (CT), established to channel funds from Bangladesh's own resources. Initial efforts to mobilise the first tranche of 700 crores (approximately US$90 million in 2009) were met with controversy and public outcry, followed by a decline in government financing.

Although national budgetary expenditure increased significantly from 2009 to 2024, climate financing has stagnated in the past eight years, currently standing at 100 crores (equivalent to US$8.3 million), a dramatic drop of 1,100% compared to 2009 levels. These figures suggest a declining government commitment to funding climate change initiatives through the CT.

Stakeholders, including government representatives, are sceptical about the BCCTF and its ability to mobilise funds effectively. Allegations have emerged regarding the selection of projects for which the limited funds are allocated. In addition, one-third of the annual allocation (US$8.3 million) is reportedly classified as 'excess availability' by the BCCTF and is placed in fixed deposits to accrue interest. This practice implies that the cost of inaction on adaptation is considered cheaper than the potential benefits from interest earnings. Hopefully, the CT's growing 'saved fund' will be invested more effectively in the future, especially as the need for adaptation continues to rise due to years of accumulated inaction.

The fixed deposits are primarily held in Padma Bank, among others. BCCTF officials estimate that about 1,400 crore BDT (including principal and interest) is kept in these banks. However, Padma Bank is currently under investigation by the ACC for embezzling funds.[423] Since its inception, the BCCTF has managed approximately 4,000 crore BDT (both disbursed and deposited in banks).

[423] https://www.thedailystar.net/news/bangladesh/news/acc-summons-ex-padma-bank-chairman-embezzlement-charges-3735256

A review of completed BCCTF projects since 2019 shows that approximately 55% of the budget was allocated to installing solar street lights, 20% to GHG emission reduction and environmental development, and the remaining 25% to adaptation efforts. This allocation has faced criticism from both participants in consultations and from the BCCTF itself. TIB reported that approximately 54.4% of the approved funding for seven mitigation projects funded by the BCCTF was misappropriated due to irregularities and corruption (TIB, 2020).

With questions surrounding the quality of fund usage, confidence in the government's ability to manage these resources effectively has eroded. This has led to donor fatigue, with several donor organisations withdrawing support from the BCCRF. This situation underscores the need for Bangladesh to address transparency and governance issues if it hopes to regain access to vital climate financing.

Accessing the International Climate Fund

Financing remains a significant obstacle, as there is a lack of available information regarding landscape financing. Data on climate finance within Official Development Assistance (ODA) or through any bilateral or multilateral channels is absent from the Economic Relations Division (ERD).

Green Climate Fund
The GCF is the principal channel for accessing global climate finance, aligned with the principles of the Paris Agreement. Its mandate is to assist developing countries in implementing their NDCs to achieve low-emission, climate-resilient pathways. The GCF funding process is entirely country-driven, with no prescribed minimum or maximum funding limits. The National Designated Authority (NDA) for GCF in Bangladesh is the ERD. Two institutions, PKSF and IDCOL, have secured accreditation as Direct Access Entities.

Bangladesh has secured nine projects from the GCF, amounting to a total of USD 441.2 million in financing. As GCF operates on a country-driven model, Bangladesh stands out as one of the most successful nations in obtaining project endorsements. Notably, it secured its largest GCF-funded mitigation project, accounting for approximately 58% of the total investment in GCF projects in the country. Despite the country's significant adaptation needs, it received the majority of its GCF financing for mitigation, which appears counterintuitive.

Bangladesh, through PKSF as the Direct Access Entity, applied for a grant of less than USD 10 million to address flooding (SAP008: Extended Community Climate Change Project - Flood). This project, which followed the CBA approach, secured a total of USD 13.3 million, of which USD 3.3 million is co-financing in the form of a loan.

The prevailing trend in adaptation financing highlights Bangladesh's inadequate preparedness. *Although flooding is a prominent issue in global media, the country submitted a modest request of only USD 9.9 million for a flood-related adaptation project. The national preparation was insufficient, as proponents and the NDA struggled to find a comprehensive approach to address the multifaceted hazards posed by flooding. The only component incorporated into the project was the provision of tube wells at selected heights in flood-prone areas.* The project's scope was limited, and its financing could have been managed domestically, rendering it an ineffective use of climate finance.

While GCF does not impose a country cap on financing, Bangladesh must design its project pipeline carefully, balancing quality—projects offering sustainable solutions that may exceed the country's capacity—and quantity—focusing on the number of projects. A programme-based approach with a long-term vision should be considered.

Climate Change-Related Budgetary Commitments Without Benchmarks or Thresholds

Since 2017-18, Bangladesh's Finance Division has published a Climate Budget, and by the 2024-2025 fiscal year, 25 ministries have reported their climate-related budget allocations through the IBAS++ system. Some ministries and departments allocate a portion of their budget for climate change (e.g. Local Government Institutions), though this allocation is often based on arbitrary assessments without a clear understanding of climate thresholds. While there is some awareness of climate-change-designated programmes, the understanding of additionality remains underdeveloped. This issue contributes to difficulties in accessing international climate finance.

There has been little effort in Bangladesh to develop a knowledge-driven approach to climate change budgeting.

Need for Transparency, Governance, and Local Expertise

Several conclusions can be drawn from the above discussion. First, the environmental and climate change challenges facing Bangladesh are severe. Corruption, inaction, nepotism, and policy mismatches have hindered the country's ability to access global funds, despite international recognition of Bangladesh's vulnerability to climate change.

The mismanagement of CT funds indicates a need for greater transparency in public fund usage. Political patronage, along with ties between contractors, NGOs, and political or bureaucratic families, has led to the misuse of public funds.

Although climate change has garnered increasing attention globally, the Ministry of Environment and Forests, now the MoEFCC, has failed to prioritise environmental concerns. This has resulted in the loss of rivers and hills to encroachment, water pollution, and groundwater depletion.

The mishandling of the BCCRF has led some to question the government's capacity to manage these funds, resulting in waning donor interest. Some even refer to it as a 'mistrust fund'.

Bangladesh has rapidly adopted international agreements without conducting a thorough homegrown analysis. Much of the subsequent action has been funded by international organisations, such as the UNDP, World Bank, and JICA. This has led to a situation where foreign consultants often draft government positions on climate and environmental issues. Bangladesh must cultivate its own pool of experts who can provide consistent advice to ministries on the country's strategy, rather than relying on donor-driven expertise.

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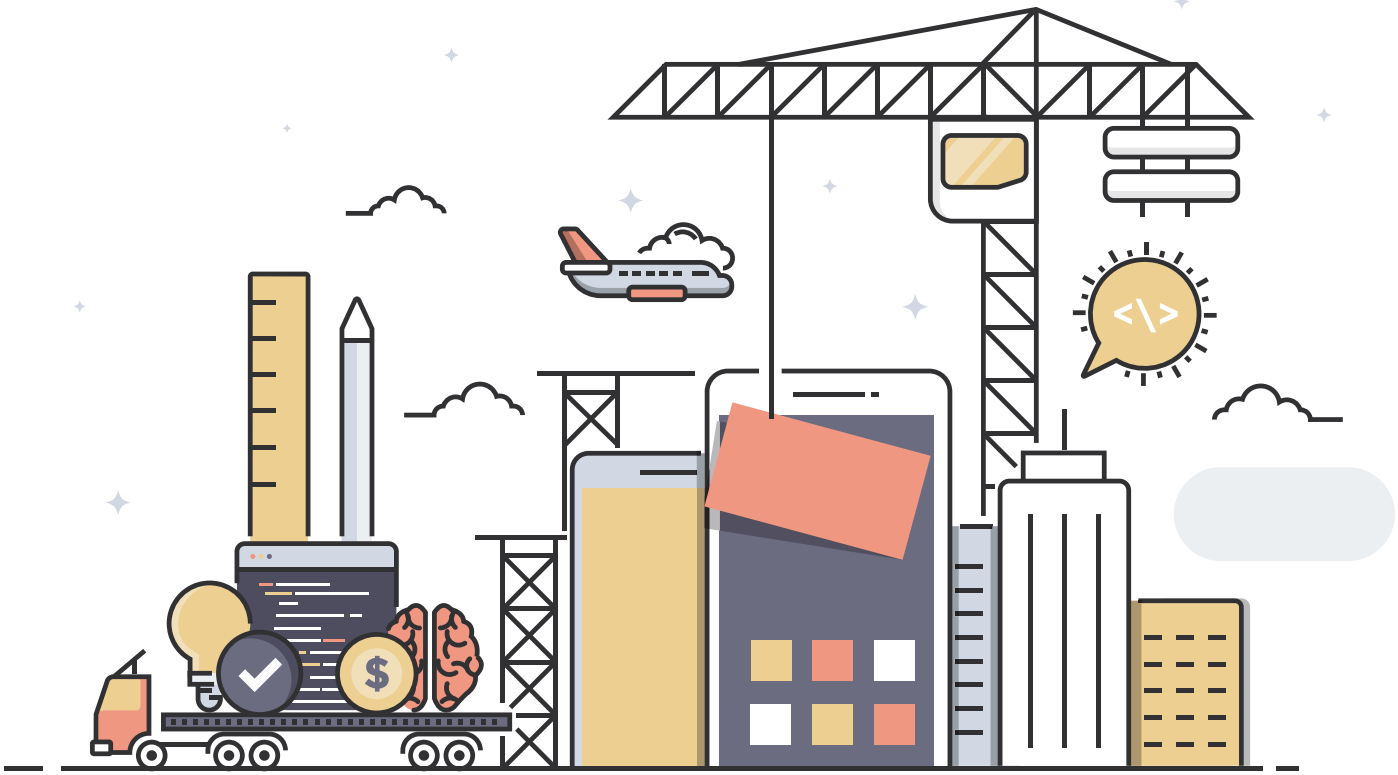
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D. INSTITUTIONAL



Chapter XIX. Mega Concerns of Megaprojects*

19.1 Context, Concerns, and Questions

Public infrastructure systems, encompassing transport links, power and energy, telecommunications, digital networks, water and sanitation, and social services such as health and education, are foundational to a country's economic development. This is particularly true for countries like Bangladesh, which are in the early stages of development. In recent years, the government has made significant investments in PIPs across various sectors. As part of these efforts, substantial resources have been allocated to large-scale initiatives, known as megaprojects,[424] which are expected to contribute to Bangladesh's socioeconomic development and improve public service delivery.[425]

However, serious concerns have arisen regarding the quality of governance in the implementation of many such PIPs, including issues related to their justification, viability, costing, financing, returns, and implementation oversight. Given the scale of the resources involved, these megaprojects have attracted particular scrutiny. This chapter, based on an in-depth review of selected projects,[426] aims to investigate these concerns and suggest corrective actions to ensure that such investments deliver value for money. These concerns are further compounded by the fact that the entire ADP of Bangladesh, which includes spending on megaprojects, is financed through loans—both domestic and external.[427] Indeed, most megaprojects have significant external finance components. If expected returns are not realised, the public will be deprived of their anticipated benefits, and the country may fall into a debt trap, which is often linked to the *middle-income trap.*[428]

Thus, this chapter critically examines the following concerns: the quality of feasibility studies for megaprojects, loan terms and conditions, sequencing and phasing of project activities, implementation anomalies (including procurement processes), time and cost escalation, and the implications for investment returns. Based on this analysis, the chapter proposes a set of recommendations for corrective actions.

* The chapter was prepared by Professor Mustafizur Rahman, Distinguished Fellow, Centre for Policy Dialogue (CPD).

[424] According to the General Economics Division (GED), projects with a financial involvement exceeding BDT 10,000 crore are defined as megaprojects. There are 29 such megaprojects, with a total budgeted amount of approximately BDT 780,000 crore (equivalent to about USD 87 billion, based on the average exchange rate over the duration of the individual projects).

[425] Some of these megaprojects will undoubtedly contribute to Bangladesh's socio-economic development. These projects have also stimulated growth in several domestic industries, including construction materials, rods, cement, and others. Human capacity building and technology transfer have been other positive externalities. However, no plan was put in place to strategically utilise such expertise.

[426] The findings are based on an in-depth study of relevant project documents (feasibility studies, development project proposals [DPPs], and revised DPPs), extensive discussions with officials from IMED (Implementation, Monitoring and Evaluation Department of the Planning Commission), and key informant interviews (KIIs) with relevant stakeholders. Insights were drawn from relevant literature and reports by investigative journalists.

[427] Public and Publicly Guaranteed (PPG) debt, domestic and external.

[428] In view of the completion of the grace period (during which only interest was paid) and the start of the repayment period (when both interest and principal amounts are to be repaid) for several megaprojects, the debt servicing pressure is set to rise in the coming years. These concerns have been analysed in detail in Chapter 2 of the White Paper.

Table 19.1 Selected megaprojects: Cost escalation and terms of borrowings

	Figure in crore BDT			Figure in crore BDT			Terms and Conditions		
Project	**Initial Estimated cost**	**Final Cost**	**% increase from initial estimated cost**	**Loan amount**	**Share of external loan**	**Signing date**	**Interest rate/ Service Charge (%)**	**Grace/ Repay ment Period**	**Repay ment Start**
Padma Multipurpose Bridge Project	10,161.75	32,605.52	220.87%	N/A	N/A				
Multi-Lane Road Tunnel under the river Karnaphuli	8,446.64	10,689.71	26.56%	6,070.01	56.78%	14-Oct-16	2.0/2.0	5/15	2022
						14-Oct-16	2.0/2.0	5/15	2022
Dhaka Mass Rapid Transit Development Project	21,985.07	33,471.99	52.25%	19,718.47	58.91%	20-Feb-13	1.0	10/30	2024
						29-Jun-16	1.0	10/30	2027
						14-Jun-18	1.0 FEF: 0.20	10/20	2029
						12-Aug-20	0.65, FEF: 0.20	10/20	2031
						29-Mar-22	0.70, FEF: 0.20	10/20	2033
Padma Bridge Rail Link Project	34,988.86	39,246.80	12.17%	21,036.69	53.60%	27-Apr-18	2.0/0.5	5/15	2024
Dohazari to Cox's Bazar Railway Track	1,852.35	18,034.48	873.60%	13,115.41	72.72%	21-Jun-17	SOFR+0. 6%+Adj% , Comt 0.15	5/20	2023
						21-Jun-17	2.0	5/20	2023
						23-May-19	6 Months EURIBOR +0.6, Comt 0.15%	5/20	2025
						25-Jun-23	SOFR+Margin, Comt 0.15%	5/20	2029
Payra Deep Sea Port	1,128.43	4,374.47	287.66%	N/A	N/A				
Matarbari Ultra Super Critical Coal Fired Power Project	35,984.46	56,693.90	57.55%	47,945.03	84.57%	16-Jun-14	1.0	10/30	2025
						29-Jun-16	1.0	10/30	2027
						29-Jun-17	0.01, FEF-0.20	10/20	2028
						14-Jun-18	1, FEF-0.20	10/20	2029
						30-Jun-19	0.9, FEF-0.20	10/20	2030
						22-Nov-21	0.65, FEF-0.20	10/20	2032
Total (7 Megaprojects)	**114,547.56**	**195,116.87**	**70.34%**						
Maitree Super Thermal Power Project	16,000.00	-		14,000.00	87.50%				
Rooppur Nuclear Power Plant	113,092.91			91,040.00	80.50%	15-Nov-13	LIBOR+(1 to 3) %	5/5	2019
						26-Jul-16	LIBOR+ 1.75	10/20	2027

Source: Based on relevant Project documents, IMED and ERD.

Table 19.1 provides key information on several megaprojects completed in recent years[429] or currently nearing completion. Several common features are evident from the table: (a) almost all projects are financed through significant external borrowings; (b) most projects have experienced substantial cost escalation during their implementation; (c) the terms of borrowings are relatively stringent compared to those traditionally extended to Bangladesh;[430] and (d) repayment periods for several megaprojects have already started or are imminent, leading to a significant increase in the country's debt servicing obligations.

19.2 Megaprojects with Mega Concerns

This section highlights serious concerns revealed through a close examination of relevant documents, consultations with government officials, FGDs, key informant interviews (KIIs), and reviews of pertinent literature and media reports.

Some Disquieting General Patterns in Project Implementation

The IMED regularly evaluates the implementation of projects on a selective basis, including megaprojects.[431] Over the years, IMED reports have identified several weaknesses in the implementation of PIPs. A review of project documents, along with insights from FGDs and KIIs, supports these observations. However, in most cases, the observations, comments, and suggestions made year after year were not followed up with concrete actions. Accountability was not established, and no systematic or transparent mechanisms were in place to ensure follow-up actions to address the identified issues.[432]

The concerns can be categorised into three phases: (a) Project preparation and approval; (b) Project implementation; and (c) Post-implementation. These concerns are generic and apply to all PIPs, including megaprojects (Box 19.1).

Box 19.1 Anomalies in Various Phases of Project Implementation

Project Preparation and Approval Phase

- Weak quality of feasibility studies
- Not following a comprehensive work plan when projects are implemented
- Not taking primary approval for land acquisition from concerned district administration with adequate lead time prior to implementing the project which led to time and cost escalation
- Not adhering to the financial ceiling stated in the government's own *medium-term budgetary framework (MTBF)* while selecting the projects
- Not collecting baseline data of the concerned projects properly
- Not formulating an appropriate exit plan for the project
- Inaccurate assessment of the market needs associated with the projects
- Influencing implementation of 'pet projects' of vested groups
- Inordinate delays in processing and approval of projects by involved ministries and international funding agencies
- Not developing alternative scenarios

[429] These projects were selected based on their importance to the economy, sectoral diversity, and to identify the various anomalies affecting the megaprojects.
[430] When Bangladesh was a low-income country (LIC), prior to its transition to middle-income status in 2015, most loans were obtained on highly concessional terms.
[431] IMED, due to its institutional and capacity constraints, can only monitor and evaluate a limited number of projects.
[432] Reports prepared by the Office of the Controller and Auditor General (OCAG) have also highlighted several financial anomalies, with similar outcomes.

Project Implementation Phase • Multiple project revisions and cost revisions during the project implementation life cycle • Not implementing the project according to the work schedule and procurement plan mentioned in the DPP • Coordination failure involving the various project implementation agencies at the field level • Weak state of transparency and accountability in project management • Not holding Project Implementation Committee and Steering Committee meetings regularly • Knowingly allowing subcontracting by the principal contractor, which undermined both the quality of implementation and accountability • Frequent requests on the part of concerned contracting agencies to extend project completion timeline which led to time overrun and cost overrun • Fragmentation of implementation responsibility involving concerned government organisations and agencies
Post-Implementation Phase • Not submitting the Project Completion Report to the IMED within the stipulated three months following project completion • Lack of adequate budgetary allocation for maintenance of the project following project completion • Lack of proper preservation and supervision of the infrastructure and related equipment used in a project • Absence of the required skilled human resources for managing PIP implementation, which leads to the signing of long-term service agreements with foreign contractors • Not having a system in place for the assessment of returns for the megaprojects following a stipulated period, and juxtaposing the results with those in the DPPs and RDPPs

Source: Based on a review of various documents and the study by Rahman and Farabi (2023).

Feasibility Studies Not up to the Mark

A recurring issue with almost all megaprojects is the need for multiple revisions of feasibility studies. The poor quality of these studies was a key factor behind many of the issues encountered. Relevant ministries often lacked the expertise required to assess the feasibility studies and validate the returns estimates for complex megaprojects. Frequent changes to project designs led to both time and cost overruns.[433] Furthermore, the subsequent procurement processes, as outlined in the revised project documents, were often not as rigorous as those initially implemented. The Matarbari 1200 MW Ultra Super Critical Electricity Plant serves as a notable example, although this phenomenon was widespread (Ali, 2021).[434]

A study found that approximately 86.4% of projects experienced either time or cost overruns, or both (Iqbal et al., 2023). These delays and cost escalations undermined the overall viability of the projects.[435]

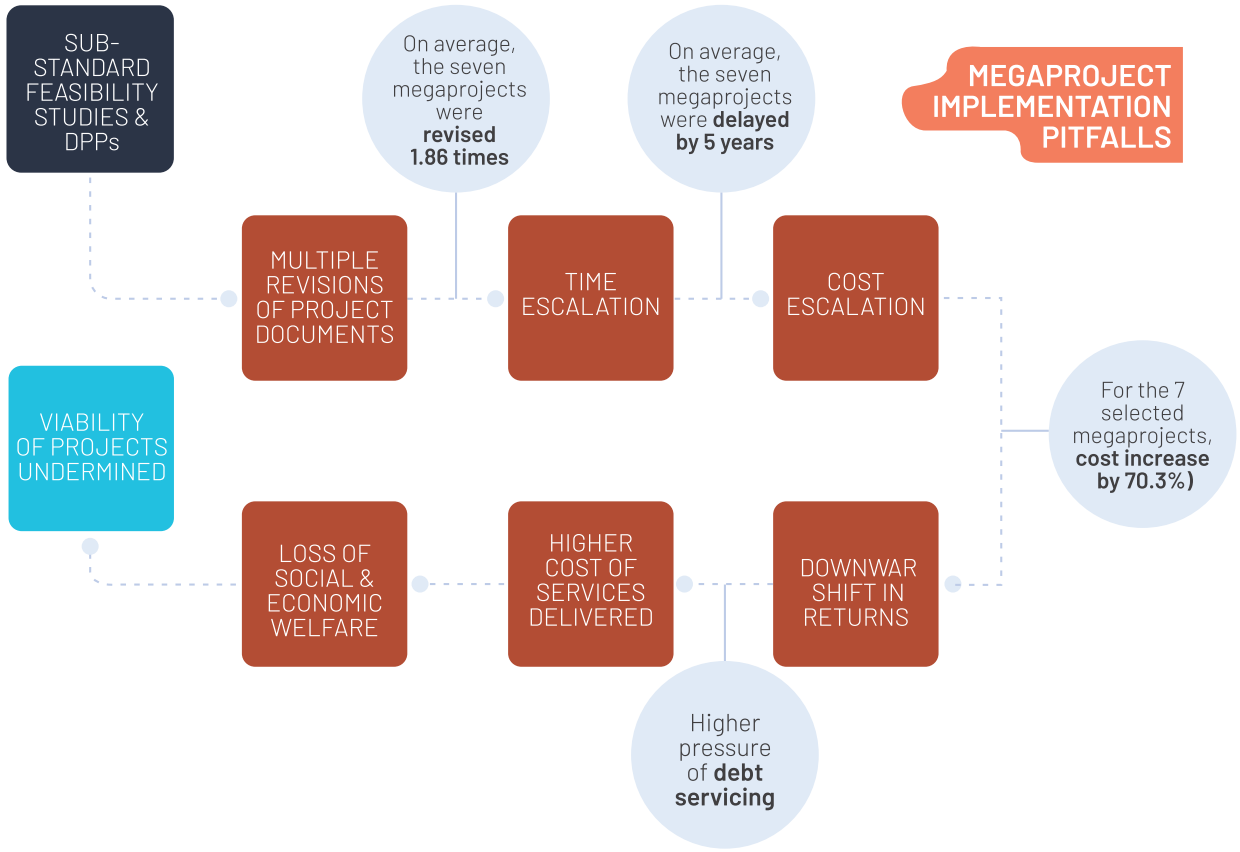
[433] Project appraisal is a standard practice involving a comprehensive analysis of various aspects of a project: economic, financial, technical, social, management, and environmental factors. However, when projects were significantly revised, this process was not carried out by independent experts or with the necessary rigour.

[434] The final estimated cost of the Matarbari project was BDT 35,984 crore. This estimate was later revised upwards to BDT 52,388 crore (an increase of 45.6%). It was only discovered later that the initial estimates for the length of the approach channel were significantly lower than required, with 14.3 kilometres needed instead of the initially estimated 3.0 kilometres. Additionally, the capacity of transmission lines had to be significantly increased. Estimates for the width and depth of the channel were also found to be inaccurate (Ali, 2021).

[435] Indeed, the need for mid-course corrections is a common feature in most megaprojects. Initial low estimates of project costs are often significantly revised upwards, and procurement processes lack adequate scrutiny during the implementation phase, driven by a rush to complete the projects. As a result, returns on investment are substantially reduced, and the viability of the projects is undermined.

Time and Cost Overruns

Figure 19.1 Vicious Cycle of Cost and Time Overruns[436]



Significant time and cost overruns are common in the implementation of Bangladesh's megaprojects. The first seven projects listed in Table 19.1 exhibit an alarming cost escalation of BDT 80,569.3 crore (a 70.3% increase) between the initial project document and the final revised version.[437] As some projects are still under construction, further increases in project costs are anticipated once final cost figures are available. While there are sometimes legitimate reasons for cost escalation,[438] these significant changes in project design should have been anticipated earlier.[439]

[436] Time and cost escalation estimates are based on the latest revised DPPs. However, these figures may increase further as the ongoing projects are implemented.

[437] A report published in *Share Biz* estimates that, for ten megaprojects, the projected expenditure rose by BDT 91,451 crore, an increase of over 65% of the original cost.

[438] For instance, in the case of the Padma Bridge, a provision for a rail link was added later; for the Dhaka-Mawa-Bhanga link, a second project was incorporated; and for the Cox's Bazar-Dohazari Rail link, the initial project was extensively revised. Whenever revisions occurred, new components were often included without adequate justification. For example, in the 2010 proposal for the Padma Bridge, BDT 127 crore was allocated for the 'Approach Roads' component (including toll plazas and public facilities). In October 2015, this component was renamed 'Approach Roads, Service Area, and Selected Bridge End Facilities, ESST (Engineering Support and Safety Term)' with an allocation of BDT 2,109 crore.

[439] For instance, the Dohazari to Cox's Bazar rail connectivity project was revised shortly after the initial DPP was formulated, with costs escalating from BDT 1,852.3 crore to BDT 18,034.5 crore, an increase of 847%. This raises questions about the necessity of the costly initial feasibility study. As a result, the project's rates of return were significantly reduced: the benefit-cost ratio fell from 1.44:1 to 1.09:1, and the economic internal rate of return (IRR) dropped from 26.49% to 16.43% (at a 15% discount rate).

