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**Country presentation**

**by**

**THE GOVERNMENT OF BANGLADESH**

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*Brussels, 14-20 May 2001*

**Presentation of the  
Government of Bangladesh**

**ACTION PROGRAMME FOR THE DEVELOPMENT OF  
BANGLADESH,**

**2001-2010**

This report has been prepared under the responsibility of the Economic Relations Division of the Ministry of Finance, after consultation with members of the National Preparatory Committee consisting of representatives of various Ministries, Chamber of Commerce and Industries and Civil Society in Bangladesh.

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## Glossary

AMS	Aggregate Measure of Support
BTTB	Bangladesh Telephone and Telegraph Board
CBO	Community based Organizations
CHT	Chittagong Hill Tracts
DESA	Dhaka Electric Supply Authority
DFI	Development Finance Institutions
FRB	Feeder Road Type B
HDI	Human Development Index
HPI	Human Poverty Index
MFA	Multi-fiber Arrangement
NCB	Nationalized Commercial banks
NEMAP	National Environment Management Action Plan
NNP	National Nutrition Program
PDB	Power Development Board
RDP	Rural Development Project
REER	Real Effective Exchange Rate
SAPTA	South Asian Preferential Trading Arrangement
SOE	State Owned Enterprises
TCB	Trading Corporation of Bangladesh
TFR	Total Fertility Rate
VGF	Vulnerable Group Feeding

## I. INTRODUCTION

1.1 Bangladesh faces formidable developmental challenges. When the Programme of Action was launched in 1990, Bangladesh had a population of 111 million growing at a rate of 2.2 per cent. With a population density of 752 per square kilometer, it was the most densely populated country leaving aside a number of city-states. Per capita GDP of US\$ 276 barely distanced Bangladesh from a small number of countries at the very foot of the income scale. Agriculture accounted for nearly 30 per cent of GDP and provided direct and indirect employment to more than 60 per cent of the labor force. The share of manufacturing in GDP remained stagnant at around 13 per cent. Yearly GDP growth stalled at around 4 per cent level. Domestic savings rate of 11 per cent and investment rate of 17 per cent were low even by regional standard. Inflow of Foreign direct investment was at a miniscule level of less than \$10 million a year. Production and export bases remained undiversified rendering the economy highly vulnerable to natural calamities and external economic shocks.

1.2 Bangladesh's scorecard on social development indicators was also poor. About 48 per cent of the population lived on the wrong side of the poverty line. Infant mortality was 92 per thousand births and life expectancy was 56 years. About 20 per cent of the population did not have access to safe drinking water and literacy rate was 44 per cent amongst males and 26 per cent amongst females. While gross primary school enrollment ratio was 76 per cent, primary school completion rate was only 41 per cent.

1.3 However, as Bangladesh is poised to embark on the Action Programme for the next decade, it has a more optimistic benchmark scenario. It is now a lead performer among the league of LDCs, and, in several counts, may offer some successful examples of crisis coping, economic recovery and social mobility. A number of social and economic changes have occurred in Bangladesh over the years, with considerable successes in some respects, and notable failures in others. These changes have strong implications for growth, poverty and human development.

1.4 The Programme of Action 1990 attributed the onus of development primarily on national government and recommended actions in a wide range of areas to be undertaken by the LDCs themselves. However, it was appreciated that factors beyond national competence often influence the capacity of the government of a country to design, implement and follow-up a programme of its socio-economic development. Accordingly, the principle of strengthened partnership and shared responsibilities was accepted by the international community as the basic tenet of the Programme of Action for the development of these countries. In line with this spirit, Bangladesh government implemented policy reforms in many areas covered under the Programme of Action although a full internalization of the goals of the Programme into the development plans could not be achieved. Unfortunately, these efforts of the national government were not matched by adequate external support. In particular, the support of the international community in terms of ODA flow, technical assistance, market access, FDI etc fell far short of the level envisaged in the Programme of Action 1990.