Bangladesh has numerous provisions, regulations, and standard operating procedures (SoPs) designed to maintain good governance throughout the various stages of project implementation.[440] However, a review of relevant documents, FGDs, and KIIs reveals that these provisions were not consistently followed. While some external partners insisted on adherence to the guidelines,[441] others did not maintain the same level of scrutiny. In many cases, specific loan conditions (e.g. single-country bidding requirements for Chinese-supported loans for the Padma Rail Link Project and Karnaphuli Tunnel, as well as projects under Indian Lines of Credit) hindered compliance with these regulations.

Questionable Estimates of Returns

Table 19.2 Estimates of financial and economic returns

Project Name	Figure in crore BDT				IRR (in%)		Benefit-cost ration		Net present value (NPV)	
	DPP	1st RDPP	2nd RDPP	3rd RDPP	Financial	Economic	Financial	Economic	Financial	Economic
Padma Multipurpose Bridge Project	10,161.8	20,507.2	30,193.4	32,605.5	5.8	22.0	-	2.1:1	-	2,268m USD
Multi-Lane Road Tunnel under the river Karnaphuli	8,446.6	10,374.4	10,689.7		6.2	12.5	1.05:1	1.5:1	35.0m USD	302.5m USD
Dhaka Mass Rapid Transit Development Project	21,985.1	21,985.1	33,472.0	-	1.8	13.4	1.17:1	4.52:1	BDT 647.0 crore	BDT 13628.4 crore
Padma Bridge Rail Link Project	34,988.9		39,246.8		15.2	16.6	1.005:1	1.16:1	BDT 304.0 crore	BDT 3156.2 crore
Dohazari to Cox's Bazar via Ramu and Ramu to Ghundum near Myanmar	1,852.3	18,034.5	-	-	16.3	26.5	1.07:1	1.44:1	BDT 114.0 crore	BDT 955.8 crore

Source: Based on Feasibility Studies, DPPs, Revised DPPs of concerned projects, IMED.

Accurate estimates of returns on investment are essential for justifying the implementation of a project, particularly megaprojects.[442] Unfortunately, such analyses are often conducted without the necessary rigour. For instance, despite a 26.5% increase in the construction cost of the Karnaphuli River Tunnel between the 2015 DPP and the 2022 Revised DPP (RDPP), the original financial analysis,

[440] For example, the Bridges Division, responsible for projects like the Padma Bridge, Karnaphuli Tunnel, Ashulia Elevated Express, and the Dhaka Elevated Expressway (PPP), has numerous regulations and provisions in place to ensure good governance in project implementation. Contract modalities should follow international guidelines under the FIDIC (International Federation of Consulting Engineers), and the Public Procurement Regulations (PPRs) are expected to comply with FIDIC standards, including in tender notifications, evaluations, work orders, and Engineering and Procurement Contracts (EPC). For complex projects, pre-feasibility studies are conducted to assess viability. Additionally, there are provisions for wide-ranging consultations and Independent Tender Evaluation Committees.

[441] The controversy surrounding the World Bank's involvement in the Padma Bridge project is a well-known example.

[442] While some positive and negative externalities are difficult to quantify, methodologies exist to incorporate them into estimates.

including the BCR (Financial: 1.05:1; Economic: 1.5:1), IRR (Financial: 6.19%; Economic: 12.45%), and NPV estimates, remained unchanged.[443]

Moreover, how cost-benefit analysis was conducted for long-term projects is problematic and warrants a thorough review. Cost estimates were made using constant prices, while benefit estimates were based on nominal prices. Additionally, the time lag between project implementation and the generation of benefits was frequently overlooked in return calculations.

High Construction Cost

Table 19.3 Construction costs of per-kilometre four-lane urban arterial road

Country	Bangladesh	China	India	Pakistan	Indonesia	Philippines	Turkey
Cost (In million. USD)	6.35	3.90	1.45	2.95	2.15	1.15	1.70

Note: Costs include those related to traffic-controlled intersections
Source: Asia Infrastructure Investment Bank (AIIB) (2019).

Construction costs in Bangladesh were higher, while the quality of construction was generally lower. As indicated in Table 19.3, the cost of constructing a per-kilometre four-lane urban arterial road in Bangladesh was 4.4 times greater than in India and 2.15 times greater than in Pakistan. For example, the per-kilometre cost of the Rangpur-Hatikumrul four-lane transport link was estimated at USD 6.47 million, while the cost of the Dhaka-Sylhet Highway was estimated at USD 7.06 million (Rahman, 2022). Additionally, the per-kilometre cost of the Dhaka-Mawa-Bhanga four-lane Highway Project was set at BDT 113.7 crore (Ali, 2021). [444]

Despite pointing out these discrepancies, several reasons were frequently cited as contributing factors: high land acquisition costs, the need to import machinery and equipment, high import tariffs, and the unique demands of constructing in floodplain environments. However, reports from the IMED, investigative journalism, and a close review of project documents—including feasibility studies, DPPs, and revised DPPs—suggest that these factors do not fully explain the large cost discrepancies observed in Bangladesh's infrastructure projects.[445]

[443] For the Padma Bridge, the estimates of returns (EIRR: 22%; FIRR: 5.8%; BCR: 2.1:1; NPV: USD 2,268 million) remained consistent across the DPP (July 2007, estimated cost: BDT 10,161.75 crore), the first RDPD (December 2010, BDT 20,507.20 crore), the second RDPP (October 2015, BDT 28,793.38 crore), and the third RDPP (April 2023, BDT 32,605.51 crore), despite significant design changes and substantial cost escalations. Moreover, the estimates of returns (FIRR, EIRR, and BCR) vary widely across feasibility studies conducted by different agencies. For example, the JICA Feasibility Study (2015) estimated the FIRR at 10.28%, compared to ADB's 5.83%. For EIRR, JICA's estimate was 14.80%, while ADB's 2006 study reported 17.6%. The economic BCRs in the two studies were 1.38:1 and 1.92:1, respectively, and the net present value (NPV) was reported as BDT 10,771.01 million and BDT 45,885 million. These figures differ significantly from the DPP's 2007 estimates. Greater transparency regarding these numbers and the underlying assumptions, as well as explanations for the discrepancies, would improve governance, particularly in assessing the viability of megaprojects.

[444] It was also noted that, in some cases, the high unit costs of similar earlier projects were used as reference points for cost estimates without proper scrutiny or justification.

[445] For the Dhaka-Mawa-Jessore rail link, the per-kilometre cost was set at BDT 207.3 crore. At the time (2016), this was the highest per-kilometre cost globally, according to investigative journalists. By comparison, the cost of high-speed rail in India (Mumbai-Ahmedabad) was estimated at BDT 118 crore per kilometre, and in China, it ranged from BDT 73 crore to BDT 75 crore. The cost of constructing metro lines in Bangladesh was found to be 2-3 times higher than in Delhi or Mumbai.

The Dhaka-Chattogram Highway Project exemplifies these issues.[446] The IMED report on this project highlighted several concerns: (a) the quality of the feasibility study was subpar; the highway lacked separate lanes for slow-moving vehicles, and there were no proper underpasses or footbridges for road crossings; (b) the DPP contained significant shortcomings, leading to subsequent amendments, which caused cost and time escalations; (c) the bitumen used was not of the correct specification; (d) the initial project design did not account for substantial maintenance work in the first 10 years. As a result, the Roads and Highways Department (R&HD) proposed a BDT 739 crore project for repairs and maintenance, partly due to a misforecast of traffic growth. Traffic was projected to increase by 6% annually, with an initial estimate of 16,485 vehicles per day, but actual traffic rose to 32,000 vehicles per day in 2018; (e) load estimation was inaccurate; (f) the project's design documents were amended 12 times during construction, resulting in delays and cost overruns.

Despite repeated observations from IMED and others, the state of project management has remained largely unchanged.[447]

Non-competitive Bidding Process

An analysis of E-Government Procurement (EGP) data by the TIB revealed that the top 5% of companies were awarded 307 contracts, representing 68% of the total contract value. TIB's analysis of bidding records, based on EGP data from 2012 to 2023, showed that nearly one-fifth of the contracts were single-bid (totalling over BDT 60 thousand crores). Large-scale projects are often excluded from the EGP process, with the complexity of the contracts frequently cited as the reason (TIB, 2023). To improve transparency, there is a pressing need to revise procurement practices. Tender designs often favour a select few companies, increasing the likelihood of collusive behaviour, as suggested by KIIs.[448] Also, some of the financing contracts such as the one under the Indian lines of credit and the one negotiated with the EXIM Bank of China have embedded sourcing requirements i.e., mandatory procurement from the partner country (equivalent to a certain percentage of total borrowings). These conditionalities often result in higher procurement costs than would otherwise have been in case of open tenders and competitive biddings.

Corrupt Practices

A TIB report, reviewing 48 projects, found that over BDT 50 thousand crores (40% of the allocations to the Roads and Highways Department over the past 15 years) was misappropriated through various forms of manipulation[449] (The Daily Star, 2024). A review of project documents reveals that land acquisition has been a major source of cost escalation. Once project plans are disclosed, land prices tend to rise, and by the time revised DPPs are finalised, land acquisition costs have increased significantly.[450]

[446] The project was approved by the ECNEC in 2008, with physical work beginning in 2010. It was originally scheduled for completion in 2012, but was delayed by five years, with costs escalating from BDT 2,168.4 crore to BDT 3,439.2 crore (IMED, 2019).

[447] While some actions have been taken to address various concerns, many of the underlying issues remain unaddressed.

[448] The current system of allowing a ± 10% range in tender prices (which is often leaked and exploited by contractors) has led to collusive behaviour among potential bidders. The problem of insider information remains widespread.

[449] Issues such as cost escalation (25-30%), collusion among politicians, middlemen, and contractors, substandard delivery, compromised standards, and other irregularities are prevalent. Practices such as renting licences from principal contractors, purchasing work orders from contractors, and unlawfully obtaining subcontracts are widespread.

[450] As is well known, the government acquires land at three times the prevailing market price. This creates opportunities for unscrupulous land speculators, often politically connected individuals, to engage in speculative land purchases.

Insider knowledge has allowed vested groups to capitalise on these price hikes. For instance, the land acquisition cost for the Dohazari to Cox's Bazar Rail Track and the multi-lane road under the Karnaphuli Tunnel increased by 12 and 4.7 times, respectively, from the initial DPP to the last revised DPP.

Phasing, Sequencing, and Pacing Problems

Frequently, projects have proven to be less viable than initially expected due to inadequate sequencing, pacing, and phasing. For example, the viability of the Karnaphuli Tunnel project was based on the assumption that a Chinese Special Economic Zone (SEZ) would be established in Anowara,[451] generating traffic for the Chattogram and Matarbari seaports.[452] When the SEZ was not established, the projected traffic numbers were not realised, calling into question the project's viability.[453]

Similarly, the economic success of the Padma Bridge and rail link projects relied on the development of these transport corridors into economic hubs. Plans included the establishment of 17 SEZs in southern Bangladesh and substantial investments in the region. Sub-regional cooperation with India, Nepal, and Bhutan, through initiatives such as the BBIN-MVA, was expected to play a significant role. However, while the rail link project has been completed, other key activities have not yet been initiated,[454] undermining the project's expected returns and overall viability.

Concerns Regarding Suppliers' Credit

In recent years, several megaprojects have been financed through suppliers' credit. This form of financing, often pushed by interested parties, has not always aligned with national priorities as outlined in planning and strategic documents. The terms of these loans are often more onerous. For instance, the Padma Rail Link and Karnaphuli Tunnel projects, financed by Chinese credit, came with conditions that increased project costs.[455] Some of these loans were offered at unfavourable interest rates tied to LIBOR/SOFR.[456] In view of this, exploring new sources of concessional financing, and strengthening of Bangladesh's negotiating capacity with financing partners, will be critically important.

Lack of Transparency and Accountability

A significant factor contributing to corruption in mega-project implementation is the lack of transparency regarding the preparation of feasibility studies, project plans, and documents.

[451] On the other side of the river Karnaphuli.

[452] The projected number of vehicles using the tunnel was 20,719, whereas the current figure is approximately 4,600 (The Business Standard, 2024).

[453] As a result, income from tolls is insufficient to cover the maintenance costs of the tunnel.

[454] Another example is the Rooppur Nuclear Power Plant, where transmission lines to evacuate the power are yet to be completed, even though the plant is expected to become operational soon.

[455] The conditionality of high procurement percentages from the supplying country, restricted vendor selection (often limited to one country), and a highly restricted tendering process also applies to Indian Lines of Credit (LoCs).

[456] For several megaprojects, interest rates (e.g. for the Dohazari-Cox's Bazar rail line and Rooppur Nuclear Plant) were negotiated at LIBOR/SOFR. Due to fluctuations in these rates in recent years, there is significant uncertainty regarding the interest payments when they are incurred on flexible terms.

These documents are often inaccessible to the general public. If made publicly available, they would allow independent experts and the public to scrutinise the justification for projects, cost allocations, cost escalation, and the expected returns. This level of transparency is crucial for ensuring accountability.

19.3 Going Forward

In light of the issues discussed above, the following suggestions are proposed:

Undertake Thorough Review of Projects

The Interim Government should conduct a comprehensive review of the ADP for FY 2024-25, focusing particularly on ongoing megaprojects. Projects that provide minimal value to national interests, often selected for political reasons, should be discarded. Project costs should be reassessed to identify potential savings. Although it may not be feasible to abandon large projects midway, given the significant resources already invested, contracts, return estimates, budgeting, and expenditures should be thoroughly scrutinised. Any anomalies uncovered should be addressed through revisions and renegotiations. On a positive note, the Interim Government has already begun this process by reviewing public expenditure for FY 2024-25, scrapping several projects, and reassessing cost allocations for megaprojects. This initiative should continue with full commitment.

Undertake More Rigorous Internal Rate of Return, Benefit-Cost Ratio, and Net Present Value Estimations

As noted, there are concerns regarding the accuracy of ROI and BCR estimations. These need to be conducted more rigorously, as their implications are significant for the economy, particularly in terms of taxpayer expenditure and debt repayment obligations. Such estimations also affect the setting of tariffs for public services (e.g. toll rates, energy prices, and utility charges), as well as the country's debt servicing and debt-carrying capacity. Inadequate practices in this regard undermine the principles of good governance, accountability, and transparency in the implementation of large-scale PIPs. These concerns must be addressed urgently.

It is crucial to re-estimate returns when projects are revised, particularly when costs increase, to determine whether a project remains viable. At the feasibility study stage, sensitivity analysis should assess the impact of cost escalation on expected benefits to evaluate the financial and economic viability of the project. A review of project documents, including DPPs and Revised DPPs, reveals that such analyses were often not conducted for most mega projects.[457] Moving forward, re-estimating the initial economic and financial returns and cost-benefit ratios should become mandatory whenever a project is revised, ensuring a clearer understanding of its viability. A useful approach could involve comparing project cost estimates with those from neighbouring countries and justifying deviations and cost escalations transparently.[458]

[457] A recurring pattern justifies projects based on initial lower budget estimates and high return projections, followed by cost escalation approvals and time extensions (time extension for initiation/ completion of projects serving as a good excuse), often without revisiting the initial return estimates, which were likely underestimated.

[458] It has been demonstrated that time and cost overruns can be avoided, as evidenced by the recent renovation work on a metro station, which was completed at significantly lower cost and within a shorter time frame than projected under the previous government.

Strengthen the Procurement System

There are concerns regarding procurement and bidding processes that require attention. A tiered system, based on the contracted amount, should be considered to allow greater flexibility in bid submissions, thus fostering more competition in the bidding process.[459] A strategy should be developed to encourage a more competitive bidding environment by encouraging more and open competition, removing barriers to entry and apportioning job orders. The e-procurement system should be further strengthened, with provisions strictly enforced.[460] Measures must also be implemented to prevent collusive behaviour among potential bidders.

Carry Out Proper Impact Assessment

A regular system for impact assessment should be established following a set period after the completion of mega projects. Actual returns should be compared with projected outcomes from the feasibility studies to draw insights and lessons. While the introduction of Results-based Management was mentioned in several budget speeches, it has not been effectively implemented. This should be rectified.

Bolster the Implementation, Monitoring, and Evaluation Division Capacity

The IMED faces several constraints in fulfilling its mandated responsibilities. The decentralisation of IMED functions should be further strengthened, ensuring adequate human and financial resources for more effective monitoring and evaluation. Additionally, the internal monitoring and assessment capacities of major spending ministries need enhancement, alongside improvements in lab testing and professional development programmes. Policymakers should consider strengthening IMED's autonomy and independence. The EPMIS tool for real-time monitoring by IMED should be operationalised urgently, with sufficient human resources. Furthermore, the transition from manual to e-submission through the Project Planning System should be expedited.[461] IMED will need to come out of its traditional mode of operation and gear itself up for the new institutional environment and governance. For this, policymakers will need to change laws and go for significant institutional restructuring of the IMED to ensure its autonomy and independence, and better performance.

Carry Out Rigorous Debt Stress Test

A crucial lesson for large-scale projects is the need for macro-level debt stress testing to avoid unsustainable debt servicing obligations in the future. In some instances, delayed project implementation has led to debt repayments beginning before the project's completion, resulting in an onerous debt servicing burden. Development partners financing a significant portion of project costs[462] have, at times, failed to adequately assess the country's debt-carrying capacity. Bangladesh's institutions should address this issue independently. The country's transition to middle-income status, along with the increased reliance on non-concessional loans, must also be considered.

[459] As previously noted, jobs awarded to original contractors are often subcontracted to others (frequently involving multiple layers), leading to cost increases and undermining the quality of the work.

[460] Regarding the Sustainable Public Procurement Policy, while guidelines have been prepared, the associated acts and rules are yet to be formulated. These should be prioritised.

[461] Additionally, IMED's existing evaluation format (A, B, C) should be revised to make it more meaningful.

[462] Nearly all megaprojects, except for the Padma Bridge, rely on significant foreign loans.

Consider the Impact of Bangladeshi Taka Depreciation

All financial analyses (e.g. NPV, cost-benefit ratio, IRR) should be reassessed in light of the recent depreciation of the BDT. This will provide a more accurate picture of returns on investment. National capacity building for conducting project feasibility studies and impact assessments should be prioritised. For instance, in the railway sector, a lack of coordination between construction, human resources development, and acquisition of equipment delayed project operationalisation and reduced project viability.

Many ministries and agencies are involved in mega-project implementation. Lack of coordination among these entities undermines project viability. Therefore, greater emphasis should be placed on improving coordination, ensuring accountability at all levels.

Make Project Documents Public

All project documents, including feasibility studies, DPPs, RDPs, and impact assessments, should be made publicly available on the websites of relevant organisations and IMED.[463] These projects are funded by taxpayers' money, and the public, both present and future generations, has a right to be informed about project details. For large-scale projects, public consultations should be held, allowing for scrutiny by relevant experts beyond those sponsored by the government. IMED should carry out independent assessments of project implementation for all large-scale projects, not selectively. Independent experts should be hired if necessary, and these reports should be open to public discussion. This would facilitate early cross-country comparisons.

Strengthen Borrowings Negotiating Capacity

Bangladesh is likely to continue relying on external borrowings to finance various projects under the ADP, including mega projects. Negotiating complex borrowing arrangements requires strengthening the institutional and professional capacities of relevant institutions, such as the ERD. Following Bangladesh's transition to middle-income status, debt negotiations have become more complex,[464] and this will be further exacerbated if the country seeks to renegotiate the repayment terms for debts incurred through mega projects.

Given the volatility in LIBOR/SOFR rates in recent years, great care must be taken in negotiating loan terms. Attention should also be given to the currencies in which loans are denominated, as some exchange rates are more volatile than others. Currency depreciation and exchange rate hedging will also be important considerations.

Ensure Knowledge Transfer

Although knowledge-sharing is mentioned in all mega-project documents, it is often not pursued effectively, leading to foreign agencies managing projects after completion, thereby increasing operational costs. Specific components should be incorporated into mega projects to ensure knowledge transfer, with clear, time-bound outcomes.

[463] These loans were previously inaccessible, even through the Right to Information (RTI) Act.

[464] The ERD has developed a formula to assess the concessionality of loans (whether a loan is concessional). Loans exceeding a 25% concessionality threshold are considered non-concessional. This information should be used in debt negotiations and applied consistently. Some loans (e.g. for the Rooppur Nuclear Power Plant) were negotiated at SOFR-based interest rates.

Megaprojects and Debt Management

Megaprojects, financed largely by external resources, must be completed according to loan conditions. However, given the anticipated repayment pressure, several steps should be taken: (a) Ensure projects are completed on schedule, as time and cost escalations will increase the debt burden;[465] (b) Cost estimates for future components should not rely on previous estimates when implementing additional project components;[466] (c) The Interim Government should consider consulting with bilateral and multilateral partners financing megaprojects to defer repayments and extend grace and repayment periods.

Consider the Organisation for Economic Co-operation and Development Framework for Project Implementation as Reference Point

The OECD framework for good governance in project implementation, comprising 10 pillars and 47 indicators, could serve as an effective reference to develop a customised framework for Bangladesh. This would help track and monitor PIP implementation, ensuring accountability, transparency, and good value for money.[467] However, this is easier said than done. Without reforms of the bureaucracy, the way the government agencies work, and qualitative improvement in the state of good governance, it will be difficult to adopt or adapt the OECD framework. Hopefully, if some of the pertinent ongoing reforms initiated by the Interim Government of Bangladesh are implemented, the existing scenario may change for the better in near and medium term future, and a good governance framework will hopefully be put in place.

Concluding Remarks

Mega projects, like all projects, are funded by taxpayers' money. As was noted earlier, many megaprojects are crucial for Bangladesh's economic development, and people's welfare. However, resources being finite, every effort should be made to ensure good governance in project implementation in order to ensure good value for money. It needs to be conceded that things are unlikely to improve drastically over the short run. However, the various reforms that the Interim Government is undertaking at present will hopefully create a conducive environment for high quality implementation of megaprojects. To be true, vested interests are not going to disappear overnight. However, following the July-August Students-Citizens uprising, an opportunity has now emerged to do things differently. Bangladesh needs to seize this opportunity in all earnest. The preceding sections highlight several issues that require urgent attention from the Interim Government.

[465] Under the Interim Government, authorities have significantly reduced the projected expenditures for the remaining work on several ongoing projects, including those in energy, metro rail, and bridge construction.

[466] For example, before proceeding with the metro rail extension, a thorough review of the proposal, feasibility study, and cost estimates for the earlier phase of the metro rail project should be conducted. A cost comparison with similar projects in neighbouring countries should also be considered.

[467] A system of community monitoring for projects, which was piloted by the Planning Commission, could also be considered for future implementation.

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Chapter XX. Malignancy of Illicit Financial Outflows*

20.1 Rationale of the Exercise and Magnitude of Concern

Illicit financial outflows have become an increasingly pervasive issue in Bangladesh, significantly undermining the nation's economy.[468] These outflows form part of a complex shadow economy, driven by criminal activities and sustained by a corrupt coalition of politicians, businessmen, financial players, intermediaries, government officials, and others. By transferring their ill-gotten gains abroad through various illegal channels, these actors inflict substantial harm on the economy, stifling its development potential. They undermine domestic investment, hinder revenue mobilisation efforts, deplete foreign exchange reserves, weaken macroeconomic management, and severely damage governance structures at all levels.[469]

This chapter seeks to assess the scale of money laundering in Bangladesh, identify its sources and channels, propose measures to recover illicit wealth, and offer strategies to address the associated challenges going forward.

20.2 Origin and Magnitude of the Illicit Outflows

Accurately measuring the extent of illicit financial outflows is challenging due to the hidden and illegal nature of these activities. However, consultations with stakeholders and a review of relevant documents provide some insights into the scale of laundered funds, their sources, the channels used for illicit outflows, and the types of assets in which these funds are invested abroad.[470]

Nexus, Origin and Forms of Illicit Outflows

While illicit outflows take place at the initiative of individuals, the resources originate through collaboration and connivance with involvement of many actors-corrupt politicians create conducive environment for generation of illicit money; corrupt individuals, businesspeople, politicians, bureaucrats, bankers, share market operators and other actors enjoy the benefits of this environment of impurity, and take advantage of cross-country networks, legal loopholes and illegal practices to amass the illegal money. A part of these ill-gotten money is then laundered outside, through illegal means and tools. Although there are strict laws and stringent regulations in Bangladesh against sending money abroad (beyond a certain limit), these people take recourse to

* The chapter was prepared by Professor Mustafizur Rahman, Distinguished Fellow, Centre for Policy Dialogue (CPD).

[468] A recent survey conducted by a local newspaper among economists found that 42% of respondents considered combating corruption and money laundering to be the most pressing concern, while inflation, the second most mentioned issue, was cited by 25% of respondents (The Business Standard).

[469] The public demands proactive measures to address the sources of illicit money, hold perpetrators accountable, and recover stolen assets. Illicit financial outflows have become a global issue. Notably, SDG 16.4 aims to 'significantly reduce illicit financial outflows and strengthen the recovery and return of stolen assets'.

[470] In Bangladesh, the BDT is convertible for current account purposes (such as trade in goods and services), but not for capital account purposes, except in specific cases. Since 2013, Bangladesh Bank has allowed limited capital account convertibility on a case-by-case basis, enabling some foreign investments. However, the volume of such legal transfers remains small, amounting to approximately USD 70 million across 17 companies. Businesses may remit up to USD 30,000 from export proceeds for office maintenance, and exporters may retain a portion of foreign currency in foreign exchange accounts for business purposes. Citizens may take up to USD 12,000 annually for tourism and specified amounts for education and healthcare (Bangladesh Bank, n.d.).

various illegal routes to take the money out of the country. Politicians in Bangladesh didn't have any incentive to change the environment and plug the loopholes because they were often themselves directly involved in this process and were integral to it.

Illicit financial outflows from Bangladesh arise from various sources, both illegal and occasionally legal. A significant portion of laundered money is accumulated through illegal activities such as bribery, corruption, financial crimes, trade mispricing, bank fraud, loan defaults, rent-seeking behaviour, misuse of political influence, over-invoicing of projects, stock market fraud, exploitation of migrant workers, tax evasion, human and drug trafficking, among others. Some illicit funds also stem from legally earned income (e.g. business or professional activities or proceeds from the sale of property), which is subsequently transferred abroad via illicit means. These funds may include those that were intended to be repatriated but were not, such as remittances sent through informal channels or export under-invoicing. Additionally, illicit deals and payments made abroad also contribute to these outflows.

Historically, much of the illicit wealth generated within Bangladesh was invested domestically, contributing to a substantial shadow economy. In recent years, however, individuals have increasingly opted to transfer their wealth abroad, viewing it as a more secure method of safeguarding their assets in both financial and non-financial forms.

Magnitude of Illicit Outflows

The sources of illicit financial outflows are varied, as are the mechanisms through which these outflows occur. Capturing the precise magnitude of such outflows is inherently difficult due to their clandestine and illegal nature. Nevertheless, several efforts have been made to estimate the scale of laundered money, both sporadically and systematically. Notable among these are the Global Financial Integrity Report (GFIR), published annually since 2008, and reports by the Tax Justice Network. Other methods involve tracking the value of foreign assets acquired using laundered money, investments in tax havens (e.g. the Cayman Islands, Isle of Man), or Swiss bank accounts.

For this study, the estimates provided by GFIR serve as a reference point, as its methodology is considered more reliable. Specifically, GFIR estimates illicit financial outflows primarily through trade mispricing (i.e. over- and under-invoicing of exports and imports). To estimate the potential scale of misinvoicing between two countries, GFIR conducts a value gap analysis, comparing bilateral trade data reported by both countries. The United Nations Comtrade database, which compiles annual import and export data from countries worldwide, is used to identify discrepancies, or 'value gaps', in trade figures (Trade Related IFFs, GFI, 2021).

Although there are limitations to the GFIR's methodology, as acknowledged in its report, the estimates are widely cited by global media and are regarded as a reliable indicator of the scale of IFFs. The GFIR report suggests that the 'value gaps' upon which its estimates are based are likely *understated* rather than *overstated.* This is plausible since the report primarily captures funds laundered through trade channels. However, as will be discussed later, illicit financial outflows from countries such as Bangladesh occur through a variety of channels beyond trade.

Table 20.1 Estimates of illicit financial outflow from Bangladesh: 2009-2023

Years	Trade-Based IFF (USD Billion)	Total Trade (USD Billion)	Share of Trade-based IIF of Total Trade (%)	Inflated Export amount USD Billion)	Adjusted Trade Data (USD Billion)	Trade-Based IIF (USD Billion)	Non-Trade-Based IIF (USD Billion)	Total IIF (USD Billion)	Share of Trade-Based IFF to Total IFF (%)	Share of Trade-Based IFF to Total IFF (%)	Nominal GDP (USD Billion)	Share of Total IFF to GDP
2009	5.21	36.20	14.40%	1.39	34.80	5.01	1.74	6.75	74.22%	25.78%	102.48	6.59%
2010	6.84	44.13	15.50%	1.44	42.69	6.62	2.13	8.75	75.61%	24.39%	115.28	7.59%
2011	8.73	59.11	14.78%	2.61	56.50	8.35	2.82	11.17	74.72%	25.28%	128.61	8.69%
2012	7.65	56.30	13.58%	1.46	54.84	7.45	2.74	10.19	73.09%	26.91%	133.31	7.64%
2013	9.35	63.16	14.80%	3.27	59.89	8.86	2.99	11.86	74.75%	25.25%	150.00	7.91%
2014	10.61	70.07	15.14%	2.73	67.34	10.20	3.37	13.56	75.18%	24.82%	172.89	7.84%
2015	11.87	69.09	17.18%	2.05	67.04	11.52	3.35	14.87	77.46%	22.54%	195.15	7.62%
2016	12.63	71.44	17.67%	4.00	67.44	11.92	3.37	15.29	77.95%	22.05%	265.22	5.77%
2017	13.47	79.14	17.02%	4.37	74.78	12.72	3.74	16.46	77.29%	22.71%	293.73	5.60%
2018	14.43	89.09	16.19%	4.13	84.96	13.76	4.25	18.01	76.41%	23.59%	321.36	5.60%
2019	15.80	91.01	17.36%	5.19	85.82	14.90	4.29	19.19	77.64%	22.36%	351.23	5.46%
2020	16.68	75.78	22.01%	3.71	72.07	15.86	3.60	19.46	81.49%	18.51%	373.98	5.20%
2021	17.62	105.13	16.76%	4.79	100.34	16.82	5.02	21.83	77.02%	22.98%	416.27	5.25%
2022	18.59	127.25	14.61%	8.48	118.77	17.36	5.94	23.29	74.51%	25.49%	460.13	5.06%
2023	19.67	114.32	17.20%	0.00	114.32	19.67	5.72	25.38	77.48%	22.52%	451.00	5.63%
				Total 49.64	**Total** 1,101.60	**Total** 181.00	**Total** 55.08	**Total** 236.08	**Total** 76.32%	**Total** 23.68%		**Total** 6.01%

Source: Based on GFIR methodology, GFIR data and projections made by authors (adjustments were made based on data from the Bangladesh Bank, Export Promotion Bureau and the International Monetary Fund).

Note: IFF stands for Illicit Financial Flow

The GFIR reports provide data on illicit outflows from Bangladesh for the years 2009 to 2013, and 2015. These estimates are based on UN Comtrade data, which is supplied by the respective governments. In the early 2010s, the amount of money laundered from Bangladesh, as indicated by successive GFIR reports, began to be cited by economists and think tanks and widely covered in the local media. The government's response was both notable and typical: Bangladesh ceased submitting trade data to UN Comtrade after 2015. This explains the absence of information on Bangladesh in subsequent GFIRs (from 2016 onwards).

In light of this, the present study undertook an exercise to make projections based on GFIR estimates from earlier years. A trend line, derived from the historical data, was used to forecast the illicit outflows for the years 2016 to 2023. These projected figures, alongside GFIR's earlier estimates, are presented in Table 20.1. To account for discrepancies in export earnings data, the export figures for these years have been normalised according to the BB's reported export receipts, in contrast to data from the EPB.[471] Furthermore, the GFIR coefficient for trade and non-trade illicit outflows, based on BoP leakage, was applied to estimate the total illicit outflows. Notably, GFIR allocates 76% of illicit outflows to trade-based activities, with 24% attributed to non-trade activities.

The exercise aimed to estimate illicit financial outflows from Bangladesh between 2009 and 2023, based on GFIR data and several assumptions. As Table 20.1 indicates, approximately USD 236.0 billion was laundered from the country during this period. This amount equates to, on average, around 6.0% of the country's GDP.

On average, illicit outflows amounted to about USD 15.7 billion (roughly BDT 180,000 crore at the current exchange rate) annually. This figure represents approximately one-fifth of the foreign exchange earnings from the export of goods and services and remittances in FY2023-24 and about 11.2% of national savings. In other words, the illicit outflows were more than twice the net foreign aid and FDI inflows over the same period. This significant level of illicit financial outflows is not an outlier. The United Nations Office on Drugs and Crime (UNODC) estimates that illicit financial outflows globally account for 2-5% of annual global GDP (USD 800 billion to 2,000 billion). If taxed at 25%, these illicit funds would generate revenues equivalent to about 9.8% of total tax earnings (using FY2022-23 as the reference year).

Illicit financial outflows from Bangladesh were primarily routed to, or through, the UAE, UK, Canada, the USA, Hong Kong, Malaysia, Singapore, India, and several tax havens. By remaining anonymous, individuals can use laundered funds to purchase real estate or channel the money through business operations. A review of global literature reveals that an increasing proportion of illicit funds is being invested in real estate, business enterprises, and various commercial activities. Many corrupt individuals from Bangladesh have exploited this opportunity.

Additional evidence supporting the estimated illicit financial outflows includes the following: 532 property owners of Bangladeshi origin owned real estate worth USD 375.0 million in Dubai (EU Tax Observatory, 2024); 459 Bangladeshis owned 972 residential properties in Dubai, valued at approximately USD 315.0 million[472] (Centre for Advanced Defence Studies-C4ADS report, n.d.); and an estimated USD 47-100 billion was laundered into Canada (End Snow Washing, n.d.). As of

[471] A significant discrepancy in export earnings has been recently noted between figures from the EPB and Bangladesh Bank (for instance, the EPB's 2023 export figures were 27.5% higher than those reported by Bangladesh Bank).

[472] A recent Al-Jazeera report highlighted the case of an ex-minister residing in London, whose wealth was estimated at approximately USD 675 million. The Governor of Bangladesh Bank stated that an estimated USD 16.7 billion had been illicitly transferred from Bangladesh following illegal bank takeovers (The Daily Star, 2024).

March 2024, over 3,600 Bangladeshi-origin individuals were Malaysian Second Homeowners.[473] Estimates suggest that the offshore financial wealth held by Bangladeshis amounted to USD 8.15 billion in 2021 (EU Tax Observatory Report, 2023). Bangladesh currently ranks 52nd out of 141 countries in the Financial Secrecy Index[474] (Tax Justice Network, 2023).

The value of Bangladeshi deposits in Swiss banks rose from approximately BDT 3214 crore in 2013 to BDT 5359 crore in 2018. In recent years, following Swiss banks' policy shift to disclose certain depositor information, this amount has decreased.[475] There has been little effort on Bangladesh's part to request more information from Swiss authorities to investigate individuals and entities who have illicitly deposited money in Swiss banks. The decline in deposits may indicate that account holders have shifted their funds to less scrutinised destinations or converted them into other assets.

20.3 Channels and Process of Illicit Outflows

IFFs from Bangladesh appear to occur in two stages. Initially, these resources constituted a significant portion of the domestic economy, forming part of the shadow economy. Subsequently, a substantial share of these funds was transferred overseas through various illicit channels. The Bangladesh Financial Intelligence Unit (BFIU), other concerned agencies, and KIIs have identified several methods of money laundering, including trade-based money laundering (TBML), cash-based money laundering, laundering through the banking, financial, and insurance sectors, hundi/hawala channels, couriers, electronic payments, debit and credit card transactions, bearer instruments, misuse of bank guarantees, correspondent accounts, and brokerage accounts. Among these, TBML remains a principal channel, involving the illicit transfer of funds through the falsification of goods' declared values on customs invoices. KIIs also suggest a close nexus between import under-invoicing and hundi/hawala operators.[476]

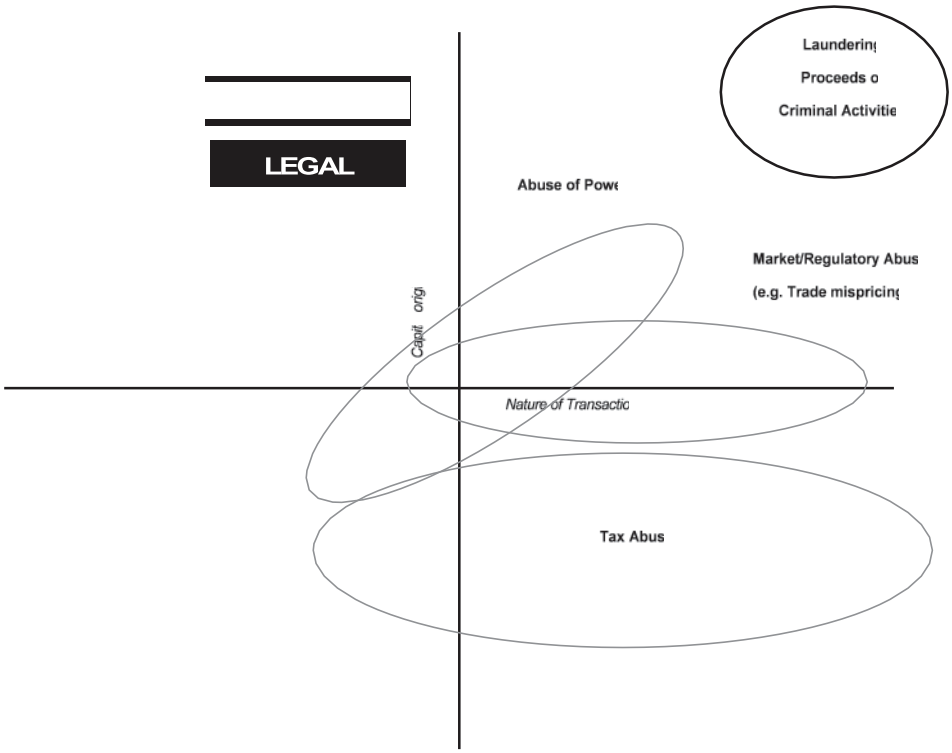
[473] Bangladesh was ranked fifth.

[474] The index measures the extent to which a country's tax and financial systems are used to conceal assets from legal authorities.

[475] Prothom Alo (2019)

[476] Shell companies set up abroad often act as intermediaries for under-invoicing and sending back the under-invoiced amount. Hundi/hawala channels are frequently employed to transmit the balance. Methods such as short shipment, over shipment, and phantom shipment are common tools for illicit outflows.

Figure 20.1 Main IFF types by nature of capital and mode of transactions



Source: Adapted from Cobham (2014).

Money laundering involves a complex array of activities. Illicit funds, primarily derived from illegal activities, are transferred abroad through various illicit channels (see Figure 20.1).

Process of Money Laundering

Money laundering typically occurs in three stages: placement, layering, and integration.

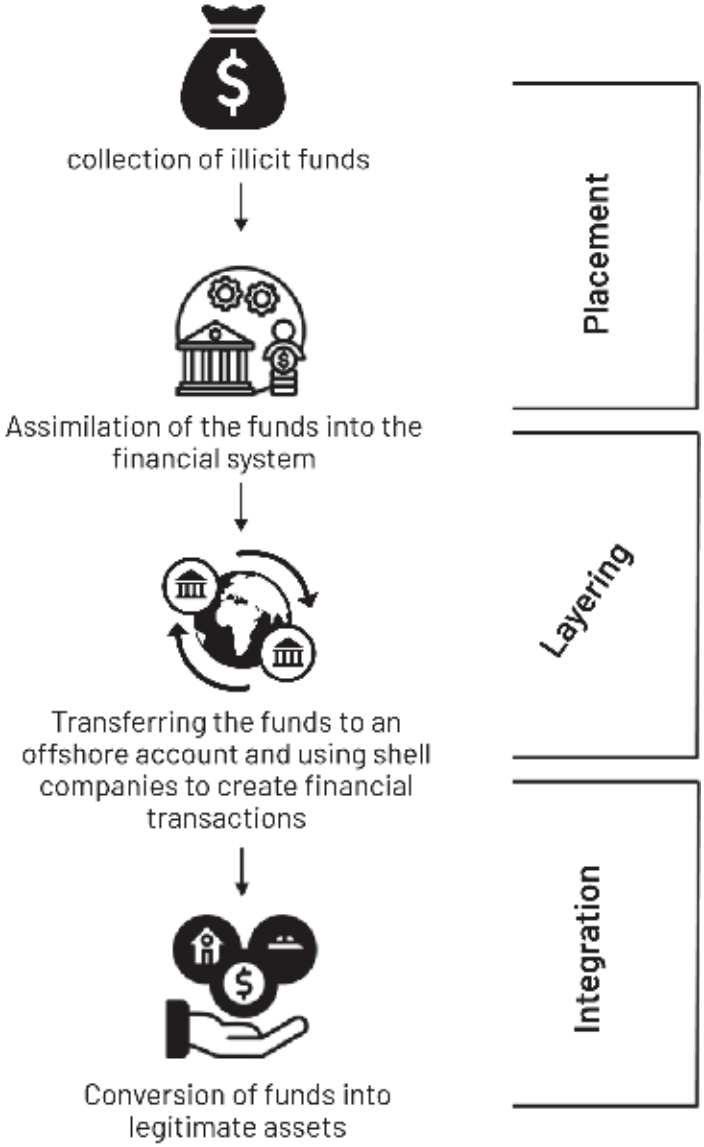
- Placement refers to the initial introduction of illicit funds into the financial system.[477]
- Layering involves strategically distancing these illicit funds from their original sources.[478]
- Integration is the final stage, wherein the laundered money is reintroduced to the original beneficiary in a manner that appears legitimate.[479]

[477] At this stage, illicit funds are mobilised and converted into forms that can be deposited into financial institutions. Money is transferred abroad through various means, including hundi/hawala and trade mispricing.

[478] This is often achieved through complex financial transactions that obscure the origin of the funds, such as transferring money to offshore accounts controlled by shell companies. Complex arrangements, such as loans between shell companies and the use of false invoices, further complicate the money trail at this stage.

[479] At this stage, the funds may be used for various purposes, including the acquisition of luxury assets or investment in legitimate businesses.

Figure 20.2 Cycle of money laundering



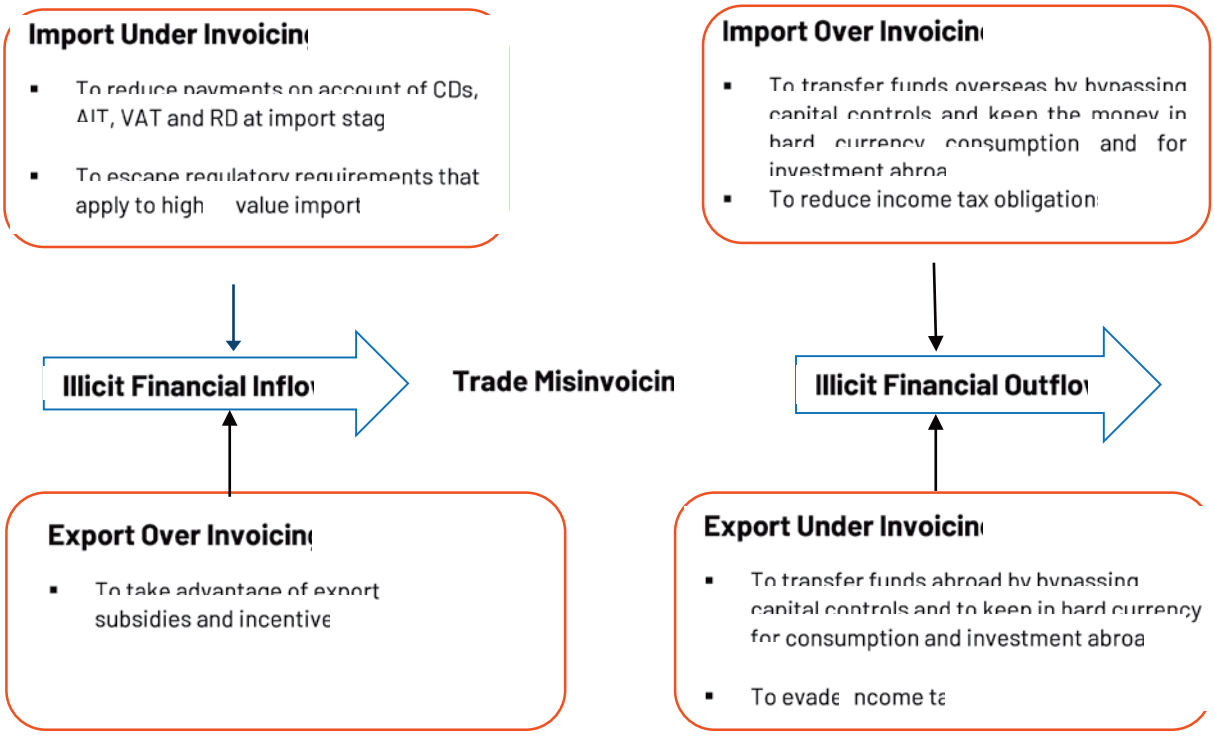
Source: United Nations Office on Drugs and Crime (UNODC).

A robust industry has emerged in major money laundering centres, involving hundi/hawala, invoice consultants, agents and aggregators, consultants who facilitate the establishment of shell companies and shell banks, investment consultants, and legal experts. Hundi/Hawala services offer door-to-door assistance, a service that banks and exchange houses are unable to provide.

Trade-Based Money Laundering

Trade misinvoicing continues to be a significant route for illicit financial outflows from Bangladesh, involving both over- and under-invoicing of exports and imports.

Figure 20.3 Four main types of trade misinvoicing

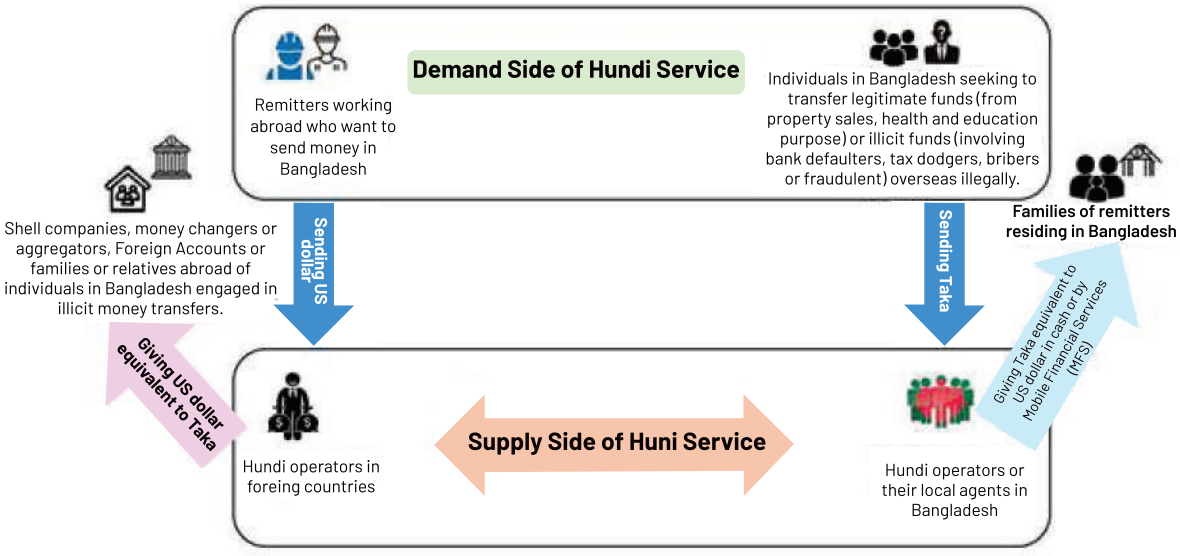


Source: Adapted from GFI Report 2021.

Offshore accounts, companies, and enterprises in tax havens owned by Bangladeshis are often used in TBML, incorporating multiple layers.

Hundi-Hawala Channels

Figure 20.4 Money laundering through Hundi/Hawala channels



Source: Based on Mechanism of Hundi Business (Thinking Aloud, SANEM).

The Hundi/Hawala market is a complex system that has developed over time, featuring an intricate web of participants and transactions both domestically and internationally. A simplified representation of this process is shown in Figure 20.4. The settlement of illicit outflows via remittances generated overseas is a key mechanism in these transactions. Remitter households in Bangladesh receive the equivalent amount in BDT, often with a premium.[480] Illegal operators and aggregators in host countries collect remittance earnings and transfer money to designated accounts abroad or accounts of hundi/hawala syndicates in Bangladesh. Some MFS are also involved in this process. Ultimately, the equivalent amount is transferred to beneficiary accounts in Bangladesh.

Recent reports indicate large-scale capital flight through hundi/hawala mechanisms, facilitated by offshore financial hubs (e.g. Dubai, Panama, Singapore). These transactions often involve offshore accounts or trusts established by high-net-worth individuals.[481] Ownership structures are typically multilayered, making detection particularly challenging.[482] Layers of entities are created between the laundered money and the ultimate beneficiary to evade detection. Often, jurisdictions with lax banking regulations, such as Panama, the Cayman Islands, and the Channel Islands, are used. In some cases, citizenship is acquired through investment programmes (e.g. St. Lucia, Malta, Vanuatu). Some countries adopt 'don't ask, don't tell' policies to attract FDI, which facilitates the transfer of illicit funds and investment in these countries.[483] The overseas subsidiaries of business conglomerates have become sufficiently affluent to make large-scale investments in real sectors and establish industries. Tax advantages make destinations like Singapore, Dubai, and Hong Kong attractive.[484]

Other Forms of Money Laundering

Money is also laundered by unregistered foreign workers in Bangladesh who evade tax payments and transfer money (often in cash) to host or other countries. Legally earned funds, such as proceeds from real estate sales, are also transferred through illicit channels. Double taxation further encourages these transfers.

20.4 Measures to Address the Problem

The generation of ill-gotten wealth must be countered by improving governance quality, strengthening institutions, and fostering a culture of zero tolerance for corruption. Measures must be implemented to curb and eliminate identified channels of outflows. Investigative actions and legal measures are necessary to recover stolen assets. In this context, strengthening and empowering relevant institutions, enacting regulatory reforms, enforcing legal measures, and

[480] It should be noted that a large portion of remitters and migrant workers do not participate in illegal transactions, which carry significant risks. However, many others do.

[481] Several Bangladeshi citizens' names appeared in the Panama Papers and other leaked documents.

[482] For instance, a powerful businessman's heir, who owned expensive real estate in London, was identified as the 'beneficiary' through two shell companies registered in the British Virgin Islands and the Isle of Man.

[483] Sometimes, money is transferred through shell banks established by collaborators in countries with lax regulations. Licenses are purchased, and swift connections are secured. In some instances, the overseas buyer opens a letter of credit (L/C) in favour of a Bangladeshi business house's foreign office (under a different name). The business house, in turn, opens a mirror L/C at a lower price in favour of its office in Bangladesh. After shipment, the overseas buyer transfers the funds at the actual sales price to the Bangladeshi business house's foreign office. The under-invoiced export amount is then sent to Bangladesh, while the difference remains abroad.

[484] The Daily Star (2024).

promoting cross-agency and cross-country cooperation will be crucial. Several concrete measures are proposed below.