## II. PERFORMANCE OF BANGLADESH ECONOMY DURING 1990s

2.1 *Economic Growth* Bangladesh's growth performance during the 1990s shows considerable improvement over the past decade. Growth was particularly pronounced in the second half of the 1990s. Between 1990-91 and 1994-95, the annual compound growth rate was about 4.7 per cent. During the second half of the decade, GDP growth rate jumped to 5.1 per cent. The trend rate of growth for the whole of 1990s has been estimated at 4.8 per cent as against 4.4 per cent during the previous decade. The rate of growth of per capita GDP has also been impressive during the 1990s. In addition to the higher growth rate of overall GDP, this was facilitated by a sharp fall in the rate of growth of population. During the 1980s, population grew at an annual compound rate of 2.2 per cent, and the rate of growth of per capita GDP was recorded at 1.7 per cent per annum. In contrast, population growth rate came down to 1.7 per cent during the 1990s. In fact, it has been at the level of 1.6 per cent since 1995. Per capita GDP grew at an annual compound rate of 3.3 per cent during the 1990s. The growth performance of Bangladesh economy during 1990s, particularly during the second half of the decade in spite of the devastating flood of 1998, has put it amongst the top performers within the developing world. However, in terms of the absolute level of per capita income, Bangladesh continues to remain at the lower end of the income scale. Per capita income of US\$370 compares unfavorably against the South Asian average of US\$440 and low-income country average of US\$410.

2.2 *Agricultural Development* Crop and horticulture together constitute the dominant component of agricultural sector. In 1999-00, the sub-sector accounted for 56 per cent of agricultural value added. During the decade of the 1980s, crop and horticulture grew at an average annual rate of 2.3 per cent. The sub-sector experienced negative growth during the first half of 1990s. The growth rate started picking up from 1996-97. Between 1995/96-1999-00, the annual compound growth rate was estimated to be 4.2 per cent. The performance of the sub-sector during the second half of the 1990s was spectacular given the devastating affect of the prolonged flood of 1998. The government ran a very successful programme to support farmers' effort in making up the damages caused by the floods through the provision of credit and supply of critical agricultural inputs such as fertilizer, diesel and seeds, and public food distribution. The experience of agricultural growth during the 1990s has brought to fore an important lesson. While the performance of the sector still depends largely on the vagaries of nature, the ability of the farmers to respond appropriately to the situation depends critically on public support measures relating to agricultural finance, availability of critical inputs particularly seed, fertilizer and diesel, output price support and preventing entitlement failure during natural calamities. Amongst the non-crop agricultural activities, fishery demonstrated most spectacular growth during 1990s. The sub-sector remained virtually stagnant during the decade of 1980 with the trend rate of growth recorded at 2.2 per cent. Consequently, the share of the sub-sector in GDP declined from 3 per cent in 1980-81 to 2.7 per cent in 1990-91. In contrast, fishery grew at a trend rate of 7.8 per cent during the decade of the 1990s raising the share of fishery in GDP by more than 1 percentage points. The other two non-crop activities, namely, forestry and livestock grew at moderate rates during 1990s and the share of both these sub-sectors in GDP remained stagnant during this period. Thus, agriculture in Bangladesh continues to remain rice centric with paddy production accounting for nearly two thirds of value addition in crop sub-sector.

2.3 *Manufacturing Growth* Against a trend rate of growth of 3.1 per cent during 1980s, the manufacturing sector achieved an annual compound growth rate of 8.2 per cent during the first half of 1990s. However, the growth of manufacturing during this period was narrowly based on a handful of industries, particularly export oriented readymade garments industry. The sector slowed down during the second half and the annual compound growth rate came down to 5.5 per cent largely due to the prolonged flood of 1998 and the faltering of the export industries due to a variety of exogenous factors.

2.4 *Structural Change* A change in the composition of output and employment away from the agricultural sector in the direction of manufacturing and service sectors is often used as a measure of development. In Bangladesh, the share of agriculture in GDP declined from 29.2 per cent in 1990-91 to 25.5 per cent in 1999-00 - a decline of 3.7 percent. The fall was compensated by an increase in the share of manufacturing and construction. The contribution of manufacturing increased from 12.9 per cent in 1990-91 to 15.4 per cent in 1999-00. However, both the pace of growth of manufacturing and the sector's current share in GDP appear rather modest for it to spearhead sustained high growth of the economy. Thus, for example, in Thailand the share of manufacturing in overall GDP was 22 per cent in 1980 and it rose to 32 per cent by 1998.