Address Trade Mispricing

TBML constitutes a significant portion of illicit financial outflows from Bangladesh. There is a need to criminalise trade misinvoicing, imposing substantial penalties to deter violations and improve coordination among various government agencies. Strengthening the capacity of customs officials, the *Transfer Pricing Cell*[485] at the NBR, and Anti-Money Laundering (AML) focal points in banks should be prioritised. Access to real-time commodity prices must be ensured. The use of risk assessment tools should be enhanced by investing in advanced information technology and data systems, such as the GF Trade system, to enable customs to identify and flag potentially fraudulent invoices in real time. Globally, the use of AI and blockchain technology in detecting mispricing and fraudulent practices is increasing; Bangladesh should prepare to leverage these tools. To prevent over-invoicing in imports, special attention should be given to goods with low or zero import duties, such as capital machinery.[486]

The predominance of manual analysis undermines the efficiency of AML entities. Bangladesh may consider establishing an independent Trade Transparency Unit to combat TBML, as seen in some other countries.[487]

Measures to Recover Stolen Wealth

There is growing demand for the Interim Government to take decisive action to recover stolen wealth. However, it is challenging to establish the chain of connections involving illicit funds, the laundering of money, and the ultimate beneficiary in the destination country—an essential step for ensuring the return of stolen assets to Bangladesh.[488] The ACC will need to file charge sheets against the involved parties. Money Laundering Action Requests must be sent to various potential destination countries seeking information.[489] The cases must then be successfully presented in Bangladeshi courts. Competent Bangladeshi authorities will need to submit formal requests to destination countries to seize, freeze, and sequester the wealth of Bangladeshi nationals, in accordance with their respective laws. For example, Canadian AML laws provide specific guidelines for such cases (Government of Canada, n.d.). Bangladesh would then acquire the legal authority to pursue these cases in destination countries. This will require the hiring of competent lawyers or firms specialising in such matters, often on a recovered money-sharing basis.

[485] In recent years, several initiatives have been undertaken to strengthen the TPC, including enhancing its database and training officials. The TPC has also initiated audits of selected multinational corporations (Hossain, 2024).

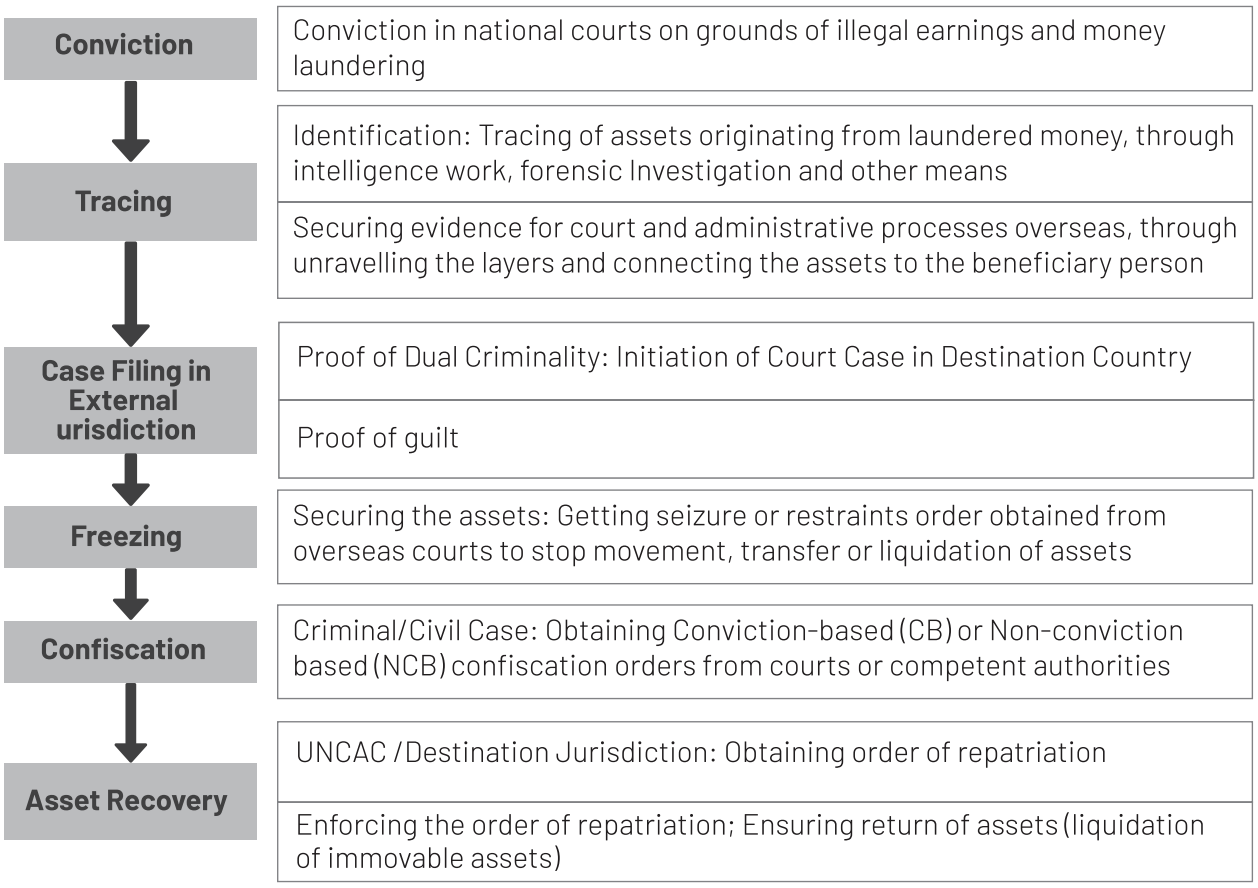
[486] Over-invoicing creates problems for other importers who report the actual price in their L/Cs, as NBR officials often use the inflated price as a reference.

[487] The NBR previously formulated a strategy document in March 2015 to identify illicit assets and financial outflows. This strategy now requires implementation.

[488] Large groups involved in money laundering often have well-established offices abroad, but with concealed ownership (primarily in cities like Dubai, London, New York, Hong Kong, and Singapore). These locations are convenient, as most owners reside in major Western cities. Transactions are frequently conducted under the names of offshore companies in tax-free havens (e.g. the Cayman Islands, Isle of Man, Panama). Ownership structures are layered, often involving multiple nominee offshore companies registered across various tax havens. This layering complicates the identification of the true beneficiary. Family assets are typically managed separately, using distinct banks, offshore entities, and lawyers for personal and family wealth, while another group oversees corporate business activities.

[489] The ACC recently sent 71 requests to 11 countries and has received 27 responses thus far (Hossain, 2024).

Figure 20.5 Asset recovery process in brief



Source: Adapted from NBR (2015).

Tax authorities should also be involved in the asset recovery process. The recovery of stolen assets involves several stages, as depicted in Figure 20.5: (a) forensic audit to establish criminal responsibility and the amount of liability; (b) criminal accountability through the judicial system and the determination of guilt in money laundering; (c) filing of cases in destination countries for the recovery of assets obtained through laundering, directly or through intermediate channels.

Strengthen Concerned Institutional Capacity

Bangladesh has several laws and regulations to address money laundering and the return of confiscated property. These include the Money Laundering Prevention Act, which criminalises money laundering and authorises the confiscation of laundered assets. Bangladesh has also signed mutual legal assistance treaties with several countries.[490] The BFIU has signed MoUs with 81 foreign counterparts and is a member of several AML bodies, such as the Financial Action Task Force, the Asia-Pacific Group, and the Egmont Group. This network could be expanded,[491] but little progress has been made in effectively utilising it. Even when concerns were raised by the involved institutions, actions often depended on directives from senior officials. Political considerations have largely influenced the work of the BFIU, ACC, NBR, and other institutions. Although intelligence agencies possess substantial information about stolen wealth, there has been a lack

[490] However, agreements have yet to be signed with some important countries, such as Switzerland, Australia, Canada, and Malaysia.

[491] Bangladesh Financial Intelligence Unit (n.d.).

of active initiatives and follow-ups.[492] While the BFIU has taken some action, it has predominantly targeted small-time operators.[493] In the case of several high-profile bank scams, Suspicious Transaction Reports (STRs) were not submitted to the BFIU, and no concrete action was taken.[494]

The recovery of stolen assets is increasingly recognised as a global priority, reflecting the growing demand for good global economic governance. Since its establishment in 2007, the Stolen Asset Recovery (StAR) initiative has helped recover approximately USD 2 billion in stolen assets. Countries such as the Philippines, Malaysia, Nigeria, and several others have successfully recovered significant amounts of stolen assets, often hidden in jurisdictions across the globe (StAR, n.d.).

Analysts in the BFIU and ACC often lack the necessary training in strategic analysis and the use of advanced analytical tools.[495] Furthermore, the ACC lacks the authority to arrest suspects or search premises during investigations, which allows offenders to evade capture and destroy evidence. The Customs Risk Management Commissionerate must be strengthened, and Automated Risk Management Systems and other systems should be implemented.[496] Policymakers might consider relocating the STR analysis wing outside of the BB to enable it to function independently, as in India.[497] Bangladesh should not wait for development partners to finance these essential investments.

Put in Place an Independent Prosecution Body

Weak prosecution capacity and susceptibility to political pressure have hindered the effectiveness of follow-up actions by institutions such as the ACC, BFIU, and the CID. To address these limitations, it is essential to establish an Independent Prosecution Body with a clear mandate to carry out follow-up actions effectively. This will call for uncompromising political support from the very top, creation of specialised judicial cadre, and setting up purpose-built administrative system. Such a body must also coordinate its functions with relevant organisations in overseas jurisdictions where stolen money was laundered.

[492] Only a few cases of stolen assets have been recovered, returned, or frozen, amounting to four cases valued at USD 4 million, with USD 3.5 million recovered and USD 3.6 million frozen.

[493] The BFIU has issued detailed guidelines for banks and financial institutions to prevent TBML and has outlined red flags for reporting to the BFIU. In recent years, the number of STRs and suspicious activity reports (SARs) has risen significantly (9,769 STRs and 4,337 SARs in FY 2022-23, a two-thirds increase compared to previous years). This increase is linked to the rise of new fraudulent activities, such as online gambling, cryptocurrency trading, and digital hundi. In FY 2022-23, BFIU forwarded 133 intelligence reports to various agencies: 85 to the CID, 33 to the ACC, 10 to the NBR, and 5 to other agencies. The scale of operations in hundi/hawala channels can be gauged from BFIU data: during FY 2022-23, 5,766 MFS agents and IMFS distributors were implicated in illegal activities. As a result, 5,005 MFS agents had their licences revoked, and transactions from 16,525 MFS accounts suspected of involvement in hundi activities were suspended. While BFIU has comprehensive guidelines to prevent TBML and trade mispricing, further improvements are possible. Confirmed L/Cs are relatively secure, but back-to-back L/Cs, especially when buyers nominate suppliers, are more prone to collusion, requiring greater caution from banks.

[494] The registration of more than 11,000 Bangladeshi business entities in Dubai, coupled with the halving of remittance flows from Saudi Arabia in FY 2022-23 (despite approximately 1.5 million migrant workers), should have raised concerns. However, Bangladesh Bank did not take action, likely due to political pressure. These issues require closer scrutiny.

[495] Indeed, all relevant agencies are under-resourced, both financially and in terms of human resources, logistics, and modern technological tools necessary for effective investigation. These challenges must be addressed promptly.

[496] These are more advanced than the current Royalty Range System (RRS).

[497] While BFIU sends cases to various agencies, including CID, ACC, and others, there is no systematic feedback loop regarding the progress and outcomes of these cases. Such feedback would help track cases and improve the quality of investigations.

Deepen Cross-Country Cooperation

The Intergovernmental Group on Financing for Development has highlighted that the scope and complexity of IFFs have significantly increased, requiring enhanced bilateral and international cooperation (UN Economic and Social Council, 2024). Bangladesh acceded to the United Nations Convention Against Corruption (UNCAC) in 2007 and is a member of the StAR initiative, a partnership between the World Bank and the UNODC aimed at addressing the transfer of corrupt funds to safe havens.

However, it needs to be conceded that, much will depend on the host country where illicit money has been transferred. As is the case, some countries tend to welcome such inflows and do not bother to ask about the source of the transferred money. Many countries are indeed very keen to attract such investments (that brings foreign exchanges). A number of countries offer even citizenship in lieu of such laundered money (i.e., citizenship is purchased). Some countries follows a 'Don't Ask, Don't Tell' policy.

Leaders of some destination countries are outright corrupt politicians themselves, and are interested to have a share of the stolen money. The legal system in many countries are not robust enough to deal with the complex judicial cases involved in the recovery of the stolen money. As Bangladesh strives to deal with, and bring back its stolen assets, it will have to deal with a very complex process. Any legal initiative and measure involving other jurisdictions will entail deepening of bilateral cooperation with the host country to facilitate and expedite the recovery of the laundered money.

Also, it is important to decide as regards which type of cases to lodge, which types of judicial process to pursue, and whether to go for arbitration.

As previously noted, lodging cases in civil courts can sometimes be a more expedient means of achieving results.[498] Bangladesh should formally apply to join the OECD Convention on Mutual Administrative Assistance in Tax Matters (MAAC)[499] and adopt the Common Reporting Standard, which facilitates the automatic exchange of financial information. Law enforcement support, such as assistance from Interpol, should be sought where necessary.[500] Additionally, destination countries should be urged to revise national regulations to simplify the repatriation of stolen assets.[501]

[498] Asset recovery data can also be utilised for tax recovery purposes. While asset recovery typically involves criminal cases, tax recovery is generally a civil matter. The process includes steps such as collecting and authenticating evidence from foreign sources, determining taxable income and the tax owed, and pursuing the recovery of taxes on stolen assets (along with applicable fines) based on tax treaties or international conventions, through either voluntary or enforced compliance.

[499] Previous attempts to join the MAAC were deliberately delayed to prevent the cross-border exchange of tax information that could undermine the interests of those involved in illicit financial outflows. The World Bank (WB) can assist Bangladesh's tax authorities in this regard.

[500] It has been noted that UK Member of Parliament Phil Brickell has urged the country's regulators (Financial Conduct Authority [FCA] and Solicitors Regulation Authority [SRA]) to investigate whether UK companies, state agents, lawyers, and lenders adhered to anti-money laundering regulations when assisting a Bangladeshi minister under investigation for alleged corruption. Members of the All-Party Parliamentary Group on Anti-Corruption and Responsible Tax met in October to discuss how to assist Bangladesh in tracking UK assets linked to individuals under investigation by Bangladeshi authorities. Relevant Bangladeshi agencies should take advantage of such initiatives.

[501] For instance, foreigners can purchase property in Dubai without requiring a residence visa in designated freehold areas. The registration fee is low, at 4.0% of the property value, and there are no property or capital gains taxes on real estate ownership.

Make Necessary Changes in Existing Regulations

Illicit transfers also occur due to outdated regulations, such as the inability to legally repatriate money earned through freelancing and business process outsourcing activities due to the lack of gateways like PayPal. Other areas warranting review include double taxation avoidance, the transfer of proceeds from the sale of inherited property by Bangladeshi citizens living abroad, and visa fees for migrant workers sent overseas by their employers. These regulatory issues, particularly those affecting migrant workers, need to be urgently addressed.

Vigorously Pursue Interim Government's Ongoing Initiatives

The Interim Government has made significant strides, including the establishment of an Asset Recovery Committee, chaired by the Governor of BB, to focus on recovering stolen assets. The decision to discard the provision that allowed the whitening of black money and to enforce the submission of wealth statements by government officials is a positive development. These actions represent a step in the right direction.

Unencumbered by political pressure, the ACC is actively pursuing measures to recover stolen assets from abroad.[502] The Interim Government is collaborating with international bodies, including the World Bank, the IMF, the Federal Bureau of Investigation (FBI), the Swiss government, and the UNODC, to identify and recover stolen assets.[503] Currently, Bangladesh has Customs Cooperation Agreements with only three countries. To tackle TBML, agreements must be established with key countries and regions, including the UAE, India, China, the EU, the United States, and Singapore. Additionally, the ACC may need to seek support from international legal experts and firms specialising in asset recovery. It will also need to be kept in mind that recovery of illicit outflows/ laundered money will call for investment of significant resources in human capacity building, appropriate technology and forensic investigations. All these will also need to be done maintaining legal process and individual privacy, as stipulated by both domestic and international laws. Legal provisions must first be put in place so that when court cases are lodged in overseas jurisdictions legal issues are not raised and cases contested in a way that could undermine the robustness of the lodged cases in overseas jurisdictions.

20.5 Concluding Remarks

Money laundering in Bangladesh, facilitated by illicit financial channels, has flourished in an environment of political indulgence, institutionalised corruption, legal impunity, and poor governance in economic management. Overcoming this issue requires a firm political commitment to address the problem directly. This involves restoring accountability and good governance, enforcing legal provisions, maintaining zero tolerance for corruption, strengthening institutions, improving inter-agency coordination, and fostering greater collaboration with destination countries to repatriate stolen wealth to Bangladesh.

[502] The ACC is currently being reconstituted. An Anti-Corruption Reforms Committee has been established to address relevant issues and propose concrete actions.

[503] NikkeiAsia (2024).

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Chapter XXI. Institutional Decline Stalling National Development*

Key takeaways:

- *Strengthen political institutions through reforms that emphasize judicial independence, electoral transparency, and the autonomy of civil society.*
- *Improve institutional governance by enacting reforms that reduce corruption, enhance regulatory frameworks, and ensure the transparent and accountable functioning of institutions to support sustainable growth.*
- *Combat cronyism, foster fair competition, and promote transparency in decision-making, licences, contracts, and state resource allocation.*
- *Implement reforms in banking, taxation, public finance, trade, and industrial policies to build a resilient and competitive economy.*
- *Develop a coordinated industrial policy focused on export diversification and foreign investment, underpinned by a transparent business environment and consistent policies.*

21.1 Introduction

Bangladesh has made substantial progress in economic and social development over the past five decades. However, its institutional development has lagged behind, with governance, public administration, and the rule of law remaining weak and underdeveloped, ranking among the lowest globally. This institutional fragility is evident in numerous international assessments, which highlight deficiencies in effectiveness and reliability. Global indices consistently show that the quality of institutions in Bangladesh is poor. Table 21.1 illustrates that in all six areas of institutional quality, ranked on a 0-100 percentile scale, Bangladesh's percentile ranking remains below 30. The table also compares institutional quality between Bangladesh, India, and Vietnam. Bangladesh consistently scores lower than both India and Vietnam, reflecting weaker institutional performance. For example, Bangladesh's Political Stability score is 13.21, significantly lower than Vietnam's 45.75 and India's 24.53. Similarly, Bangladesh's scores in Government Effectiveness (23.11) and Control of Corruption (15.57) are much lower than India's (63.21 and 44.34) and Vietnam's (59.43 and 45.75). These figures underscore the need for substantial institutional reforms in Bangladesh to align its governance standards with those of its regional counterparts.

Table 21.1 Quality of institutions in Bangladesh in 2022

Indices	Bangladesh	India	Vietnam
Voice and Accountability	28.02	49.28	13.53
Political Stability	13.21	24.53	45.75
Government Effectiveness	23.11	63.21	59.43
Regulatory Quality	17.92	50.94	36.32
Rule of Law	29.72	55.19	47.64
Control of Corruption	15.57	44.34	45.75

Note: Percentile rank among 214 countries. Ranges from 0 (lowest) to 100 (highest) rank.
Source: World Governance Indicators.

* The chapter was prepared by Dr Selim Raihan, Professor, Department of Economics, University of Dhaka and Executive Director, South Asian Network on Economic Modeling (SANEM).

21.2 Manifestations of Systematic Institutional Failures in Bangladesh

Systematic Failure Within Political Institutions

The systematic failure of political institutions in Bangladesh during Sheikh Hasina's regime over the past decade is evident in several key areas. These failures have undermined democratic governance, accountability, and the efficacy of institutions vital for maintaining political stability and safeguarding citizens' rights. Below are the primary manifestations:

1. **Weakening of Democratic Processes and Electoral Integrity**
    - *Erosion of Free and Fair Elections:*[504] The elections of 2014, 2018, and 2024 were marred by allegations of widespread irregularities, including voter intimidation, ballot stuffing, and limited access for opposition parties. In the 2014 election, a boycott by the Bangladesh Nationalist Party (BNP) led to uncontested seats and lower voter turnout, undermining the legitimacy of the electoral process. This trend continued in the subsequent elections. In 2011, the longstanding requirement for general elections to be supervised by non-partisan caretaker governments was abolished,[505] resulting in significant irregularities during the elections of 2014, 2018, and 2024. The Electoral Process index from the Quality of Government dataset declined from 9 in 2009 to 4 in 2021.[506]
    - *Control over the Election Commission:*[507] Despite being constitutionally mandated to operate independently, the Election Commission's actions increasingly aligned with the ruling party's interests. Allegations of a lack of neutrality, inadequate oversight, and partisan favouritism have eroded public confidence in the Commission's ability to conduct impartial elections.

2. **Politicisation of the Judiciary**
    - *Influence over Judicial Appointments:*[508] Accusations arose under Sheikh Hasina's regime regarding judicial appointments based on loyalty rather than merit. This undermined the judiciary's independence.
    - *Weakening of Judicial Autonomy:*[509] In several high-profile cases, especially those involving political opposition or dissenters, the judiciary's impartiality was questioned. The judiciary has often been seen as favouring government narratives in politically sensitive cases, diminishing its role as a neutral arbiter in the democratic system.

3. **Constraining Freedom of Expression and Press Freedom**
    - *Digital Security Act:*[510] Since its enactment in 2018, the Act has been criticised for suppressing free speech and creating a climate of fear among journalists, rights activists, and citizens. The

[504] See "Overcoming Bangladesh's electoral integrity deficit: time for political compromise and dialogue": https://www.idea.int/news/overcoming-bangladeshs-electoral-integrity-deficit-time-political-compromise-and-dialogue
[505] See "Bangladesh ends caretaker government arrangement": https://www.bbc.com/news/world-south-asia-13973576
[506] https://www.gu.se/en/quality-government/qog-data
[507] See "The alterations we need in our Election Commission": https://www.thedailystar.net/opinion/views/news/the-alterations-we-need-our-election-commission-3691126
[508] See "Politics and Independence of the Judiciary in Bangladesh": https://www.ide.go.jp/library/English/Publish/Reports/Rb/2018/pdf/2017_2_40_003.pdf
[509] See "Can the judiciary be free from politicisation?": https://www.thedailystar.net/opinion/views/news/can-the-judiciary-be-free-politicisation-3442131
[510] See "How Bangladesh's Digital Security Act Is Creating a Culture of Fear": https://carnegieendowment.org/research/2021/12/how-bangladeshs-digital-security-act-is-creating-a-culture-of-fear?lang=en

Act has been used to target government critics, leading to arrests, harassment, and legal actions against journalists and activists. The Freedom of Expression and Belief index from the Quality of Government dataset declined from 9 in 2009 to 6 in 2021.[511]

- *Suppression of Media and Intimidation of Journalists:*[512] Media outlets faced pressure not to publish critical reports about the government. Through administrative coercion and intimidation, the government stifled critical journalism.

4. Repression of Civil Society and Political Opposition

- *Harassment of Opposition Parties:*[513] Leaders and activists from opposition parties faced harassment, arrests, and violence. Key opposition figures were imprisoned or disqualified from elections due to politically motivated legal challenges.
- *Constraints on CSOs:*[514] Civil society, particularly organisations critical of the government, faced restrictions. Laws limiting foreign funding for NGOs and increased surveillance of their activities curtailed their operational freedom, impacting advocacy on human rights, governance, and accountability.

5. Weakening of Accountability Mechanisms

- *Corruption and Nepotism:*[515] Corruption permeated key public institutions, particularly those concerned with the rule of law, public finances, and governance. The ACC, responsible for investigating corruption, was accused of selective enforcement, often targeting opposition figures while failing to investigate high-profile cases involving ruling party members. The percentile ranking of the Voice and Accountability index from the World Governance Indicators declined from 38.4 in 2009 to 28 in 2022.[516]
- *Ineffective Implementation of the RTI Act:*[517] Despite the RTI Act being hailed as a groundbreaking law upon its adoption in 2009, it has not led to the unveiling of large-scale scandals or significant public accountability.

[511] https://www.gu.se/en/quality-government/qog-data
[512] See "Bangladesh: IPI urges government to respect press freedom, independent journalism": https://ipi.media/bangladesh-ipi-urges-government-to-respect-press-freedom-independent-journalism/
[513] See "Bangladesh: Repeated cycle of deaths, arrests and repression during protests must end": https://www.amnesty.org/en/latest/news/2023/10/bangladesh-repeated-cycle-of-deaths-arrests-and-repression-during-protests-must-end/
[514] See "Restrictions impede civil society organisations' ability to operate": https://www.tbsnews.net/bangladesh/restrictions-impede-civil-society-organisations-ability-operate-report-559974
[515] See "Corruption, nepotism key barriers to development: youth survey": https://www.newagebd.net/article/214955/corruption-nepotism-key-barriers-to-development-youth-survey
[516] https://www.worldbank.org/en/publication/worldwide-governance-indicators
[517] See "Why do we fail to utilise our Right to Information Act?": https://www.thedailystar.net/opinion/views/news/why-do-we-fail-utilise-our-right-information-act-3347061

- *Partisan Control of Law Enforcement:*[518] Law enforcement agencies, including the police and RAB, were accused of acting on behalf of the ruling party. These agencies were used to harass political opponents, suppress protests, and violate civil liberties, undermining public trust in their neutrality. Between 2009 and June 2024, at least 708 cases of enforced disappearances were reported by the Bangladeshi NGO Odhikar,[519] many of which involved individuals held in secret prisons, such as Aynaghar.[520]

6. Undermining the Role of Parliament

- *Lack of Parliamentary Opposition:*[521] With the opposition's boycott of the 2014 and 2024 elections and a highly controlled 2018 election, parliament became largely a one-party institution. This limited its ability to serve as a check on the executive branch. Parliamentary debates grew less vigorous, with minimal input from opposition members, facilitating the unchecked passage of legislation that often favoured the ruling party's agenda.
- *Centralisation of Power in the Executive:*[522] The excessive centralisation of power in the PMO diminished the role of other branches of government, especially Parliament, relegating it to a mere rubber-stamp body. This weakened the institutional checks and balances necessary for effective governance.