2.5 *Export Earnings and Import Payments* During 1980s, Bangladesh's total exports in current US\$ value grew at an annual compound rate of 9.2 per cent. The annual growth rate was 14.4 per cent in the decade of the 1990s. In fact, Bangladesh experienced double digit export growth in most of the years during the 1990s. Imports, on the other hand, grew at an annual compound rate of 4.4 per cent and 10.9 per cent during 1980s and 1990s respectively. The gap between export and import widened from -US\$1792 million in 1990/91 to -US\$2693 million in 1998/99, although the share of export earnings in import payments steadily rose from 31 per cent in 1980/81 to 67 per cent in 1999/00. The openness of the economy as measured by total external trade as a proportion of GDP went up from around 22 percent in 1990/91 to nearly 30 per cent in 1999/00 with the share of export in GDP rising from 7 per cent to 12 percent during the same period. The structure of export has changed significantly over the past two decades. Bangladesh seems to have made the transition from resource-based to process-based exports. In 1980/81, primary commodity constituted nearly 29 per cent of total exports. In 1990/91, this share came down to 17.8 per cent and further down to 8.2 per cent in 1999/00. There has been a shift from jute-centric to garments-centric export. In 1980-81, raw jute and jute goods together constituted 68 per cent of total exports. Between 1980/81 and 1999/00, export of both raw jute and jute products declined in absolute terms and their total share came down to only 6 per cent in 1999/00. In contrast, woven and knit garments together accounted for less than 1 per cent of exports in 1980/81. Their combined share in exports rose to nearly 76 per cent in 1999/00. The evidence presented brings out the basic weakness of Bangladesh's export sector. In spite of the rapid growth in export, particularly of manufactured exports, the export base has remained extremely narrow. In fact, it has become narrower during the 1990s. The observed growth in export has been propelled mainly by growth in the export of garments - both woven and knit. The commodity concentration also led to concentration in the destination of exports. Historically, the major destinations of Bangladesh's export have been USA, EU,

Canada, Japan and China. In 1980/81, these regions received about 30.5 per cent of Bangladesh's export. But market concentration accentuated over time and in 1999/00, the same region was the destination for 86.0 per cent of Bangladesh's export. If one looks behind the export performance of Bangladesh, one finds that the spectacular growth of garments industry was triggered by the relocation of their trade in Bangladesh by East Asian exporters in an attempt to circumvent binding quota restrictions in their own country imposed under the Multi-Fiber Arrangement (MFA) particularly for the North American market. This resulted in the direction of Bangladesh's garments export to remain focused towards USA and Canada. The other factor that contributed towards the rapid growth of apparels sector particularly of knitwear in Bangladesh was the zero-tariff access to the EU markets under the Generalized System of Preference (GSP). Because of these twin benefits of MFA and GSP, 84 per cent of all apparels exports from Bangladesh were directed towards North America and EU markets even in 1999/00. Thus, Bangladesh seems to have failed to broaden her export market. She was particularly unsuccessful in penetrating the market in the growing economies of ASEAN and the NIEs. The share of her export going to this region declined from 5.5 per cent in 1980/81 to 3.8 per cent in 1999/00. As would be expected, Bangladesh's exports have failed to climb up the value ladder significantly during the past two decades. The readymade garments industry, which has been the prime mover of exports during this period, remained concentrated at the relatively lower end of the market segment producing mainly T-shirts, pajamas, ordinary shirts, shorts, caps, women's and children's wear etc. Diversification into higher valued jackets, shirts of complicated designs, and *brand* items etc has been slow. Similar has been the experience with the export of leather goods. Jute goods, another important item of manufactured exports lost in unit value due to displacement by synthetics and slowing down of world demand. In the case of primary commodities such as raw jute, tea, and frozen food, export price index virtually stagnated. The overall export price index thus, registered only modest rise during the past two decades. With the import price index rising by a higher margin, the terms of trade deteriorated during the 1990s. The situation became particularly bad in 1998-99 when all major export items of Bangladesh except woven RMG, experienced decline in unit value by a margin of 5-40 per cent. As a result the overall export price index rose marginally by 0.6 per cent. This was largely the aftermath of East Asian financial crisis that led to worldwide fall in commodity prices, and it contributed significantly to the sharp fall in Bangladesh's export earnings in that year.