7. Ineffective Public Institutions and Bureaucratic Challenges

- *Politicised Bureaucracy:*[523] The bureaucracy, intended to be apolitical, became increasingly influenced by political loyalty in appointments and promotions. This politicisation led to inefficiency and reduced accountability, as bureaucrats were more inclined to favour political allies than uphold impartial administration.
- *Public Service Delivery Failures:*[524] Citizens' complaints about poor public services—such as healthcare, education, and infrastructure—reflect inefficiencies linked to corruption and politicised resource allocation. This inability to manage public services effectively led to widespread disillusionment regarding the state's capacity to deliver basic services equitably.

Pervasive and Interconnected Corruption

Corruption has been a persistent issue in Bangladesh, manifesting across various spheres, including bribery, misappropriation of funds, and favouritism. It has become deeply institutionalised, significantly undermining the efficiency and integrity of public institutions, hindering economic development, and eroding public trust. Reports highlight extensive corruption in government procurement processes, taxation, the banking sector, healthcare, transportation, energy, and construction.[525] Additionally, the ACC has proven ineffective (Raihan, Bourguignon, and Salam, 2024).

[518] See "The Party-Police Nexus in Bangladesh": https://www.tandfonline.com/doi/full/10.1080/00220388.2022.2055463?scroll=top&needAccess=true#d1e149
[519] See "Enforced disappearance: Govt sets up inquiry commission": https://www.thedailystar.net/news/bangladesh/news/enforced-disappearance-govt-sets-inquiry-commission-3688236
[520] See "The howls were terrifying': Imprisoned in the notorious 'House of Mirrors'": https://www.bbc.com/news/articles/ cdd7nqzj20qo
[521] See "Column by Mahfuz Anam: Death of the opposition in parliament": https://www.thedailystar.net/opinion/views/the-third-view/news/column-mahfuz-anam-death-the-opposition-parliament-3533876
[522] See "Inequality a result of centralisation of political power: economists": https://www.thedailystar.net/business/economy/news/inequality-result-centralisation-political-power-economists-3325096
[523] See "Political Patronage, Civil Service Politicization, and the Ordeals of Career Civil Servants": https://www.cambridge.org/core/books/abs/political-patronage-in-asian-bureaucracies/political-patronage-civil-service-politicization-and-the-ordeals-of-career-civil-servants/5BA315C04A7A7B9D9C5F3F0F0FDB8E5E
[524] See "Overhauling public service delivery: Difficult but possible": https://www.tbsnews.net/thoughts/overhauling-public-service-delivery-difficult-possible-946001
[525] See "Getting out of the abyss of corruption in Bangladesh": https://www.thedailystar.net/opinion/views/news/getting-out-the-abyss-corruption-bangladesh-3655781

Over the past decade, corruption has become all-encompassing and interconnected across various sectors, entangling the entire nation in a web of malfeasance. Those involved in tax evasion are often the same individuals implicated in loan defaults, share market manipulation, and money laundering. This widespread involvement has entrenched corruption within Bangladesh's financial and regulatory systems, making it difficult to dismantle. Cross-sectoral linkages reinforce enforcement challenges, as corrupt practices feed into each other in a self-sustaining cycle, eroding economic integrity and public trust.

Notable examples of pervasive and interconnected corruption include:

1. Corruption in Public Sector Services:

- **Illegal wealth accumulation by government officials:**[526] The ACC has identified cases involving kickbacks, bribes, and misuse of power.
- **Recruitment scams in government jobs:**[527] Bribery, manipulation of results, and favouritism in securing government positions.
- **Health sector corruption during COVID-19:**[528] Corruption in the procurement of medical equipment, testing kits, and the issuance of fraudulent COVID-19 test certificates (Hossain et al., 2023).
- **Passport issuance corruption:**[529] Syndicates within the Passport Office extracting money from applicants.
- **Digital security services corruption:**[530] Tampering with National ID cards, digital signatures, and other e-governance services, including illegal data modification and the issuance of fake or duplicate IDs.
- **Recent ACC investigations (2022-2024):**[531] Allegations against former ministers and public officials related to land scams, illegal wealth, and money laundering.

2. Banking and Financial Sector Scams:[532]

- **Hallmark Group loan scam (2010-2012):**[533] Embezzlement of approximately $450 million from Sonali Bank through collusion with bank officials.
- **Basic Bank loan scandal (2009-2013):**[534] Over $450 million embezzled through irregular loans granted between 2010 and 2013.

[526] See "Recovering BD's stolen wealth: it's time for action": https://thefinancialexpress.com.bd/views/recovering-bds-stolen-wealth-its-time-for-action
[527] See "An epidemic of job scams and the barriers to legal recourse": https://www.tbsnews.net/thoughts/epidemic-job-scams-and-barriers-legal-recourse-191716
[528] See "COVID-19 corruption in the public health sector—emerging evidence from Bangladesh": https://academic.oup.com/heapol/article/38/7/799/7181256
[529] See "The bureaucratic sinkhole that is the passport office": https://www.dhakatribune.com/opinion/editorial/307535/the-bureaucratic-sinkhole-that-is-the-passport
[530] See "An alarming lapse in data security protocols": https://www.thedailystar.net/opinion/editorial/news/alarming-lapse-data-security-protocols-3615491
[531] See "Corruption allegations: ACC to investigate 41 ex-ministers, MPs": https://www.thedailystar.net/news/bangladesh/crime-justice/news/corruption-allegations-acc-investigate-41-ex-ministers-mps-3681426
[532] See the chapter on 'Banking Sector' in this White Paper Committee Report for an elaborated discussion on the irregularities in the banking sector in Bangladesh in the past decade.
[533] See "Hallmark scam: MD Tanvir, chairman Jasmine get life in prison": https://www.tbsnews.net/bangladesh/court/hallmark-scam-case-md-tanvir-wife-among-9-get-life-imprisonment-811382
[534] See "Basic Bank loan scam": https://www.thedailystar.net/tags/basic-bank-loan-scam

- **Destiny Group Ponzi Scheme (2012):**[535] A multi-level marketing scheme that defrauded over 4.5 million investors, amounting to approximately $750 million.
- **PK Halder financial scam (2020):**[536] Embezzlement of over $500 million from NBFIs through fake companies.
- **E-Orange Ponzi Scheme (2021):**[537] A fraud of around $100 million, where advance payments were taken but products were not delivered.

3. Corruption in Infrastructure and Development Projects: [538]

- **Padma Bridge scandal:**[539] The World Bank withdrew a $1.2 billion loan due to an alleged corruption conspiracy. Although a Canadian court dismissed the case in 2017, citing insufficient evidence, critics argue that the decision may reflect the limitations of the evidence rather than the absence of corruption.[540]
- **Rooppur nuclear power plant corruption (2019):**[541] Reports indicated overpricing in procurement, with irregularities suggesting collusion between contractors and officials.
- **Rampal power plant land acquisition controversy (2018-2020):**[542] Irregularities in compensation payments, manipulation of land records, and bribery.
- **Matarbari power plant and port development (2020):**[543] Allegations of irregular procurement, non-transparent bidding processes, and possible bribes to secure contracts.
- **Chattogram elevated expressway (2021-2023):**[544] Allegations of favouritism in contract awards and concerns regarding overpricing in construction and procurement.
- **Payra port and power project (2019):**[545] Irregularities in compensation payments, manipulation of land records, and bribery to expedite approvals.
- **Purbachal new town project (ongoing):**[546] Allegations of illegal plot allocation, bribery, and manipulation in land acquisition.

[535] See "Destiny-2000 scam: Form a committee to reimburse investors": https://www.thedailystar.net/news/bangladesh/crime-justice/news/destiny-2000-scam-form-committee-reimburse-investors-3022356
[536] See "PK Halder: The Man Behind An 11 Thousand Crore Scam": https://businessinspection.com.bd/pk-halder-behind-11-thousand-crore-scam/
[537] See "E-orange: A planned 'family fraud'": https://www.tbsnews.net/bangladesh/corruption/eornage-planned-family-fraud-298786
[538] See the chapter 'Mega projects' in this White Paper Committee Report for an elaborated discussion on the irregularities in the mega projects in Bangladesh in the past decade.
[539] See "World Bank cancels Bangladesh bridge loan over corruption": https://www.bbc.com/news/world-south-asia-18655846
[540] See "Maximum accountability should be the norm": https://www.thedailystar.net/op-ed/politics/maximum-accountability-should-be-the-norm-1367689
[541] See "Rooppur Nuclear Power Plant Scam": https://www.thedailystar.net/tags/rooppur-nuclear-power-plant-scam
[542] See "Rampal Power Plant: Myths debunked": https://www.thedailystar.net/star-weekend/spotlight/how-valid-are-the-claims-favour-rampal-1414039
[543] See "Matarbari power plant: ACC opens probe into Tk 1,000cr graft allegation": https://www.thedailystar.net/news/bangladesh/crime-justice/news/matarbari-power-plant-acc-opens-probe-tk-1000cr-graft-allegation-3728546
[544] See "Allegation of irregularities in construction of 'Elevated Expressway' in CTG": https://thedailymorningglory.com/2024/07/05/allegation-of-irregularities-in-construction-of-elevated-expressway-in-ctg/
[545] See "Frustration mounts over irregularities in Payra port compensation process": https://www.dhakatribune.com/bangladesh/development/169003/frustration-mounts-over-irregularities-in-payra
[546] See "RAJUK: 126 acres of land in Purbachal vanish into thin air": https://en.prothomalo.com/bangladesh/city/hcca57i5cy

4. Other Cases:

- **Biman Bangladesh Airlines corruption:**[547] Irregularities in the procurement of aircraft parts, leasing agreements, ticketing fraud, and mismanagement of funds.
- **Casino scandal (2019):**[548] A crackdown on illegal casinos, leading to arrests of ruling party leaders involved in gambling, extortion, and money laundering.

Crony Capitalism and State Capture by a Segment of Business Elites

Crony capitalism refers to a system in which firms depend on close personal relationships with government officials and political leaders to secure business favours. It distorts market competition, reducing opportunities for new entrants, potentially more efficient businesses. The power and energy sectors, as well as the construction of mega projects in Bangladesh, have been significantly affected by cronyism. A few business conglomerates have secured lucrative contracts and licences through political connections (Raihan, Bourguignon, and Salam, 2024). In the banking sector, cronies have managed to evade accountability for high-default loans (Hassan et al., 2024). Similarly, the taxation sector has suffered from widespread tax evasion and avoidance by crony elites.[549]

State capture occurs when business elites, using their influence, shape state policies and regulations to serve their narrow interests, thereby undermining democratic governance and institutional integrity. Business elites with significant influence over regulatory bodies often secure favourable regulations and lax enforcement of laws. This dynamic has been evident in sectors such as the RMG industry, banking, and power and energy (Hassan & Raihan, 2017).

Crony capitalism and state capture by business elites have become major concerns in Bangladesh. At various times, certain groups or individuals have exerted substantial influence over policymaking, regulatory frameworks, and state institutions to further their own interests. This phenomenon has manifested across multiple sectors, with notable examples outlined below:

1. Banking Sector:[550]

- **New Banking Licences:** Over the past two decades, the banking sector has experienced significant growth, with the number of licences more than doubling, despite concerns that the market is oversaturated. Most licences were awarded to business oligopolies with close ties to the ruling party, allowing these groups to expand their financial influence and access credit on preferential terms. This often resulted in an accumulation of NPLs due to inadequate due diligence.
- **Loan Defaults and Irregularities:** Loan defaults, a prominent feature of crony capitalism, contributed to the rise in NPLs in the banking system. Politically connected borrowers received large loans with insufficient collateral and poor oversight, leading to widespread defaults. Banks frequently refrained from taking legal action against these influential borrowers, fostering a culture of impunity.

[547] See "Biman: A cesspool of corruption": https://www.thedailystar.net/opinion/views/closer-look/news/biman-cesspool-corruption-3266041
[548] See "Casino scam: Samrat freed, what about the others?": https://www.tbsnews.net/bangladesh/crime/casino-scam-samrat-freed-what-about-others-485058
[549] See "Hasina's 15-year rule: A regime of crony capitalists": https://www.thedailystar.net/business/economy/news/regime-crony-capitalists-3696296
[550] See Hassan et al (2024).

- **Loan Rescheduling and Preferential Treatment:** Influential businesspeople regularly rescheduled loans without facing significant accountability for repayment. Loan restructuring, often conducted without adequate oversight, enabled individuals with poor credit histories to continue acquiring fresh loans. High-profile defaulters were often exempted from punitive measures due to their political connections, highlighting the systemic issues within the banking sector.
- **Major Loan Scandals:** Scandals such as the Hallmark Group and BASIC Bank cases exemplify how politically connected businesses exploit the banking system. Investigations revealed that loans were granted without proper due diligence, with the culprits often escaping consequences due to political influence.

2. Tax Evasion and Regulatory Arbitrage:[551]

- **Selective Application of Tax Laws:** Tax evasion in Bangladesh remains high, with enforcement typically selective. Business conglomerates with political ties often face lenient tax assessments, penalties, or exemptions. The recurring tax amnesties offered by the government have been criticised for benefiting those with unaccounted wealth, many of whom are reportedly linked to political elites.
- **Revenue Foregone Through Waivers:** Tax incentives and waivers granted to key industries, such as textiles and real estate, are common. These benefits are frequently directed toward businesses with politically influential leadership, further consolidating their economic power.

3. Power Sector Contracts:[552]

- **Independent Power Producers:** IPP contracts have typically been awarded to companies with connections to ruling party figures. The shift towards private power generation has been criticised for favouring these connected firms, which often receive preferential terms, including capacity payments for idle plants, without competitive bidding or transparency.
- **Quick Rental Power Plants:** In response to electricity shortages, the government turned to quick rental power plants, a short-term solution. Many contracts were awarded without competitive bidding, benefiting companies with strong political ties. This approach led to complaints about increased costs and inefficiencies, with the public bearing the burden of higher electricity prices.
- **Contracts for Large-Scale Energy Projects:** Large contracts in the power and energy sectors were frequently awarded to companies with political connections. Allegations of inflated project costs and opaque bidding processes suggest that political elites have captured key areas of the energy sector.

4. Media Licences:[553]

- **Control Over Media Outlets:** Media licences have often been granted in a manner that lacks political neutrality. Many new channels launched under Prime Minister Hasina's regime were owned or patronised by businessmen with ties to the ruling party. This raised concerns about the erosion of media autonomy, with critics arguing that these channels exhibited bias in favour of the government due to crony-capitalist practices.

[551] See "Tax evasion by the rich is setting us back as a nation": https://www.thedailystar.net/opinion/editorial/news/tax-evasion-the-rich-setting-us-back-nation-3547806
[552] See Khan et al (2022).
[553] See Khan and Rahman (2016).

- **Suppression of Dissenting Voices:** Media outlets critical of the government have faced regulatory pressure, harassment, or even shutdowns, demonstrating how control over media licences can be used to stifle opposition.

5. Contracts in Mega Projects:[554]

- **Infrastructure Development:** Several mega infrastructure projects, including the Padma Bridge, Dhaka Metro Rail, and various highways and flyovers, have been marred by non-transparent procurement processes. Contracts for many project components were awarded to politically favoured companies, sparking suspicions of crony capitalism, cost inflation, and mismanagement.

6. Real Estate and Land Allocation:[555]

- **Preferential Land Deals:** Politically connected developers often gain access to prime land at below-market rates or bypass legal hurdles to secure permits. This preferential treatment is a key aspect of cronyism, benefiting influential business figures at the expense of fairness and transparency.
- **Eviction and Land Grabs:** Forced evictions and land acquisitions have enabled politically connected individuals to seize land for commercial purposes, typically disadvantaging marginalised communities.

7. Stock Market Manipulation:[556]

- **2010-11 Stock Market Crash:** The 2010-11 stock market crash in Bangladesh revealed how powerful business groups, with ties to political elites, manipulated stock prices, resulting in significant losses for retail investors. Despite public outcry and investigations, key players involved in the manipulation were not prosecuted, suggesting political protection.
- **2020-21 BEXIMCO Bond Issue:** In 2020-21, BEXIMCO raised BDT 30 billion through 'Beximco Green-Sukuk Bonds'.[557] The funds were purportedly intended for solar power projects (Tista Solar Limited and Korotoa Solar Limited, both subsidiaries of Beximco Limited) and the expansion of BEXIMCO's textile business. Institutional investors, such as banks and insurance companies, were required to purchase a certain amount of these bonds, ensuring that BEXIMCO had buyers for its issued bonds.[558]

8. Industry:

- **Access to Export Facilities and Tax Incentives:** State capture is evident in the textile and garment sector, where well-connected business leaders have secured tax exemptions and subsidies on favourable terms. These incentives are designed to benefit companies owned by politically connected elites, granting them an unfair market advantage. These elites have at times resisted the enforcement of labour regulations and the raising of safety standards to maintain political influence.[559]

[554] See "Crony capitalism sucks away development gains": https://www.tbsnews.net/economy/crony-capitalism-sucks-away-development-gains-41695
[555] See "Land grabbing, prevention and recovery in Bangladesh": https://landportal.org/news/2021/11/land-grabbing-prevention-and-recovery-bangladesh
[556] See "Stock market scam report": https://www.thedailystar.net/news-detail-180982
[557] See "Beximco bond: BSEC forms body to probe irregularities": https://thefinancialexpress.com.bd/home/bsec-forms-committee-to-probe-into-beximcos-sukuk-bonds
[558] See "Salman F. Rahman: Mastermind of Stock Market Scams and Financial Manipulation": https://businessinspection.com.bd/salman-f-rahman-scams-and-financial-manipulation-of-stock-market/
[559] See Raihan (2024).

- **Manipulation of Trade and Tax Policies:** Some firms have been accused of manipulating trade and tax policies to protect their interests. These policies grant preferred treatment to politically connected firms, offering them a competitive edge, while smaller or less connected businesses struggle to compete. Examples include firms in the electronics[560], steel[561], and edible oil[562] sectors.

Anti-Reform Coalition Among Political and Business Elites, and Civil and Military Bureaucracy

An anti-reform coalition consists of influential actors who resist necessary reforms to preserve their privileges and control over resources. This coalition typically includes political and business elites, as well as bureaucrats who benefit from the status quo. Efforts to implement anti-corruption reforms often encounter opposition from this coalition, which seeks to maintain corrupt practices that benefit its members (Raihan, Bourguignon, and Salam, 2024). Under Sheikh Hasina's administration, various instances of such coalitions among political elites, business groups, and segments of the civil and military bureaucracy have impeded substantial reforms across multiple sectors. The following are key examples:

1. Taxation Reform[563]

- **Resistance to Expanding the Tax Base:** Although there has been ongoing interest in expanding the tax base and improving tax collection, particularly targeting high-income earners and businesses, resistance has emerged. Heavy industrialists and members of trade associations have lobbied against effective tax enforcement and opposed VAT reforms. In 2012, as part of its Extended Credit Facility agreement with the IMF, the government introduced the 'VAT and Supplementary Duty Act 2012', which aimed to modernise and expand VAT. The reform promised to enhance VAT collection efficiency and raise significant new revenues. However, the implementation of the 2012 VAT Law has been hindered by opposition from politically connected vested interest groups.
- **Limited Autonomy of the NBR:** The NBR has struggled with limited autonomy and political interference, which has obstructed comprehensive tax reforms. Political elites often use their influence to shield key business allies from tax scrutiny.
- **Resistance to Digitalisation of Taxation:** Efforts to digitalise the tax collection system to minimise evasion and improve transparency have faced resistance. The adoption of digital tools designed to reduce underreporting has been slow, partly due to lobbying by sectors benefiting from loopholes in manual systems.
- **Reluctance to Reform Property and Wealth Taxes:** Proposals to implement or increase taxes on property, wealth, and luxury goods have faced strong opposition from high-net-worth business elites and real estate-connected politicians. Consequently, the government has struggled to effectively tax the wealthy, leading to a narrowing tax base and exacerbating inequality.

[560] See "Tax exemptions should be granted through the parliament, not SROs":
https://www.tbsnews.net/thoughts/tax-exemptions-should-be-granted-through-parliament-not-sros-553566
[561] See "High tariff protection for steel industry affects users":
https://www.thedailystar.net/business/economy/news/high-tariff-protection-steel-industry-affects-users-3189346
[562] See "Edible oil market now controlled by big four":
https://www.thedailystar.net/business/economy/news/edible-oil-market-now-controlled-big-four-3591461
[563] Also see the chapter on 'Domestic Revenue Mobilisation' in this White Paper Committee Report.

- **Opposition to Transparent Tax Audits:** Business elites and tax collectors have preferred informal arrangements, which allow for underreporting.[564]
- **Delays in Progressive Taxation:** Wealthy groups have opposed higher taxes on luxury goods and capital gains, hindering efforts to reduce inequality.

2. Banking Sector Reform:[565]

- **Political Patronage and NPLs:** High NPLs have persisted due to politically connected borrowers receiving unchecked loans. Political elites have shielded business allies from stricter regulations and effective debt recovery, despite efforts by the central bank to improve governance.
- **Governance Issues in SOBs:** Political appointments have undermined the efficiency of SOBs. Efforts to depoliticise management have met resistance as political elites continue to use these banks for patronage.
- **Interference in Central Bank Operations:** Political interference has limited the BB's autonomy, impairing its ability to regulate FIs and affecting monetary policy.
- **Lenient Restructuring of Large Debtors' Loans:** Politically connected businesses have benefited from lenient loan restructuring, undermining financial discipline. Reform efforts have faced significant opposition.
- **Resistance to Bank Ownership Reform:** Proposals to limit family ownership of banks have been resisted, allowing influential families to maintain control.
- **Opposition to Stricter Capital Adequacy Norms:** Banks have lobbied against stricter capital requirements, arguing that such measures would restrict lending and hinder sector resilience.

3. Judiciary Reform[566]

- **Appointments and Independence:** Political appointments have undermined the judiciary's independence. Proposals for a merit-based selection system have been opposed by political elites seeking to maintain influence over the judiciary.
- **Resistance to Anti-Corruption Efforts:** Anti-corruption efforts have often been applied selectively, with accusations that the judiciary has been lenient toward individuals with strong political connections, limiting the effectiveness of reform.
- **Blocking an Independent Judicial Commission:** Political elites have opposed the creation of an independent commission to oversee judicial appointments and transfers.
- **Slow Court Digitisation:** Resistance from the legal community has slowed the digitisation of the court system, contributing to backlogs and delays in case resolution.
- **Interference in High-Profile Cases:** Political interference has delayed or dismissed cases involving influential figures, further hindering judicial reforms.
- **Stalling AML Efforts:** Elites and business groups have obstructed judicial efforts to combat money laundering by deliberately stalling related cases.

[564] See "Taxpayers suffer as NBR can't carefully verify return audit": https://thefinancialexpress.com.bd/economy/bangladesh/taxpayers-suffer-as-nbr-cant-carefully-verify-return-audit-1515297657

[565] See "What's driving the government's U-turn on banking sector reform?": https://www.thedailystar.net/opinion/views/the-overton-window/news/whats-driving-the-governments-u-turn-banking-sector-reform-3292791

[566] See "Overview of corruption within the justice sector and law enforcement agencies in Bangladesh": https://www.u4.no/publications/overview-of-corruption-within-the-justice-sector-and-law-enforcement-agencies-in-bangladesh.pdf

- **Ineffective Separation of the Judiciary from the Executive:** Although the separation of the judiciary from the executive was formalised in 2007, executive interference in judicial matters persists.[567]

4. Public Administration Reform[568]

- **Civil Service Reforms:** Efforts to improve efficiency and reduce politicisation in the civil service have faced resistance from political and bureaucratic elites who prefer the status quo. This has delayed merit-based promotions and process improvements.
- **Bureaucratic Alliances:** Senior bureaucrats often align with political elites, blocking reforms that threaten their discretionary power and patronage networks, especially in sectors like procurement.
- **Resistance to Decentralisation:** Central bureaucrats have resisted decentralisation efforts, preferring to maintain a centralised structure that limits local government reforms.
- **Opposition to Performance-Based Appraisals:** Many bureaucrats have resisted performance-based appraisal systems, as these reforms threaten job security and political favouritism, hindering public service improvement.
- **Resistance to Outsourcing and Privatisation:** Proposals to outsource public services have faced opposition from unions and bureaucrats concerned about job losses and diminished patronage, delaying efficiency reforms.

5. Trade Policy Reform[569]

- **Protective Trade Barriers:** Efforts to liberalise trade have met resistance from business groups benefiting from protective tariffs and subsidies. Political elites often support these groups due to financial backing, hindering competition.
- **Export Sector Challenges:** Efforts to diversify exports beyond the RMG sector have been limited by established business conglomerates that dominate the market, reducing opportunities for new industries.
- **Protection of Oligopolistic Interests:** Industries such as steel and edible oil have benefited from tariffs and tax benefits, limiting competition. Local conglomerates, with political backing, resist reforms that would open these sectors to international players.
- **Challenges in Streamlining Export Incentives:** Powerful lobbies have hindered reforms aimed at improving export incentives, preferring to maintain existing structures tailored to their interests.
- **Resistance to Liberalising Agricultural Imports:** Agricultural protectionism has benefited large agribusinesses, blocking efforts to liberalise imports, which could reduce food prices and shortages.
- **Blocking Reforms in Logistics:** Efforts to improve trade facilitation have been blocked by entrenched interests in logistics, who benefit from informal payment systems and connections.

6. Capital Market Reform[570]

- **Political Influence on Regulatory Bodies:** Political elites have pressured the BSEC to favour certain business interests, hindering regulatory reforms aimed at improving market transparency and investor protection.

[567] See "How far have we ensured judicial independence in Bangladesh?": https://www.thedailystar.net/supplements/50-years-our-constitution-original-ideals-vs-reality/news/how-far-have-we-ensured-judicial-independence-bangladesh-3160231
[568] See "Things to consider before setting out for civil service reform": https://www.tbsnews.net/thoughts/things-consider-setting-out-civil-service-reform-934401
[569] See Sattar (2024).
[570] See "Why capital market under bear attack": https://www.tbsnews.net/economy/why-capital-market-under-bear-attack-769110

- **Resistance to Strengthening Corporate Governance:** Business groups aligned with political elites have lobbied against proposed corporate governance reforms, fearing increased accountability and oversight.
- **Blocking New Securities Laws:** Efforts to introduce robust securities legislation have faced opposition from influential conglomerates, who prefer existing weak laws that allow them to operate with minimal scrutiny.
- **Interference in FIs:** Political connections in banks and FIs have resulted in preferential treatment for certain businesses, undermining efforts to establish a level playing field in the capital market.
- **Lack of Support for Market Diversification:** Established business interests have resisted initiatives to diversify financial instruments and investment options, preferring to maintain control over traditional markets.
- **Delay in Implementing Technology Solutions:** Proposals to digitalise trading platforms and improve market access have been delayed due to resistance from traditional market players who benefit from the current system.