2.6 *Savings and Investment* Investment as a proportion of GDP was 16 per cent in 1980-81. During the decade of the 1980s, there was hardly any improvement in the investment scenario and investment-GDP ratio stood at 16.9 per cent in 1990-91. However, during the decade of the 1990s, investment picked up significantly reaching nearly 22 per cent of GDP in 1999-00. Almost all of the increased share of investment came from private sources. Public investment constituted about 7 per cent of GDP in 1980-81. For the last two decades the ratio of public investment to GDP has remained stagnant at around 7 per cent. On the other hand, private investment as a proportion of GDP stagnated around 10 per cent through out 1980s but steadily rose to 15.7 per cent in 1998-99. In spite of these increases the rate of investment in Bangladesh remains low by the standard of the low-income countries and also in relation to its needs. For sustained high levels of growth, Bangladesh requires a investment rate of 25-30 per cent. The stagnation of public investment-GDP ratio indicates limitations of the government in mobilizing domestic resources for investment purposes. During 1980s,

investment was constrained by paucity of savings as the level of national savings could finance less than half of the investment level and the gap was met through net capital inflow. Since 1990-91, however, national savings exceeded investment levels. Domestic savings was 14.6 per cent of GDP while national saving was 19.7 per cent of GDP in 1990-91, which exceeded the proportion of investment by nearly 2.8 percentage points. This implies that lack of effective demand for investment may have been responsible for inadequate investments in recent years. It should be noted, however, that in spite of some improvements registered during the 1990s, the current domestic savings rate of less than 18 per cent of GDP remains dismally low by international standards.

2.7 *Workers' Remittance* Remittance from Bangladeshi workers working abroad has been an important source of investible resource augmenting national saving. Workers' remittance accounted for about 3.2 per cent of GDP in 1981-82. During the decade of 1980s, remittance in US\$ increased at a trend rate of 6.7 per cent. In 1990-91, the ratio of remittance to GDP reached the level of 3.3 per cent. Between 1990-91 and 1995-96, the compound rate of growth in remittance in US\$ was nearly 9.8 per cent raising the share of remittance in GDP to 3.8 per cent. However, since 1995 the growth of remittance slowed down due to volatile international political and economic situations. Between 1995-96 and 1998-99, the compound rate of growth of remittance was 3.4 per cent only. As a result, the share of remittance in GDP came down to 3.5 per cent in 1998-99.

2.8 *External Debt* Bangladesh's external debt burden and debt repayment situation eased somewhat during the second half of 1990s. In 1980-81, outstanding external debt at yearend was nearly 30.8 per cent of GDP. During the 1980s, debt burden rose steadily at a trend rate of 10.1 per cent and constituted 54.3 per cent of GDP in 1990-91. The debt-GDP ratio rose further to 57.6 per cent in 1994-95 but thereafter it started declining and came down to 41 per cent in 1998-99. The debt burden also declined in absolute terms. Outstanding external debt at yearend came down from US\$16767 million in 1994-95 to US\$14840 million in 1998-99. Debt servicing increased steadily during the 1980s at a trend rate of nearly 15.3 per cent raising debt service-export ratio from 12 per cent in 1980-81 to 18.5 per cent in 1990-91. However the impressive double digit export growth of 1990s helped in bringing down the ratio to 13.5 per cent in 1994-95 and further down to 9 per cent in 1998-99 although in absolute terms the volume of debt service rose at a trend rate of 5.4 per cent during the 1990s.

2.9 *Human Development* Bangladesh has achieved impressive success in the broad area of human development. This is reflected in both aggregate and individual measures. Thus, the value of human development index (HDI) has increased from just 0.234 in 1980 to 0.309 in 1992. The progress has been faster in the nineties: between 1992 and 1996/97, the HDI value has increased by 40 percent, rising from 0.309 to 0.438, with an implied average increase of 9.3 percent per year. Similar trends follow through when the incidence of aggregate human deprivations such as the human poverty index (HPI) is considered. The human poverty index (HPI) focuses on three aspects of human deprivation: deprivation in longevity, deprivation in knowledge, and deprivation in economic provisioning. The results show that the incidence of human poverty has declined from 61.3 percent in 1981-83 to 40.1 percent in 1995-97. The progress was faster on human poverty front. The incidence of income-poverty at the national level--as

measured by the head-count index of poverty—declined from 52.3 percent in 1983/84 to 46.6 percent in 1995/96. As for the second half of the nineties, available data shows that rural income-poverty has gone down from 47.9 per cent in 1996 to 44.9 per cent in 1999. Individual indicators such as literacy and mortality rates also show considerable improvement. Thus, infant mortality rate, which stood at 105 per thousand live births in 1985/89, declined to 81 in 1997. The rate of improvement was faster in the recent period as the matched figure dropped to 65 in 1999. Similarly, the adult literacy rate has increased from 29 per cent in 1981 to 39 per cent in 1991 as per the Population Census data. The progress was much faster in the nineties, the 1999 estimate being in the order of 60 per cent. The pace of increase in HDI was the fastest in Bangladesh among all South Asian countries during 1987-96. Although Bangladesh has achieved considerable success in the broad area of human development in terms of rate of change, actual levels remain low in comparison with many other LDCs. The mismatch between quantitative and qualitative dimensions within the broad area of human development is also particularly worrying. This cuts across dimensions of education, health, nutrition, family planning, and women empowerment. There are also significant regional imbalances in human development between advanced and backward area in both rural and urban sectors.