These examples underscore the deep-rooted and multifaceted resistance to reform across key sectors in Bangladesh. The alignment of interests between political elites, business leaders, and bureaucrats creates a complex network that effectively blocks or dilutes reform initiatives, making it difficult for the government to implement changes that could foster long-term economic and institutional development.

21.3 Why Systematic Institutional Failures?

Erosion of Democratic Institutions

The weakening of political institutions in Bangladesh under Sheikh Hasina's rule demonstrates a pattern of power centralisation, supported by a fragile institutional framework and a longstanding culture of confrontational politics. Centralised power politicised public institutions, with state bodies increasingly serving the interests of the ruling party rather than adhering to democratic principles. The suppression of opposition voices, coupled with tight media control, entrenched a system where dissent was stifled, and citizens' freedom of expression, significantly curtailed. These practices undermined democratic norms and mechanisms of accountability, leaving little room for genuine pluralism or institutional independence.

Despite these challenges to democratic governance, the regime's moderate economic performance and limited international condemnation lent it an air of legitimacy, enabling the continuation of authoritarian practices with minimal resistance. The government's focus on GDP growth, combined with a lack of strong global pressure, relegated democratic reforms to the background in its pursuit of political control.

The situation worsened following the deeply flawed 2014 election, which created a significant crisis of political legitimacy. While legitimacy is essential for any government's survival, it has been increasingly questioned since 2014. In response, the government amplified a narrative of development to compensate for its declining legitimacy. However, in legitimising this development, crony capitalism has expanded, with project-based corruption reaching new heights over the past decade. A small group of business conglomerates, aligned with political elites, military factions, and civilian bureaucrats, has benefited disproportionately from state policies, solidifying a coalition that seeks to cement the development narrative as a lasting framework.

Supremacy of 'Pockets' of Functional Informal Institutions Over Fragile Formal Institutions

Raihan (2024) argues that in Bangladesh, informal institutions primarily govern performance, while formal institutions remain weak and fragile. In contrast to many comparable countries in Asia and Africa at a similar stage of development, and especially in comparison to LDCs, Bangladesh has successfully fostered efficient 'pockets' of growth-enhancing informal institutions, despite an overall weak institutional framework. Examples include well-functioning privileges and special arrangements for the RMG sector, promotion of labour exports, agricultural research and development related to food security, and microfinance. However, the country has failed to strengthen and make its formal institutions functional, a critical factor for maintaining high growth rates and achieving further development goals.

Supremacy of the 'Deals Environment' Over Coordinated Industrial Policy

Raihan, Bourguignon, and Salam (2024) argue that in Bangladesh, industrial and broader development strategies, as well as key investment and resource allocation decisions, often result from agreements or 'deals' between political and business elites. These arrangements are ad hoc and specific to particular activities or programmes, rather than being part of a coherent, overarching strategy. While some deals, such as those concerning RMG exports, have led to positive outcomes, others have hindered progress or failed to pursue better alternatives, such as export diversification. It is important to note that deals do not necessarily conflict with formal industrial strategies, provided they are part of a well-defined overall plan in which the state retains control over the support given to specific industries. However, the deals environment in Bangladesh does not meet these criteria.

Industrial policy is closely linked to other government policy instruments, such as macroeconomic policy (e.g. the real exchange rate), public infrastructure, and SEZ management. Transparency and accountability regarding the implications of these policies for industrial development are essential. Moreover, the general business climate is critical for industrial growth, particularly in attracting FDI, which, as seen in many East Asian countries, is essential for increasing manufacturing exports. However, Bangladesh's business climate remains unfavourable, and improving its standing in business climate indices is a key policy focus.

Ineffective Regulation

The government faces significant challenges in regulating key activities to achieve greater economic efficiency and equity, referred to as the 'problem of effective regulation'. In some cases, the legal framework for regulation is outdated or inadequate, with reform efforts often failing. In other cases, while the framework exists, there is insufficient capacity to enforce it. Examples of weak regulatory enforcement include non-compliance with legal standards in the banking industry, inadequate efforts to improve labour conditions and factory working conditions in the critical RMG sector, poor tax performance, and capital flight (Raihan, Bourguignon, & Salam, 2024).

Weak State Capacity

Bangladesh's limited state capacity poses a significant challenge to its overall development potential. Resource scarcity is a major constraint, as evidenced by one of the lowest tax-to-GDP ratios globally, limiting the government's ability to finance vital services. The lack of sufficient revenue from taxation prevents the state from making adequate investments in essential services such as health, education, and infrastructure. This inability to fund these services has impeded the expansion and efficiency of public services, leaving many communities without access to adequate services, thus affecting overall social well-being (Raihan, Bourguignon, & Salam, 2024).

The public sector in Bangladesh remains relatively small compared to international standards, further constraining the provision of quality services nationwide. Moreover, shortages of public sector staff and limited resources reduce the supply of services critical for development and equity. The lack of adequately funded and structured public services denies many people access to quality healthcare, education, and social security, perpetuating cycles of poverty and limiting social progress.

It is important to note that Bangladesh's development achievements can, in part, be attributed to the contributions of NGOs, particularly in microfinance and service delivery, areas where state capacity has historically been limited. Over the past five decades, the government has allowed NGOs a certain degree of autonomy to fulfil critical functions, supporting essential services and compensating for the state's limited reach. However, in the past decade, this space has shrunk. NGOs focused on human rights, democratic reforms, and anti-corruption efforts have faced increasing challenges and harassment, reflecting a shift in the government's tolerance towards organisations critical of its policies, which has affected the role of civil society in governance and accountability.

21.4 Key Messages

1. **Strengthening political institutions:** The systematic failures of political institutions in Bangladesh under Sheikh Hasina's regime have been characterised by an erosion of democratic norms, a curtailment of civil liberties, and the weakening of checks and balances. These failures have resulted in the centralisation of power, marginalising essential accountability mechanisms and reducing public trust in state institutions. To restore confidence, reforms should focus on judicial independence, electoral transparency, and the autonomy of civil society.
2. **Strengthening institutional governance:** The effective, transparent, and accountable functioning of institutions is key to transforming growth into sustainable development for Bangladesh. Reforms aimed at removing entrenched corruption, improving the regulatory framework, and implementing laws will be vital to restoring civic trust and institutional reliability.
3. **Combating Crony Capitalism and State Capture:** Reducing the influence of business elites in state decision-making is essential. To achieve this, policies must target the dismantling of entrenched networks of cronyism, promote fair competition, and ensure transparency in the awarding of licences, contracts, and other discretionary state resources.
4. **Comprehensive reform in critical economic domains:** For sustainable growth, comprehensive reform in key economic sectors is necessary, including the banking sector, taxation, public finance management, and trade and industrial policies. This should encompass strengthening regulatory oversight, broadening the tax base, increasing fiscal transparency, and adopting strategic trade and industrial policies. Such reforms would foster a resilient, inclusive, and competitive economy, minimising vested interests and ensuring equitable development.
5. **Enhancing state capacity and public services:** Strengthening state capacity can be achieved by improving tax collection efficiency to generate additional resources for enhancing health and education services. Furthermore, investments in human capital are as crucial as infrastructure investments in supporting long-term economic development.
6. **Promoting inclusive industrial policy:** Bangladesh requires a coordinated and well-articulated industrial policy, rather than ad-hoc arrangements. This policy should focus on export diversification, attracting foreign investment, and promoting sectors beyond RMGs. It must be supported by a transparent business environment, clear, consistent policies, and sustained commitment.

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Chapter XXII. Data Ecosystem—Villain of the Development Narrative*

22.1 The Data Problematique: From Illusion to Delusion

A well-functioning public data and information system is vital for effective policymaking, providing the empirical foundation for decisions that influence the quality and trajectory of economic growth and governance. High-quality data is indispensable at every stage of the policy cycle, from articulation and implementation to evaluation and course correction. In Bangladesh, however, the integrity of the data ecosystem has raised concerns for years. Over the past 15 years, independent experts and economists have repeatedly questioned the quality and reliability of public data, casting doubt on its ability to accurately reflect the state of the economy and development, thus undermining informed policymaking. When official statistics on critical metrics such as GDP, inflation, private investment, or employment are unreliable, it creates a disconnect between economic realities and policy responses. This undermines the government's and other stakeholders' ability to address pressing issues effectively and make sound decisions.

This issue not only affects domestic stakeholders but also hampers Bangladesh's ability to present a credible economic narrative to international audiences. Global credit rating agencies rely on accurate data to assess a country's economic risk and growth potential, which in turn influences investor confidence. If left unaddressed, flaws in Bangladesh's data ecosystem could severely hinder its ability to secure favourable ratings and attract foreign investment.

Global indices highlight the limitations of Bangladesh's statistical performance. The World Bank's Statistical Capacity Index indicates a decline in Bangladesh's statistical performance between 2014 and 2020, with significant underperformance in areas such as data reliability, timeliness, and transparency, especially in comparison to regional peers like India and Vietnam. Although recent assessments suggest improvements in areas like SDG data availability and international data usage, substantial gaps remain in data services, sources, and infrastructure. These gaps point to persistent concerns regarding data quality, accessibility, openness, disaggregation, and the enabling environment needed to leverage new data sources.

As Bangladesh nears its graduation from LDC status, these issues become increasingly critical. Monitoring the country's transition, identifying lapses in implementation, and responding with agility will depend heavily on robust and credible data. Data will also be essential in assessing the country's preparedness for a more competitive and demanding global market post-graduation. Thus, a critical review of the national data ecosystem is not merely a technical exercise but a crucial step toward shaping a sustainable development path for the nation during a period of significant transition.

This chapter, therefore, undertakes the task of reviewing the national data ecosystem, focusing on: (a) a detailed analysis of four key data issues and their underlying causes, (b) an assessment of the data ecosystem using the 'Four A' framework—availability, accessibility, agility, and accuracy,[571] (c) an exploration of the institutional challenges of data generation, and (d) an identification of critical lessons and future outlook. The methodological approach involves comparative assessments and the validation of concerns through proxy indicators to evaluate data reliability. This investigation is grounded in a qualitative review of existing literature, international indices, and national data sources, supplemented by circumstantial evidence and insights from practitioners gathered through extensive consultations with diverse stakeholders. Relevant data concerns from other chapters are referenced where appropriate.

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[571] The framework is adapted from Bhattacharya, D., Khan, T. I., Kamal, M., & Khan, R. (2022). *Improved Fiscal Data in Bangladesh for a Transparent and Accountable Public Sector.* Dhaka: Centre for Policy Dialogue (CPD).

The analysis highlights three key institutional challenges that have contributed to the systemic compromise of data integrity over the years: capacity deficits, coordination failures, and collusive behaviour. These challenges have hindered data-generating institutions' ability to produce high-quality, credible data that is timely, disaggregated, accessible, and usable. What may have started as an illusion to establish a development narrative has, in some instances, evolved into a delusion, even among policymakers. The reform aspirations outlined in this chapter, therefore, aim to strengthen institutional capacities at all levels through financial and technical support, improve inter-agency coordination and interoperability by dismantling data silos, and ensure the political autonomy of national statistics by establishing an independent data commission.

22.2 A Deep Dive into Selected Areas to Unveil the Structure of the Problematique

Data reliability issues have been addressed throughout this White Paper in multiple chapters. The mystery of the persistent acceleration in GDP growth (Chapter 2), the challenges in interpreting inflation data (Chapter 3), and the inconsistencies revealed in the BoPs (Chapter 4) have been highlighted. The consistent underreporting of NPLs, which requires forensic auditing at the individual bank level, is addressed in Chapter 10. Labour market statistics suffer from inadequate quality, as the definitions do not adhere to global standards (Chapter 16). Additionally, inaccuracies in export figures (Chapter 12) and public investment reporting (Chapters 17 and 19) are widespread. These collective issues, often driven by political manipulation and institutional limitations, undermine the reliability of reported data.

The decision to focus on four critical data issues—GDP growth, inflation, the LFS, and the HIES—in this chapter is driven by their significant impact on national policy and economic management. These areas were selected due to their centrality in shaping the country's development narrative under the previous government, which has faced considerable scrutiny.

The selected indicators and surveys are integral to ongoing discussions about data reliability. For instance, the HIES is a crucial survey providing estimations not only on poverty but also on key indicators such as income, consumption, and inequality. These data sources do not operate in isolation; they intersect with a broader network of institutional data generation, including administrative records, national revenue figures, private investments, NPLs, and export statistics. Concerns regarding accuracy and transparency are widespread across these areas.

This detailed analysis highlights the extent of discrepancies and uncertainties in the data, explores the reasons behind them, assesses the reliability of the data series, and identifies common systemic weaknesses. A central question is whether there is a need to re-estimate key indicators to establish more realistic benchmarks for assessing ongoing and future reform efforts. Ultimately, the goal is to explore potential pathways for reform that could help restore confidence in national statistics.

Economic Growth: Where It All Started

Over the past several years, Bangladesh's GDP growth rate has garnered significant attention. However, GDP estimates have been subject to scrutiny due to their apparent disconnection from other key macroeconomic and development indicators, such as private-sector credit, revenue mobilisation, import payments for capital machinery, energy consumption, export receipts, and employment generation.

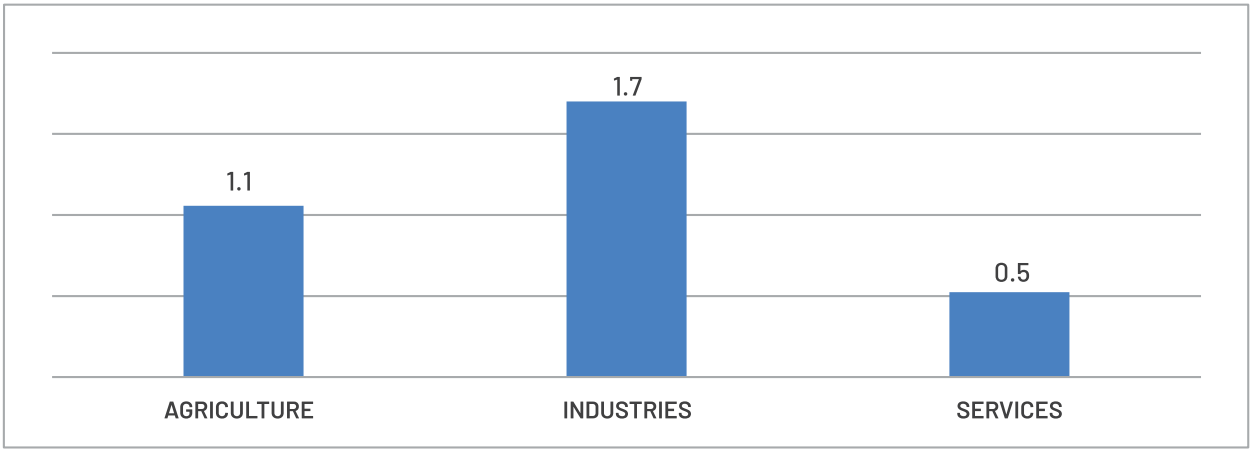
There is growing concern that the integrity of GDP data may be compromised for political purposes, a view that has gained increasing consensus over the past decade. A recent World Bank study,[572] covering the period 1985-2019, found that structural growth drivers (e.g. trade and FDI, finance, infrastructure, macroeconomic stability, and political stability) were effective in predicting GDP growth in Bangladesh during the 1990s and 2000s. However, the share of unexplained GDP growth (residual) began to rise in the 2010s, peaking during the period 2015-2019, when 3.7 percentage points of growth could not be accounted for by these structural drivers. The World Bank report describes this period as 'rather unusual'. Similarly, local think tanks have raised similar concerns. Notably, between FY2014 and FY2019, the GDP growth rate (Base year: 2005-06) never declined compared to the previous year's estimates.

The mismatch between GDP data and its components has been widely discussed. For instance, the FY2017 industrial production statistics (QIIP, Base year: 2005-06) reported a 54.8% growth in the leather and related products industry, while exports from this sector declined by 16.3%. In FY2018, this sector again recorded a 50.5% growth, despite export receipts falling by 21.3%. Pharmaceuticals displayed similarly high growth rates. Moreover, the volatility in natural gas usage for industry is not reflected in value-added estimations for the industrial sector.

Approximately half of GDP estimates rely on outdated data rather than real-time information. For example, the value added for private transport is based on the cumulative number of vehicles newly registered with the government (BRTA) and a fixed value added per vehicle, without accounting for older vehicles.

This issue is also evident when examining sectoral GDP growth rates. A standard deviation test[573] of sectoral GDP growth rates reveals that the services sector exhibited the most stable growth rate (Figure 22.1). This stability is likely not due to the resilience of subsectors, but rather to weaknesses in the estimation process. Curiously, sectors with questionable data accuracy, such as Animal Farming, Fishing, Hotels and Restaurants, Land Transport, Water Transport, Real Estate, Renting and Business Activities, and Community, Social and Personal Services, had standard deviations ranging from 0.2 to 0.6. Chapter 3 of this White Paper also highlights that a significant portion of the country's value-added output remains downwardly rigid.

Figure 22.1: Standard Deviation of Sectoral Gross Domestic Product Growth Rates (FY2010-FY2019)



Source: Estimated based on BBS data.

[572] World Bank. (2022). *Change of Fabric.*
[573] Standard deviation reflects the variation in a variable's values relative to its mean.

Urgent action is needed to address the weaknesses in the data used for national account estimates. Regular surveys must be conducted, and government agencies, such as the Livestock Department and the Directorate of Fisheries, need to improve data quality. GDP estimates depend heavily on budget data, but the BBS does not have timely access to actual expenditure data from the MoF. Furthermore, a significant portion of budget allocations remains unspent, undermining the quality of GDP data.

The expenditure method for estimating GDP faces serious constraints due to unreliable data. While trade data is readily available, government expenditure—especially public investment—is based on budget or revised budget data, which suffer from the same lack of access to actual public expenditure data, as sourced from the Integrated Budget and Accounting System (IBAS++). Most notably, consumption data, which is calculated residually, lacks credibility, as does savings data. A significant portion of private investment data also relies on past surveys, rather than real-time information. Comparatively, estimates based on the expenditure method are more unreliable than those derived from the sectoral method.

A recurring question over the past decade concerns whether economic data has been deliberately manipulated for political purposes. Discussions with relevant data professionals from the BBS and other organisations revealed that, in the post-2013 period, political policymakers took a keen interest in GDP figures, exerting considerable influence. It has been suggested that national accounts data releases for several years were shaped to satisfy key policymakers. In some instances, historical data was revised to reflect this influence. Allegedly, a collusive group within the BBS emerged to maintain the country's economic performance on paper, irrespective of actual economic conditions. By the post-2019 period, this group continued to perpetuate this practice. Data producers may have felt pressured to present an overly optimistic view of development, marked by accelerated economic growth, particularly given the repeated manipulation of past estimates. Both data producers and users acknowledged that the manipulation of GDP growth figures played a pivotal role in influencing broader development indicators.

Inflation: When People Cannot Relate to National Data

There is widespread concern regarding the ability of official inflation data to accurately reflect the real experiences of ordinary people. Using detailed data from a 2018 nationwide survey of 10,500 households, SANEM constructed specific consumption baskets for different groups and calculated food price indices based on retail price data from the DAM and the Trading Corporation of Bangladesh. The study found that food inflation experienced by marginalised groups is significantly higher than official reports by the BBS. While BBS recorded food inflation at 4.85% for urban and 5.94% for rural areas in January 2022, SANEM's estimates suggest that marginalised households faced inflation rates more than twice these figures. Marginalised households allocate a larger proportion of their total expenditure to food (61.13% in urban areas and 65.36% in rural areas), compared to the BBS weights used in the CPI calculation, which were 45.17% for urban and 58.54% for rural areas. The study also highlighted the disproportionate impact of inflation on vulnerable households.

The BIDS independently claimed that food inflation in rural areas was higher than official figures reported in December 2023. BIDS conducted a study across all 64 districts, comparing a food basket targeting poor households with data from previous years. BIDS estimated food inflation in rural areas at 15% in December 2023, compared to the national food inflation rate of 9.58% reported by BBS.

In August 2022, there were significant price increases in diesel (42.5%) and octane (51.6%). The inflation rate for August was 9.5%. While diesel and octane represent only two of the 422 items in the

consumer basket used to calculate the CPI, price hikes in these fuels have multiplier effects, particularly in driving up prices of food, transport, and utilities. However, the unusual delay and reluctance to release the August CPI and inflation data sparked speculation and scepticism about the authenticity and accuracy of the reported figures. Additionally, widespread discontent has been expressed over how reported inflation rates fail to reflect the diminished purchasing power of households. In August, the CPI inflation rate for the 'Gross rent, fuel & lighting' component was 8.4%.

The comparison of commodity price data from alternative sources has further contributed to the confusion. Prices reported by the Consumers Association of Bangladesh (CAB) have been higher than those from the BBS in recent years. As a result, CAB consistently estimated inflation to be higher than BBS figures. Unfortunately, the BBS does not disseminate commodity price data to the public, and since March 2023, it has ceased publishing the 'Average Retail Prices (Open Market) of Selected Commodities in Dhaka City'. Consequently, verifying price data has been challenging amid ongoing price hikes.

Distrust in inflation data increased following the BBS's revision of inflation estimation methods, which expanded the commodity basket and introduced a new base year. The latest rebasing of the CPI (2021-22), using HIES 2016-17, significantly downgraded the weight of food inflation in both rural and urban areas by approximately six and 10 percentage points, respectively. Furthermore, the CPI now includes a broader range of commodities (more than 700). Many of these commodities are unavailable in several markets, allowing enumerators to exercise discretion. More critically, this expanded basket does not necessarily reflect the consumption patterns of low-income households. In the past, the BBS published inflation data for specific population groups, a practice that should be revived, especially as inflation data is essential for policymaking targeting low-income households. Additionally, the disaggregation of data into sub-groups is inadequate. For example, food inflation is only divided into two broad categories: 'food and non-alcoholic beverages' and 'alcoholic beverages, tobacco, and narcotics'. Inflation data should be presented with more detailed breakdowns to improve its utility for policymaking.

The inflation data collection system requires greater technical rigour and transparency. Immediate steps should be taken to use Computer-Assisted Personal Interviewing[574] instead of email to ensure enumerator accountability. Clear guidelines are needed to prevent discretionary practices when products are unavailable in markets or when the same product is recorded at varying prices. The collection of data for non-food items also requires improvement. To restore credibility, unit-level data for all products in all marketplaces, including the inflation calculation methodology, should be made publicly accessible, enabling citizens and analysts to cross-check national statistics.

Labour Force Survey: Ignoring the global standard to depict an improved scenario

Bangladesh's labour market statistics, as reported by the BBS, indicate a low unemployment rate. This is primarily due to the BBS's use of a flexible and outdated methodology. The ILOSTAT website's Bangladesh country profile provides key labour market indicators based on the 19th International Conference of Labour Statisticians (ICLS), published in 2013. In contrast, the BBS report relies on standards and definitions from the 13th ICLS, published in 1982. Moreover, the BBS applies a different age range for youth and the working-age population than those recognised by international standards. These discrepancies in definitions and standards have allowed the BBS to report an inflated employment rate, thereby downplaying the extent of unemployment in the country. The use of outdated standards distorts the actual representation of labour and employment conditions, impacting several key indicators, including the LFPR, employment rate, unemployment rate, youth unemployment, NEET youth, and informal employment.

[574] Computer-Assisted Personal Interviewing is an effective face-to-face data collection method in which interviewers use devices such as tablets, mobile phones, or computers to accurately capture responses. This approach enhances data quality and streamlines the interviewing process.

The scope of activities classified as employment under the 13th ICLS is narrower than that defined in the 19th ICLS resolution. For example, individuals engaged in producing goods for their own final consumption are classified as employed under the 13th ICLS definition, but they are excluded from the employment category in the 19th ICLS resolution and instead categorised as engaged in 'own-use production work', distinct from 'employment work'. The 19th ICLS resolution introduced a conceptual distinction between five mutually exclusive types of work: (i) employment work, (ii) unpaid trainee work, (iii) production work for own consumption, (iv) volunteer work, and (v) other activities, including unpaid community service and unpaid work by prisoners.

By adopting the 13th ICLS definition, the BBS includes individuals engaged in producing goods for their own final consumption in its employment rate calculation. In contrast, the 19th ICLS focuses solely on those working in jobs for pay or profit. In Bangladesh, where a significant proportion of the population is involved in producing goods for their own consumption, this shift from the 13th to the 19th ICLS definition results in a substantial difference, as evidenced by comparing indicator data between the BBS report and ILOSTAT. This definitional divergence not only inflates the employment rate but also causes discrepancies in various other labour and employment-related indicators, particularly for the female workforce.

Surprisingly, the BBS report claims to follow the 19th ICLS definitions for core indicators, despite the ILOSTAT website indicating that several nationally reported data on key labour market indicators in Bangladesh are based on the 13th ICLS standards.

Overall, under the 19th ICLS standards, the employment-population ratio, LFPR, and share of informal employment are overestimated, while the unemployment rate, youth unemployment rate (as a percentage of total youth), and NEET youth (as a percentage of total youth) are also overestimated by the BBS (Table 22.1). Unfortunately, data for previous years is unavailable, preventing a trend analysis. From a policymaking perspective, the 19th ICLS methodology is more appropriate, and the BBS should adopt it in future reports. To facilitate comparisons, efforts should be made to estimate statistics from previous survey rounds using the 19th ICLS methodology.

Table 22.1: Discrepancy between Bangladesh Bureau of Statistics and ILOSTAT data on Labour Market

Indicator	ILOSTAT based on19th ICLS (2022)	LFS 2022
Employment-population ratio (%)	National: 46.8% Male: 75% Female: 19.1%	National: 59% Male: 77.2% Female: 41.2%
Labour force participation rate (%)	National: 49.55% Male: 78.5% Female: 21.25%	National: 61.2% Male: 80% Female: 42.77%
Unemployment rate	National: 5.6% Male: 4.5% Female: 9.7%	National: 3.5% Male: 3.5% Female: 3.6%
Youth unemployment rate (as % of total youth)	National: 16.8% Male: 14.8% Female: 22.7%	National: 8%[575] Male: 10.2% Female: 5.7%

[575] The reported values differ from those on the ILOSTAT website (11.5% overall: male 14.9%, female 7.9%). This discrepancy may be attributed to differences in the definitions of 'youth' used by BBS and ILO.

Indicator	ILOSTAT based on19th ICLS (2022)	LFS 2022
NEET youth (as % of total youth)	National: 30.9% Male: 11.1% Female: 49.3%	National: 22%[576] Male: 16% Female: 27%
Share of informal employment (%)	National: 81.1% Male: 78.1% Female: 92.8%	National: 84.9% Male: 78.5% Female: 96.7%

Source: LFS 2022 and ILOSTAT.

In addition to definitional issues, the LFS data may have been influenced by internal factors over time. Allegations suggest that recent LFS data were revised and withheld until they met the expectations of the authorities. For example, the quarterly LFS data for 2016 was not released after the first quarter; instead, the annual data for 2016-2017 was published. After a hiatus, the quarterly LFS was resumed in 2022, with claims that the results were reviewed and revised by the Statistical Institute of Bangladesh (SID) before being made public.[577] The delay in the release of comprehensive employment statistics hinders the formulation of evidence-based policies.

Labour market statistics are a vital indicator for assessing economic health and informing macroeconomic policy decisions. To enhance their effectiveness, it is crucial to improve both the clarity of definitions and the timeliness of data releases. By ensuring that LFS adhere to global methodological standards and are made available promptly, their utility for policymakers can be significantly improved, leading to more informed decision-making.

Poverty Statistics: Making Sense Out of It

Poverty rates have been decreasing since 2010, falling from 26.5% in 2016 to 18.7% in 2022. Likewise, extreme poverty rates have dropped from 9.2% in 2016 to 5.6% in 2022 (HIES, 2022). However, these reductions do not correlate with improvements in other well-being indicators, such as food security. A recent study by BBS (Food Security Statistics, 2023) found that 22% of households reported moderate to severe food insecurity, with 70% of the poorest households (by quantile) affected. This disparity suggests that the poverty reduction rate does not align with the food insecurity statistics. The significant decline in extreme poverty has raised concerns among analysts.

Similar inconsistencies are evident in inflation and food price data from official sources. The market price data produced by the DAM does not reflect the actual market situation, as reported by both electronic and print media. The World Food Programme (WFP) calculated the cost of a nutritious food basket using DAM's market price data, which was considerably higher than the national food poverty line indicated in the HIES 2022. WFP is currently conducting a field verification survey to update the poverty estimates from HIES 2022, using both qualitative and quantitative approaches to assess perception-based poverty rankings in certain hotspot areas. The expected results aim to capture the dynamics of poverty, the impact of the Ukraine war, economic changes, and recurring disasters at the district level. A BBS official confirmed that the poor quality of HIES data makes it difficult to map extreme poverty accurately. It is also alleged that political pressure influenced poverty statistics in 2016 and 2022, leading to an alignment with the development narrative. Moreover, poverty data based on consumption estimates, as well as analyses using non-income/consumption criteria, do not align.

[576] The ILOSTAT website reports a discrepancy for the LFS 2022 (15% overall: 10.5% male, 19.1% female). Similar to the previous footnote, this difference may be due to varying definitions of 'youth' by BBS and ILO.
[577] Indeed, a committee within SID oversees the results of survey reports from BBS before they are released.

The historical discrepancies in HIES data underscore the need for improvements in aligning income and consumption data. In HIES 2022, 81% of households with monthly incomes below BDT 40,000 reported average consumption expenditures exceeding their income, up from 74% in HIES 2016. To improve the accuracy of poverty assessments, it is vital to revisit the procedure for estimating the poverty line. The consumption basket used for food poverty line estimation is based on data that is over 50 years old, and updating this data would provide a more accurate reflection of current household needs.

Recognising the political influences on statistical manipulation is crucial, as such practices can have detrimental consequences. Accurate data is essential for effective policymaking, whereas manipulated data can distort the policy framework. For instance, the report titled 'A National [MPI] for Bangladesh' has not been published for years, allegedly due to a lack of political support. The estimation method has been revised to improve results. The latest version of the report (February 2024), based on 2019 Multiple Indicator Cluster Survey (MICS) data (pre-COVID), reported a multidimensional poverty headcount ratio of 24.05%, suggesting that nearly one-quarter of the population in Bangladesh is multidimensionally poor (Table 22.2). In contrast, the initial estimate from November 2020 recorded the incidence at 36.1%.

Table 22.2: Multidimensional Poverty Index (MPI) Headcount Ratio, according to two versions of the unpublished report titled A National MPI For Bangladesh

MPI Headcount Ratio	February 2024 version	November 2020 version
National	24.05%	36.1%
Rural	27.0%	39.7%
Urban	13.48%	23.2%

Source: A National MPI For Bangladesh.

These differences primarily stem from the use of a different indicator: years of schooling. The new estimates considered five years of schooling, whereas the previous estimates used eight years. According to the unreleased report, five years of schooling has now been recognised as a significant educational achievement. The earlier version of the report was not published, as the poverty incidence based on the MPI (MICS 2019) was found to be much higher than the poverty incidence derived from the consumption-based CBN method (HIES 2017). In the 2020 estimates, years of schooling accounted for more than 30% of the total MPI, the highest among all indicators. Although the contribution declined in the 2024 estimates, it remained the second highest. The earlier version of the report also highlighted that 57% of people sharing their households with children were multidimensionally poor; this statistic is absent in the new version. Despite the updates, the new report has not yet been published, allegedly because the findings were considered more severe than those based on HIES 2022. Consequently, efforts to measure multidimensional poverty in Bangladesh have been stalled for nearly four years.

Data Concerns Are Widespread

Data concerns extend beyond the four key areas previously discussed. The White Paper's earlier chapters also highlight these issues. It is important to recognise that key economic and development data is collected by various government agencies through surveys, administrative records, and accounting systems.

Population data in Bangladesh has recently become the subject of intense discussion, particularly following controversies surrounding the latest population and housing census, which took place from June 15-21, 2022. The decennial census encountered significant challenges, especially due to the

impacts of COVID-19 and subsequent climatic issues that affected data collection in flood-prone districts (Sylhet, Sunamganj, Moulvibazar, and Netrakona). The Post Enumeration Check (PEC), carried out by BIDS on behalf of BBS, revealed that the initial population count was 2.75% lower than expected, prompting further scrutiny of the census process. Experts from various sectors, including government, academia, and civil society, have raised concerns about potential political interference that may have led to an undercount. Transparency and autonomy in conducting the PEC are crucial to ensure the accuracy of the data. Furthermore, suggestions were made to enhance the census content, particularly concerning the representation of Indigenous people and persons with disabilities. Addressing the needs of these groups is essential for building trust with CSOs and the communities they represent. The PEC report highlighted the need for improved planning and operational independence for both the population and housing census and PEC to ensure accurate data management and reconciliation. The census data plays a significant role in shaping policy and resource allocation, including indicators like per capita national income and securing international grant support for immunisation. Reliable population data is essential for estimating the demand for essential commodities and guiding future surveys and programmes over the next decade. This ongoing discourse provides an opportunity for collaborative improvement and a commitment to transparency and inclusivity moving forward.

Concerns about the quality of agricultural production data are also critical. The reliability of domestic production figures for various crops is often questioned, as sustained growth may not fully reflect market volatility or changing import demands. There are suggestions that BBS officials in the field could benefit from increased support to ensure transparency and accuracy in reporting. For instance, the requirement for joint signatures from agricultural field offices before data is submitted to headquarters may exert undue pressure to present overly optimistic growth figures. A broad consensus exists that statistics on domestic production in livestock, poultry, and fisheries are unreliable, yet this issue has not received adequate policy attention. Addressing these procedural challenges is vital to ensuring that accurate and reliable data is reported, thus enhancing the understanding of agricultural trends and supporting informed decision-making. Stakeholders have emphasised that the lack of credible production and demand data hinders evidence-based policymaking, which is particularly damaging during times of persistent inflationary pressure.

Similar issues can be observed in other areas. Data related to power production capacity and energy reserves is often believed to be overestimated. Faulty demand projections in the power sector have placed a financial burden on both the government and citizens. Furthermore, estimates of economic and financial returns for public investment projects conducted during feasibility studies are either manipulated or not conducted at all, particularly when revisions to timeframes and budget allocations are involved. Overestimations of export receipts and foreign exchange reserves have led to significant challenges in macroeconomic management. The suppression of NPL data has been used to obscure the shortcomings of the financial system. Similar issues are anticipated in external public debt data and its projections. Fiscal data is often inconsistent across sources, with the most reliable source, iBAS++, not readily accessible to policymakers and other stakeholders. Moreover, data on the implementation of public investment projects is not provided monthly, and public expenditure data for critical areas such as social protection programmes is lacking. These gaps in data hinder effective policymaking and accountability.

Common Threads: Need to Rejuvenate the Data Ecosystem

An analysis of the four critical areas of development data reveals the need to address various aspects of the problem. First, data generation in Bangladesh is hindered by a capacity deficit. While some statistics can be re-estimated using standard methodologies and available data (e.g. labour market

statistics), certain necessary background information is often unavailable. For example, given the current state of GDP data, particularly for expenditure methods, reliable data on consumption and savings remains inaccessible. Furthermore, the quality of data provided by the relevant ministries limits the ability of the BBS to produce more reliable data. Despite legal protections in place, BBS remains dependent on the capacities of these agencies. Unfortunately, these issues are rarely addressed in policy discussions. Second, there is a severe lack of coordination between data-producing agencies. For instance, BBS does not have access to actual budget data from the iBAS++ system, limiting its ability to generate more accurate data across various sectors. This gap could easily be addressed with political support. Third, and most critically, our analysis highlights the widespread manipulation of data. This issue affects both national account estimates and survey data produced by BBS. The problem extends beyond political actors to professional data producers, indicating that an institutional remedy is required to revitalise a credible data ecosystem in Bangladesh.

22.3 Assessment Based on the 4-A Framework: Much to Be Done, Much Can Be Done

This section focuses on four key dimensions that encompass multiple elements discussed earlier, as well as additional aspects. These dimensions, selected from existing frameworks, effectively capture the complexity of the data ecosystem. We will evaluate both the demand and supply sides of this ecosystem using the four 'A's: data availability, accessibility, agility, and accuracy. These dimensions highlight the current challenges within the data ecosystem.

Availability

The availability dimension examines whether the variable of interest exists. Data should be publicly accessible, meaning it must be published on relevant government websites in a timely manner and available at no cost. It is also essential that data is reported promptly, with particular attention to the frequency of reporting and any time lags. Moreover, data must be harmonised across various sources, ensuring consistency with other relevant indicators.

Over the years, notable improvements in data availability have been observed. For example, in 2016, only 112 out of 247 SDG indicators had data available, whereas by 2023, this figure increased to 213. This progress is encouraging, yet there remains room for improvement. Some key indicators still lack data, indicating the need for continued efforts. A critical area that requires attention is data disaggregation. Currently, disaggregation is primarily focused on gender (female/male) and location (rural/urban). However, even within these categories, the number of disaggregated indicators remains limited—only 27 provide gender-based data, and 20 present location-based data. Vulnerable population groups remain underrepresented, highlighting the need for more disaggregated data to better understand their development needs. Additionally, actual public spending is not consistently reported across all variables for which budget data exists, such as in social protection. There is potential for making some data available using existing resources, but the key challenge lies in securing political support for this process.

Accessibility

Restricted access to data poses a significant challenge for the data ecosystem. Even well-collected data can only benefit society if it is made available to key stakeholders, such as government officials, policymakers, researchers, and CSOs, in a user-friendly format. However, data is often disseminated

in reports or PDF formats, which are not easily accessible or usable.[578] Key data-providing agencies, such as the BBS, BB, and the MoF, lack user-friendly databases. Consequently, data users frequently rely on international sources like the World Bank and the IMF. In recent years, copying data from PDF files has also been restricted.[579] Unit-level data, which is often costly, is not always fully accessible to users, even when purchased from the BBS.[580] Furthermore, metadata is frequently unavailable. Government agencies such as the BBS are often reluctant to publish data immediately after its generation. This hesitation arises from a lack of resources and capacity to manage data according to global best practices, as well as a limited understanding of data users' needs. There is also a pervasive fear among bureaucrats of scrutiny by experts, which delays data publication. Political obstacles further hinder the timely sharing of information, with access to administrative data frequently restricted under the guise of confidentiality. A notable example is public finance data. Overall, electronic access to data remains severely limited, and the searchability of government websites is often inadequate.

Agility

A significant challenge in data collection in Bangladesh is the delay in data availability. Datasets are often not released until years after their initial collection. For instance, the BBS conducts surveys such as the HIES once every five years and the MICS every three years. Despite efforts to increase the frequency of the LFS, the full report for the 2022-23 fiscal year remains unavailable, even one year after the preliminary findings were shared. In the case of public finance, data typically takes six to seven months to be made accessible. Moreover, the availability of historical data series is limited, with only a few indicators offering a comprehensive view over time. This lack of timely and accessible data can impede effective analysis and policymaking, as was evident during the COVID-19 pandemic when a lack of data hindered policymaking.

Accuracy

Standardisation and harmonisation of data remain perennial challenges. For instance, discrepancies in the accuracy of fiscal data in Bangladesh have been noted repeatedly. Different sources often publish inconsistent figures for the same indicator, and discrepancies can also arise between data reported at different times. In FY2023-24, the NBR reported a revenue mobilisation figure of Tk. 21,264 crore higher than the Finance Division's figure. Discussions with NBR officials suggest that, in the future, the NBR may adopt the iBAS++ data system for reporting revenue mobilisation.[581] Similar discrepancies also exist between the IMED and the Finance Division. In FY2023-24, IMED reported an ADP expenditure figure that was Tk. 7,134 crore higher than the Finance Division's figure. Additionally, the total number of persons with disabilities in Bangladesh varies significantly across BBS surveys due to different definitions and methodologies. A further issue is the lack of comparability. Rebasing and the adoption of new methodologies often do not make previous data comparable. As a result, data may not be comparable over time, making it more difficult for users to track trends and draw meaningful conclusions.

22.4 Challenges of Data-Generating Institutions

An in-depth analysis of four key data issues, along with a 4-A assessment of the data ecosystem, reveals significant structural challenges and systemic weaknesses that hinder the production of

[578] The Bangladesh Bank website provides an extensive series of data in Excel format, though more recent data is not available in this format. Furthermore, this series sometimes lacks harmonisation.

[579] For example, the online version of the HIES 2016 report available on the BBS website is approximately 284 MB, which makes it difficult for users to download and use.

[580] For instance, the community-level data is not provided with the unit-level data of HIES purchased from BBS.

[581] For the July to October 2024 period, NBR introduced the use of iBAS++ data for the first time. However, historical data trends are not yet available.

high-quality data essential for informed policymaking and planning. While these challenges are not unique to Bangladesh, their manifestation and severity vary depending on the governing regime. Generally, more authoritarian regimes exhibit less transparent data practices, resulting in a more contentious narrative surrounding growth and development. In Bangladesh, the institutional challenges faced by data-generating agencies can be broadly categorised into three areas: capacity deficit, coordination failure, and collusive behaviour driven by political compulsions.

Capacity Deficit

The national statistical system suffers from a shortage of technical capacity in critical areas, such as data collection, methodological design, remedial action, documentation, and the use of appropriate technology and software. This undermines the robustness and reliability of the data produced. Consultations with officials revealed that politically influenced transfers of experienced BBS staff have severely weakened the institution's ability to retain and effectively utilise acquired expertise, thus diminishing overall institutional capacity. Furthermore, limited career growth prospects have demotivated staff, resulting in reduced efficiency and productivity.

Oversight functions also face challenges, as the SID is primarily staffed by administrative personnel rather than individuals with specialised statistical expertise. This lack of technical knowledge within the SID compromises the quality of oversight and hinders the BBS's ability to effectively collect, compile, and report data on key economic indicators such as GDP and inflation.

The National Statistical Office (NSO) lacks sufficient budget allocation to fund regular surveys required for updating essential data, including GDP and inflation coefficients. The BBS has no core budget beyond officials' salaries to conduct surveys or produce updated reports. As a result, the NSO must rely on development projects, often funded by foreign aid, to initiate surveys, leading to delays and inefficiencies.

Coordination Failure

Coordination lapses are prevalent between the BBS and other data-generating agencies in terms of interoperability, harmonisation of definitions, standards, classification, and disaggregation. Although the BBS has established formal data-sharing protocols with local institutions, as well as regional and international organisations, the National Strategy for the Development of Statistics (NSDS) 2015 highlights several deficiencies in institutional coordination. It points to a lack of alignment between the BBS and other agencies regarding definitions, standards, classifications, and data disaggregation. Some line ministries continue to use their own definitions and classifications, which are inconsistent with those adopted by the BBS. This misalignment creates interoperability issues and hinders data integration across different government bodies (e.g. NID database, SSNP database, IBAS++), leading to duplication of efforts and inefficient resource use.

Collusive Behaviour and Political Compulsions

The lack of operational autonomy of the NSO and other national data-generating agencies, such as BB and the NBR, undermines the independence, impartiality, and transparency of the national statistical system. This lack of autonomy has allegedly led to compromises in the integrity of data collection and reporting processes, resulting in potential biases and manipulation of key statistics. Under political pressure to present a consistently positive narrative of the nation's economic growth and human development, NSOs have often been compelled to conform and employ questionable tactics to maintain this facade. The BBS, in particular, has faced criticism for delays in the timely publication of data, which diminishes opportunities for cross-checking and validating the data's relevance for immediate policy responses. At times, these delays have been deliberate, aimed at containing sensitive information, further compromising the integrity of the data dissemination process. The NSDS 2015 emphasised the need for improvements in the governance, autonomy, statistical legislation, and ICT infrastructure of the BBS.

The lack of operational autonomy also extends to the selection of technical expert committee members. The BBS relies on such committees for advice on issues like rebasing, methodology

validation, and estimation during major updates. However, these committees are not permanent bodies and are convened only for significant updates, such as the rebasing of national accounts. Concerns were raised during stakeholder consultations regarding the selection process for committee members. It is widely believed that political considerations influence the selection of members, which undermines the integrity of the final output.

These issues not only hinder the generation of reliable statistics but also undermine the transparency and credibility of national reporting. This has significant implications for policy decisions and the country's ability to maximise benefits from international trade, investment, and cooperation.

22.5 Critical Lessons and Outlook

Bangladesh's data ecosystem presents significant opportunities for improvement, as it currently faces political and structural challenges that result in inconsistent and often contradictory statistics across various sectors. Economists have noted the misalignment between reported economic growth and key indicators, such as private-sector investment and employment trends. This chapter (and the entire White Paper) highlights widespread malpractices, including the manipulation of data to align with the preferred development narrative, selective methodology, delayed data release, the concealment of data and analytical reports, and the production of faulty estimates. The prevailing situation calls for introspection. Policymakers from the previous regime contributed to the erosion of professionalism, integrity, and accountability within the data ecosystem by consistently manipulating key statistics and fostering an atmosphere of fear and control, which caused lasting damage.

Addressing these discrepancies requires enhancing capacity, improving coordination, and tackling contextual factors that influence the alignment of data collection processes with actual economic activities. Additionally, there is substantial potential to maximise the value of data by reducing fragmentation and promoting data sharing among institutions and agencies. By integrating diverse datasets, new and coherent insights can be generated to inform decision-making. Establishing a transparent system and resolving existing inconsistencies could foster a culture of trust in public data while empowering stakeholders to make informed choices for the future. Based on the critical review of the data ecosystem, the following reform aspirations are recommended for a better outlook on public data:

Create a Pathway for Reform

Given the current state of the data ecosystem, it is crucial to undertake a thorough review of key statistical indicators to measure the extent of distortion. To this end, establishing an *Independent Expert Committee for the Review and Re-estimation of the National Data Series* is imperative. This committee should be independent of the current bureaucracy and empowered with significant authority. It should revisit historical trends in key national statistics and make necessary adjustments to present a more accurate picture of the country's economy. This process will create a pathway for methodological and administrative improvements in data generation, dissemination, and quality assurance mechanisms. The committee should be granted the necessary authority and resources to fulfil this mandate, working within a specific timeframe. Data-producing government officials should cooperate fully with the committee, providing access and support. Failing to undertake such an exercise, or improving the data generation process without it, could lead to misinterpretations of progress in key areas, resulting in misguided policymaking. Therefore, careful consideration must be given to the selection of this initiative.

Additionally, the BBS should establish *technical committees* composed of independent experts (data users and assessors) and data producers (relevant BBS officials) to review methodology and approve data generated by the BBS before release. These committees should be involved from the outset of the data collection process, empowered to examine methodology, data collection, analysis, and reporting. The current practice of requiring administrative approval from the Ministry for data release should be discontinued, along with the practice of SID vetting survey results. The role of the SID should be limited to administrative decisions, while technical aspects should be managed by the BBS.

Prepare a Plan

To build a robust data ecosystem that effectively meets policy needs and enhances decision-making, several key recommendations should be implemented. First, it is essential to comprehensively map data needs, ensuring that data from existing surveys and administrative reports are readily accessible. Enhancing data coverage and ensuring appropriate levels of disaggregation will provide a more nuanced understanding of key issues. Forming partnerships with non-state data stakeholders can further enrich the data landscape. Furthermore, to align national data with global quality standards, a Data Quality Assurance Framework should be developed, prioritising relevance, accuracy, and reliability while increasing the frequency and timeliness of data production. Accessibility should also be prioritised; implementing a data dissemination policy and leveraging ICT can significantly improve the reach and usability of data. The RTI Act should be effectively utilised to promote transparency and accountability. Strengthening institutional capacity is essential, including ensuring the autonomy of data producers, improving inter-agency coordination, and establishing statistical cells within agencies to provide data-related assistance. Sufficient funding must be secured through national financing plans to support core data generation needs and foster international partnerships to bolster resources. By addressing these areas, a more effective and responsive data ecosystem that serves all users and enhances policy formulation can be established.

Invest in Capacity

Strengthening institutional capacity presents a valuable opportunity for national data-generating institutions to enhance their impact and effectiveness. A more robust data environment can be created by improving the technical and financial capabilities of data-generating agencies, particularly the BBS. However, the current practice of relying on project, workshop, and foreign travel-based capacity development efforts, primarily funded by foreign grants and loans, may be insufficient. Increased budget allocations and investments in modern data collection tools, digital platforms, and ongoing in-house staff training are crucial steps that can significantly improve data quality, enable more frequent surveys, and enhance accessibility for all. It is alleged that the project-centric approach has fostered a collusive culture.[582]

In addition to strengthening internal capabilities, aligning national data collection methodologies with globally recognised frameworks and best practices—such as the UN Fundamental Principles of Official Statistics, OECD standards, SDSN TReNDS, and the Open Data Watch framework—will enhance the credibility and comparability of national statistics. This alignment will not only ensure consistency but also foster trust among data users.

Embracing technology is also essential for this enhancement. By modernising data collection and dissemination methods through the adoption of emerging technologies, including Geographic Information Systems, big data analytics, citizen-generated data, blockchain, machine learning, and artificial intelligence—alongside basic digital tools such as mobile applications, automated reporting systems, and interactive data portals—user satisfaction can be significantly improved. These technological advancements will enable independent reviews and provide valuable feedback to enhance data quality and validation. Establishing effective feedback loops will ensure that data services remain responsive to user needs and aligned with evolving national priorities.

Furthermore, addressing data gaps and improving data disaggregation is critical for a comprehensive understanding of the socioeconomic landscape. Regular independent audits and recalibrations of key economic indicators will help close these gaps, ensuring that reported figures accurately reflect actual conditions. Re-estimating disputed series from the past will also provide a solid foundation for assessing the effectiveness of future reforms. By prioritising disaggregated data, particularly at localised levels, evidence-based policymaking that supports marginalised communities and fosters inclusive growth can be realised.

[582] A few stakeholders have also raised allegations of corruption practices within SID and BBS.

Improve Coordination

Fostering Enhancing coordination and collaboration between public and peripheral data-generating entities offers a valuable opportunity to address the challenges posed by fragmented and inconsistent public data reporting. Tackling this issue can significantly improve the reliability of the data ecosystem. A crucial step is the establishment of effective data-sharing frameworks between government agencies. All government bodies should be encouraged to make data more accessible to other agencies and stakeholders. The most effective approach is proactive disclosure. Simple actions can yield immediate benefits. For instance, data on public investment projects, including monthly progress reports and relevant DPP documents, should be made publicly available. Additionally, if big data from the BTRC were released, think tanks and businesses could leverage it to make more informed decisions.[583] Integrating data from non-state entities and citizen contributions can further enrich the data landscape. This approach would enhance the consistency and reliability of public data, facilitating more integrated, coherent, and insightful policy analysis and decision-making. Embracing these reforms will strengthen national data capacities and rebuild trust in the information we rely on.

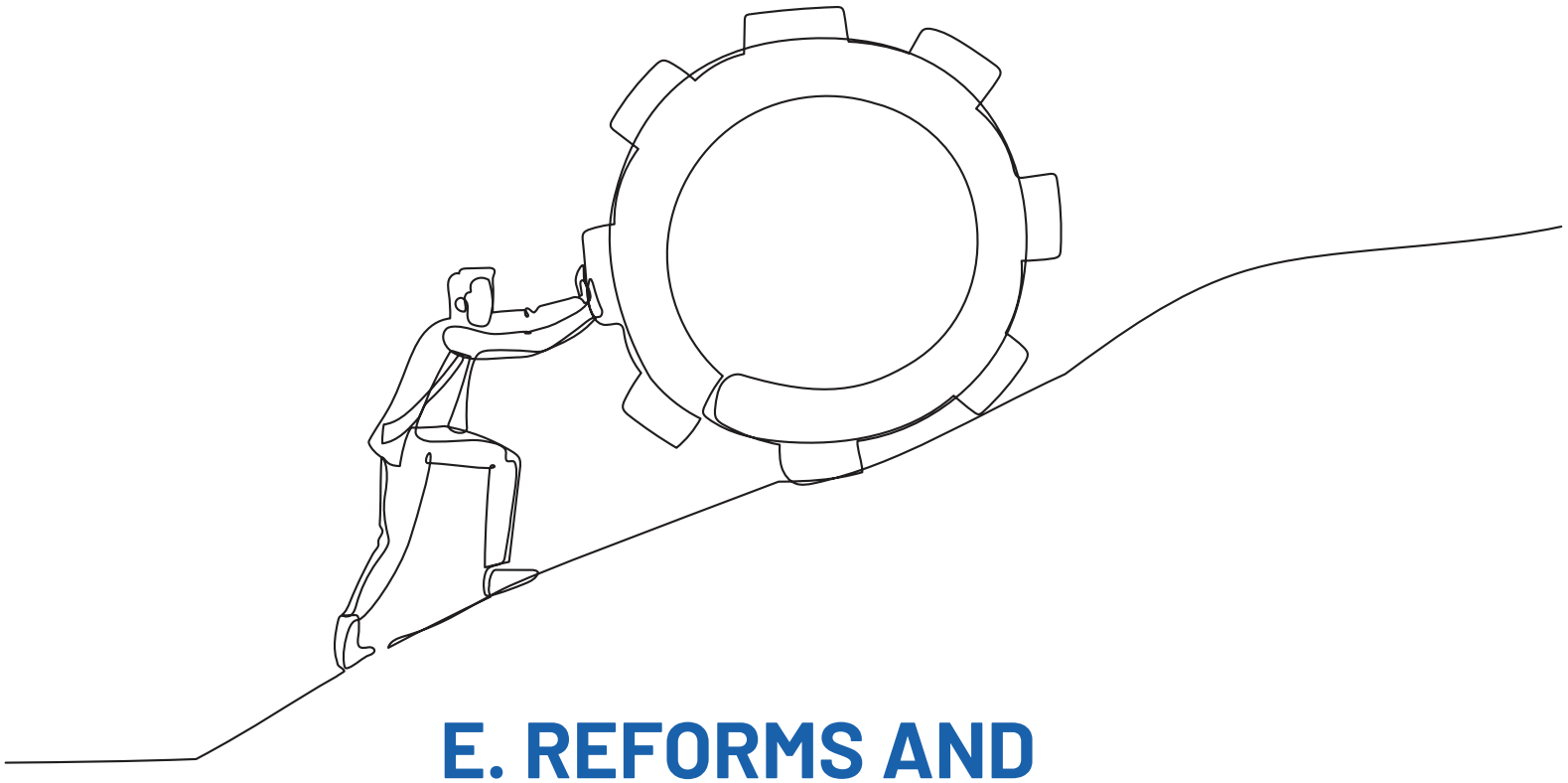
Ensuring Independence

Fostering the political and operational autonomy of national statistics, particularly for the BBS and other public data-generating agencies, is crucial for enhancing data integrity in Bangladesh. Recognising public data and information systems as the fifth pillar of the state—alongside the legislative, judiciary, executive, and media—can significantly strengthen democracy.

Numerous global best practices can serve as models for establishing the independence of official statistics. For example, the United Kingdom's Office for National Statistics, the largest independent producer of official statistics, operates under the UK Statistics Authority. This structure ensures that data collection and publication occur free from political interference, setting a strong precedent for data integrity. Similarly, Canada's Statistics Act ensures that Statistics Canada operates independently of government directives. The Chief Statistician reports directly to Parliament, ensuring accountability and transparency in governmental data practices. In Mexico, the National Institute of Statistics and Geography (INEGI) exemplifies successful autonomy, serving as both a producer of statistical and geographical data and the coordinator of the National System of Statistical and Geographical Information. The 2008 Law on the National System of Statistical and Geographic Information granted INEGI full technical and managerial autonomy, effectively distancing it from government influence. This reform not only strengthened INEGI's governance structure but also significantly built public trust in its data as objective and reliable. Implementing similar measures in Bangladesh could create a robust and impartial data system that supports informed decision-making and fosters public confidence in government statistics.

To address concerns about data manipulation and proactively enhance data integrity, the BBS could be transformed into an independent statistical commission reporting directly to the President. This commission would oversee all aspects of data generation, compilation, and dissemination, ensuring compliance with international standards of reliability and transparency. One of its key responsibilities would be to investigate discrepancies and gaps in national statistics, identifying areas for improvement by technical experts. Furthermore, the commission would establish a governance structure that protects data independence from political and administrative pressures, thereby strengthening the reliability of national statistics. It would also focus on harmonising national data with global standards, enhancing data quality, and addressing data gaps to build trust among international stakeholders, such as rating agencies, development partners, and investors. This initiative would create a robust data ecosystem that supports evidence-based policymaking and enhances the global credibility of Bangladesh's economic statistics, ultimately benefiting national development and growth.

[583] It is acknowledged that privacy concerns should be maintained appropriately.



E. REFORMS AND POLICIES

Chapter XXIII. Articulation of a Strategic Outlook*

This White Paper essentially validates longstanding concerns regarding the state of the economy. A closer examination of the evidence reveals that the situation is far worse than initially anticipated. Addressing this emerging crisis requires immediate action across several domains, including macroeconomic stabilisation, policy reforms, and institutional changes.

This concluding chapter does not aim to summarise the detailed findings presented earlier, nor does it provide an exhaustive list of tasks for the Interim Government.[584] Rather, it highlights seven critical areas of immediate concern:

(i) Implementation of an economic stabilisation programme, informed by the early months of the current regime;
(ii) Framework for the national budget (2025–26);
(iii) Proposal for a mid-term planning format (2025–27), based on a robust evaluation of the postponed 8th FYP (2020–25);
(iv) Identification of priority reform domains;
(v) Operationalisation of a transition strategy for LDC graduation;
(vi) Accelerating progress towards the SDGs;
(vii) Hosting a forum for dialogue with international development partners.

23.1 Rolling Out an Economic Stabilisation Programme

While reform measures are eagerly awaited, restoring macroeconomic stability has become the immediate priority. The stabilisation programme, to be implemented in the short term, must focus on several key areas.

The persistence of inflation has been more enduring than expected since 2021, creating a livelihood crisis for lower-income families. Citizens are increasingly concerned about the security of their savings, particularly those deposited in troubled commercial banks. Although some stability has been restored in the exchange rate market and foreign exchange reserves, the durability of these measures remains uncertain. The external sector has yet to improve sufficiently to allow the government to intervene effectively in the foreign exchange market for sustainable stabilisation.

The lack of fiscal space restricts the government's capacity to support productive sectors and vulnerable population groups in immediate need. Addressing the economic hardship of ordinary citizens requires boosting private investment and creating jobs. To this end, business communities are seeking assurances from policymakers regarding the efficiency of ports and logistics, as well as the availability of gas and electricity, alongside industrial peace. Both domestic and international private sectors stress the importance of resolving law and order issues and ensuring a predictable environment to foster business confidence and private investment.

Thus far, policy responses have been largely compartmentalised. The central bank has maintained a firm contractionary policy to control inflation. The NBR has periodically relaxed taxes and tariffs to encourage imports. However, supply-side policies should be more aggressively implemented,

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[584] A separate document on institutional and policy reforms, prepared by the White Paper Committee through extensive deliberations, addresses these matters in greater detail.

with additional support for farmers and domestic industries. Oligopolistic control of commodity markets has disrupted supply chains. It is crucial to ensure access to real-time data and market predictability, particularly given the potential for sabotage by large operators. In the meantime, social protection measures beyond TCB sales should be expanded for vulnerable citizens.

The changes in the boards of troubled commercial banks are welcome, but the central bank has had to resort to printing money to provide relief. The central bank may be conducting forensic diagnostics to ascertain the full extent of distressed assets in these banks. It is also important to recognise that the constrained situation of these banks will encourage depositors to withdraw funds unless they are assured that the banks will recover with the support of extended policies. Therefore, a tentative, time-bound plan is needed to restore depositor confidence. Additionally, troubled banks must demonstrate visible success in recovering bad assets, and progress in this regard should be communicated regularly to the public. To address capital shortfalls and liquidity challenges, a strategic capital infusion may be necessary. As noted, BB is already taking steps in this direction, but the process must be carefully planned, sequenced, and executed to ensure sustainable recovery.

The apparent stability in the foreign exchange market is primarily due to an increase in remittance inflows, import restrictions, and budgetary support from development partners. However, these factors may not be sustainable in the medium term. To secure long-term stability, boosting export receipts and FDI is essential. Both economic policies and negotiations with development partners must be aligned to achieve this goal.

The government has adopted a cautious approach to public expenditure, mindful of the limited fiscal space. The national budget passed in June 2024 was inflated with unrealistic projections and a lack of accountability. The Interim Government should immediately revise the budget for the second half of the fiscal year to reflect realistic projections and address pressing policy priorities. While discussions around a reform agenda for DRM continue, administrative efforts should focus on curbing tax evasion and expanding the direct tax base. Priorities for operating and development expenditures should be clearly defined. While the government is rightly focusing on securing more external resources, an urgent assessment of the debt situation is necessary. Concurrently, the government should initiate efforts to restructure and renegotiate external debt. Additionally, a more structured engagement with international development partners (IDPs), both from the global north and south, should be pursued to support the economic recovery and reform agenda.

The economic stabilisation programme of the Interim Government requires three key elements. First, a clear and well-coordinated action plan must be developed urgently, considering the issues outlined above. This plan, which will guide the policy actions of all relevant government agencies, should be regularly updated and monitored. Second, to support the preparation and monitoring of this plan, an economic advisory council should be established. This council should include the advisers of the Interim Government responsible for key ministries, the Governor of BB, independent experts, and representatives from the business and labour sectors. The bureaucracy will assist the council. Third, regular monitoring of high-quality, disaggregated data is necessary to support the council's work. A team of technical professionals, including government officials and independent experts, should be assigned to this task. The progress and impact of the stabilisation programme should be reported to the Interim Government on a fortnightly basis and communicated to broader stakeholders, including the business community, development partners, and the media, to ensure transparency and accountability. This will also help boost confidence among stakeholders.

As part of the macroeconomic stabilisation phase, several immediate, easy-to-implement measures should be carried out. However, structural reforms, including regulatory changes, must follow a strategic approach with careful phasing and sequencing. The stabilisation period is expected to continue until the forthcoming 2025–26 budget, at which point the stabilisation efforts should be consolidated, and medium-term reforms should begin. Sustainable stabilisation will depend on deeper reforms, with a coordinated approach to macroeconomic management forming the essential starting point.

23.2 Delineating a Framework for the National Budget for FY2026

The national budget for FY2025-26 offers a key opportunity for the Interim Government to demonstrate its commitment to short-term reforms while laying the groundwork for a robust medium-term public finance management agenda. This process should begin with the development of a credible fiscal framework. To maximise this opportunity, the Interim Government should consider five guiding principles in formulating the national budget for the coming fiscal year.

Emphasise on broadening the fiscal space. A strategic and multifaceted approach is essential to effectively enhance fiscal space, focusing on both increasing domestic revenue and reducing financial system leakages. The FY2026 budget should prioritise broadening the tax base rather than burdening existing taxpayers further. Modernising the taxation system with digital tools will enable the NBR to tap previously untapped resources and adapt to the evolving demands of the digital economy. A comprehensive review of current tax exemptions is crucial. By analysing data meticulously, the government can phase out ineffective tax incentives and focus on supporting strategic sectors that promise growth and sustainability. Additionally, the Interim Government should lead by example in tackling tax evasion and strengthening compliance mechanisms, fostering a more inclusive fiscal base. Immediate attention should be given to the taxation of wealth and property. By implementing targeted strategies to reduce IFFs and curtail tax evasion and avoidance, a more transparent and efficient tax system can be achieved. Keeping these priorities at the forefront will be vital for meaningful fiscal reform and long-term sustainability.

Streamline public expenditure. To create a more balanced economic landscape, it is essential to maintain current austerity measures while safeguarding key social sectors such as healthcare, education, agriculture, and SMEs. The forthcoming national budget should prioritise investments in these critical areas over infrastructure alone. Identifying exemplary investments in health and education as national priorities will be crucial. A thorough review of nearly completed infrastructure projects is also necessary to assess their economic benefit and identify areas for cost-cutting. The exclusion of non-productive initiatives from the ADP should also be considered.

Furthermore, efforts to reduce unnecessary and costly public expenditures, such as the purchase of government vehicles and international travel, should continue to ensure allocative efficiency and responsible resource use. Additionally, developing exit strategies for fiscal incentives linked to exports and remittances will be essential. If a market-based exchange rate regime is adopted, depreciation could help balance fiscal incentives effectively. This strategic approach will create a sustainable framework for economic growth while providing support to strategic sectors.

Safeguard the interests of vulnerable and disadvantaged groups. To expand fiscal space and prioritise public expenditure in FY2025-26, broader economic implications and equity concerns must also be considered. Support for vulnerable and disadvantaged groups should be a cornerstone of the fiscal management strategy, informing both revenue and expenditure measures.

The public expenditure framework must address rising prices of essentials to support low-income households and small farmers. Targeted investments in SSN programmes for marginalised groups, including women, youth, and individuals with disabilities, are essential. The forthcoming budget should also include initiatives to reduce educational disparities and improve healthcare infrastructure, especially in rural areas. Expanding access to TVET aligned with market demand would benefit the workforce significantly. The government should prioritise renewable energy projects by offering fiscal incentives to reduce reliance on fossil fuels. Furthermore, mobilising and allocating funds for climate resilience programmes will be crucial in addressing environmental vulnerabilities. This balanced approach can promote a more equitable and sustainable future for all.

Explore opportunities to mobilise and utilise funds from external sources for budget deficit financing. To address the challenges of declining foreign exchange reserves, the government must prioritise the implementation of all foreign-funded ADP projects, with particular attention to those nearing completion (especially those over 85% complete by June 2025). These projects can swiftly contribute to economic stability, private investment, and job creation. Multilateral and bilateral concessional loans offer valuable, cost-effective financing opportunities, but the successful acquisition will depend on strengthening government agencies' design and implementation capacities. Rapid progress in these areas is critical. Furthermore, policy reforms will be essential to securing the necessary budget support, encouraging a more flexible approach from the government. It is crucial that external financial support, such as that from IMF programmes, is accompanied by actionable reforms to ensure long-term fiscal stability. Finally, the government must emphasise the proper utilisation and accountability of these funds, ensuring that they effectively address the country's developmental needs and contribute to sustainable progress.

Uphold good governance. The political economy landscape of Bangladesh presents both challenges and opportunities for meaningful reforms. While there is often general consensus on the need for these reforms, addressing political economy factors is key to achieving progress. By focusing on good governance to enhance revenue mobilisation efforts, the government can establish a more efficient tax system and foster greater confidence among taxpayers and the private sector. Developing strategies that ensure value for public money will significantly contribute to sustainable development. Achieving good governance and securing political support at the highest levels will be essential in advancing these initiatives. The Interim Government has the opportunity to set an example in this regard, leading to significant improvements in public finance management efficacy.

23.3 Proposing a Mid-Term Planning Format

Given the suspension of the 8th FYP (2020-2025), an independent and substantive evaluation of goal delivery during the elapsed period is crucial. Since the Interim Government is expected to have a limited tenure, launching a full FYP may not be feasible. However, a medium-term outlook (2-3 years) is necessary for budgetary predictability and the management of international development finance.

The government could prioritise the development of a two-year mid-term planning format designed to be flexible and extendable as required. This approach would facilitate the preparation of an MTBF, ensuring policy continuity, predictability, and credibility—key elements for maintaining trust with IDPs, lenders, and stakeholders.

The mid-term strategy should provide a developmental roadmap that aligns with national priorities while maintaining flexibility to address emerging challenges. Such a format would strengthen engagement with IDPs, ensuring that external assistance is directed towards key areas, including

infrastructure development, social sector investments, and environmental sustainability. By aligning domestic priorities with international support, the mid-term planning format would not only enhance Bangladesh's developmental trajectory but also build a strong foundation for long-term partnerships and progress.

23.4 Identifying Priority Reform Domains

The White Paper highlights several entrenched structural challenges within Bangladesh's governance and economic frameworks, necessitating comprehensive reforms across multiple sectors. Addressing these structural bottlenecks is essential for strengthening both governance and economic frameworks.

The Interim Government has initiated a range of reform agendas, which must be further strengthened to guide the economy out of its current challenges. The preceding chapters of the White Paper identify six priority areas: the banking sector, energy and power, revenue mobilisation, illicit financial outflows, public expenditure (particularly development projects), and the data ecosystem. In some of these areas, commissions, committees, and task forces have already been established to propose concrete measures for repairing the economy and improving economic management. However, a more integrated approach will be necessary to effectively address these deep-rooted challenges.

23.5 Operationalising a Robust Transition Strategy for Least Developed Country Graduation

According to the schedule set by the United Nations, Bangladesh is set to graduate from the LDC category in November 2026. The country has met the three graduation thresholds established by the United Nations Committee for Development Policy (UN CDP) on two occasions (2018 and 2021). A recent triennial review by the CDP (February 2024) confirms that Bangladesh remains comfortably above the required thresholds despite recent economic and political challenges, as detailed in Table 23.1 below.

Table 23.1 Bangladesh`s position in the least developed country graduation criteria

Graduation Criteria	Threshold	Bangladesh's status
Gross National Income (GNI) per capita	Graduation: $ 1,306 LDC average: $ 1,307	$2,684
Human Assets Index (HAI)	Graduation: 66 or above LDC average: 59.6	77.50
Economic and Environmental Vulnerability Index (EVI)	Graduation: 32 or below LDC average: 21.9	21.90

Source: UNDESA (as of November 2024).

Even though the country has faced a dampened economic performance in the current fiscal year, it is unlikely to fall below the stipulated thresholds. Recent concerns regarding the inflated nature of certain critical indicators will not affect the graduation process, as UN bodies will only revise their calculations when a new data set (including updated GNI estimates) is available from government sources. Despite concerns expressed by certain exporters' groups, there is no apparent reason, at this stage, for Bangladesh to request a deferment of its LDC graduation date. Given these

circumstances, Bangladesh should pursue a substantive and effective LDC graduation strategy. This will require developing a transition plan that mitigates the negative consequences of graduation and supports the necessary structural transformation of the economy. Postponing the graduation date would likely provoke a political backlash from expected quarters.

A Smooth Transition Strategy (STS) has already been developed to support Bangladesh's LDC graduation trajectory. While the STS outlines a set of economy-wide policies, its alignment with the country's medium-term planning framework will present challenges. There remains concern regarding the coordinated implementation of the STS, particularly in terms of institutional leadership and policy coherence.

23.6 Accelerating Substantive Delivery of the Sustainable Development Goals

As we reach the midpoint of the United Nations' Agenda 2030, concerns emerge as only 17% of SDG targets are currently on track worldwide, according to the UN's SDGs Report 2024. The UNESCAP SDG Gateway highlights Bangladesh's notable performance across 33% of the 248 indicators. However, significant challenges remain, with 17% of indicators showing regression and 10% stagnating. The absence of disaggregated and reliable data further exacerbates these issues, making it difficult to assess equitable progress, particularly for marginalised groups.

A major limitation of the SDG Tracker for Bangladesh is the lack of data from 2019 to 2023 for 58% of the indicators, including climate-related metrics. The available data, however, presents a mixed picture: 53 indicators have shown improvement, 34 have worsened, and nine have stagnated. Concerns about the reliability and accuracy of certain indicators persist (see Chapter 22).

The assessment of SDG progress in Bangladesh can be categorised into four thematic areas: economic, social, environmental, and governance, based on data from 2019 onwards.

Within the *economic domain* (SDGs 1, 2, 7, 8, and 10), significant progress has been made in SDG 7 (Affordable and Clean Energy), demonstrated by increased access to electricity, a modest rise in clean and renewable energy consumption, and improved energy generation capacity. However, challenges remain, particularly as energy intensity (the ratio of primary energy consumption to GDP) has declined. SDG 1 (No Poverty) has also made some progress, although concerns persist regarding the measurement of poverty and reductions in government spending on essential sectors such as education, healthcare, and social protection. Ongoing economic challenges, including high inflation, rising food insecurity, increasing rates of NEET youth, rising child labour, and inadequate public service delivery, compounded by widespread corruption, have hindered progress on SDG 2 (Zero Hunger), SDG 3 (Good Health and Well-being), and SDG 8 (Decent Work and Economic Growth).

In the *social domain* (SDGs 3, 4, 5, and 6), improvements in infrastructure for SDG 6 (Clean Water and Sanitation), such as the provision of hand-washing facilities, are noted. However, access to safe drinking water and adequate sanitation has deteriorated. Concerns persist for SDGs 3 (Good Health and Well-being), 4 (Quality Education), and 5 (Gender Equality) due to rising rates of child marriage, child mortality, and adolescent birth rates, alongside declining education quality. These issues are exacerbated by limited access to stipends and scholarships, increasing child labour, and unequal access to public services, worsened by corruption. The growing share of female workers in informal labour sectors, particularly domestic and care-related roles, highlights persistent gender disparities, hindering progress towards gender equality. These interconnected factors present significant barriers to achieving Bangladesh's social development goals.

Challenges concerning *climate-related* SDGs (SDGs 12, 13, 14, and 15) are primarily due to insufficient data. Moreover, progress on climate-related SDGs depends on global advancements, highlighting the complexity of achieving these goals amid external challenges.

In the *governance domain*, official data indicate an expansion in public service delivery, particularly in birth registration, and a reduction in conflict-related deaths up to 2023. However, these positive developments are overshadowed by an increase in incidents of intentional homicide, kidnapping, enforced disappearances, arbitrary detention, and the torture of journalists, media personnel, trade unionists, and human rights advocates. These trends suggest a broader erosion of civil rights and the independence of human rights institutions under the previous regime, reflecting limited civic space, transparency, accountability, and weak governance structures.

The delivery of the SDGs is particularly affected by inadequate progress on the means of implementation (SDG 17). The most disappointing performance is evident in DRM, while remittance inflows have declined as a proportion of GDP. This issue is further exacerbated by a lower-than-required inflow of external assistance in the form of ODA. The lack of comprehensive data beyond baseline figures complicates these issues, emphasising the need for disaggregated data. Additionally, slow progress on global systemic issues, including climate change, technology transfers, trade, and migration, limits Bangladesh's capacity to advance towards achieving the SDGs.

Since the emergence of COVID-19, the SDGs as a development policy framework have lost significant momentum. To reinvigorate the SDG agenda, it is essential to reaffirm the guiding principles of 'leaving no one behind', facilitating a data revolution, promoting localisation, and adopting an integrated, transformative approach. The institutional framework and policy alignment for SDG delivery need to be revisited in light of the new political realities in Bangladesh.

23.7 Hosting a Forum for Inclusive and Sustainable Development

The advent of the new Interim Government has brought significant changes to Bangladesh's development context and discourse. These changes also affect the country's external economic relations. IDPs have expressed goodwill and shown interest in collaborating with and supporting the Interim Government. However, concerns remain regarding the continuity of externally funded or supported projects and policies established by the previous administration.

In addition to development finance providers, those offering preferential market access to Bangladesh's exports are engaged in dialogue as the country prepares to graduate from the LDC group. Foreign direct investors, who have long criticised the absence of an enabling regulatory environment, continue to express interest in engaging with the current government. *Given this context, the government would be well advised to convene a forum for broad discussions with the four key groups of IDPs: (i) providers of external development finance, (ii) providers of preferential market access, (iii) hosts of Bangladeshi migrant workers, and (iv) foreign investors.*

The proposed *Forum for Inclusive and Sustainable Development*[585] would bring together government agencies, the four aforementioned IDP groups, experts, domestic investors, labour unions, CSOs, and other relevant stakeholders. The objectives of the forum would be as follows:

[585] A similar forum, previously known as the Bangladesh Development Forum, replaced the former Aid Consortium in Paris. The final meeting of this forum was held in 2020.

- To align the priorities of IDPs with Bangladesh's current development aspirations.
- To enhance coordination between the Bangladesh government and IDPs, as well as among the IDPs themselves, concerning Bangladesh's development.
- To discuss the policy and reform agenda of the Bangladesh government with the IDPs.
- To identify measures to improve the effectiveness of development cooperation.

The Forum for Inclusive and Sustainable Development could be held in early 2025 in Dhaka. This would provide the Interim Government an opportunity to articulate the country's medium-term development aspirations and the associated reform agenda, as well as to mobilise financial and technical support for these goals. A one-and-a-half-day event may be organised by the GoB, led by the Office of the Chief Adviser, with the active participation of the Principal Coordinator for SDGs Affairs, in collaboration with the ERD and the Local Consultative Group of the IDPs. The forum format should include an inaugural session with a keynote address by the Hon'ble Chief Adviser, sector- or issue-specific roundtables, a feedback session, and a closing segment with the adoption of an outcome document. This document will outline Bangladesh's future development cooperation agenda.

The interim government, brought to power through a student-citizens uprising on August 05, 2024. The new government assuming responsibility on August 08, 2024 has been saddled with an economy which is afflicted by severe structural strains and macroeconomic stresses. High inflation, lack of good governance, weak institutions, rising inequalities and lack of distributive justice have been disconcerting features of the economy.

The challenges are perceptibly visible in areas spanning from public finance management to sustainability of external balances to the human development status of disadvantaged communities. The Interim Government of Bangladesh is having to deal with these challenges as it seeks to restore macroeconomic stability and undertake reform measures for promoting inclusive development.

Recognising the seriousness of the situation, the Interim Government, through a gazette notification on 29 August 2024, decided to set up a Committee to prepare a White Paper on the state of the economy. The twelve-member Committee was given three months to deliver an objective assessment of the economic landscape inherited by the government. The present document is an outcome of the said directive.