2.10 *Population Growth* Reduction of population growth—the demographic transition from a high-fertility to a low-fertility regime—has been one of the most outstanding developmental successes of Bangladesh. The most striking part of this success lies in the fact that it was achieved at a fairly low *level* of per capita national income. In this very respect, Bangladesh defied the earlier negative predictions regarding the bleak developmental prospects of the country, predictions that virtually bordered on neo-Malthusian ideas of high population pressures leading to severe resource depletion and chronic food shortage. The country's progress in this area is exemplified by one central statistic, namely, total fertility rate (TFR). This indicator, which actually measures the average number of ever born children per woman in the reproductive age group, has registered an impressive decline from 6.3 in 1975 to 3.3 in 1999/2000. The extent of success comes through international comparison as well. In 1975, Pakistan for example had a TFR of about 7, which was very similar to that of Bangladesh. After nearly two decades, the matched figure declined to about 5 in Pakistan (as of 1997), which was way above the level estimated for Bangladesh. The average TFR for LDC countries considered as a whole also shows much slower decline—from about 6.6 to 5—during the same period, again revealing Bangladesh's matched performance in very favorable light. As a result, natural growth rate of population in Bangladesh has substantially declined from about 3 per cent in the mid-seventies to 1.6 per cent in the late nineties.

2.11 *Empowerment of Women* Over the past decade, women's status and opportunities have improved in Bangladesh. The improvement has been brought about by increased job opportunities, demographic change, better education, and better household technologies. These forces have partly liberalized women from childbearing, have enhanced their relative productivity outside the home, and have increased their voice in household spending decisions. The government has also adopted the strategy of mainstreaming women's development in all sectors. There is a National Policy for Women's Advancement and National Action Plan within which women's development programs are being implemented in different sectors. A major step towards social empowerment of women has been the provision of reserved seats

for women representatives to be elected by the voters in the *Union Parishad*, which is the lowest tier of the local government. A similar provision of direct election of women members in the municipal bodies has also been enacted. The women members of *Union Parishad* and municipal bodies elect the women members to the next tier of the local government, namely, the *Upazilla Parishad*. Despite these development, Bangladeshi women still face enormous challenges. Bangladesh has progressed in expanding primary education for girls. The gender gap in primary education has narrowed down considerably. However, the rate of secondary enrollment for girls is still very low. Although the gender gap in child immunization is negligible, there are important gender disadvantages in mortality and morbidity. Maternal health care remains in a precarious state with very high degree of maternal mortality. The female work force participation rate has increased from about 9 per cent in 1991/92 to 14 per cent in 1995/96. However, the extent of participation is still low compared to sub-Saharan Africa. Even in areas where female participation was significantly pronounced, for example micro-credit and ready-made garments industries, there are problems that remain inadequately addressed. About 75 per cent of the workers in the garment industries are women. While there have been some improvement in the real wages of the women workers, the non-wage working conditions have not improved commensurate with the growth of the sector. Lack of improvement in the non-wage working conditions has led to increasing health and insecurity problems for these workers. Similarly, growing involvement in micro-credit-based enterprises while helped increase control of women over income have not led to lower risks of domestic violence against women. Notwithstanding some considerable progress in the dimension of women's empowerment, violence against women is on increase, especially over the recent years. The forms of violence range from domestic violence (accounting for 80 per cent of violence-related incidents) to organized assaults, including "acid-throwing". While this may be reflective in general of deteriorating law and order in the country, the gender-based nature of violence is a source of added concern over and above the issue of insecurity relating to property rights. Bangladesh is also increasingly exposed to the problems of girl trafficking, cross-border migration and refugee influx, and child labor with significant gender dimension. Recently, the government has enacted the Women and Children Repression Prevention Act 2000 to deal with these types of crimes.

### **III. ASSESSMENT OF FACTORS THAT HAVE FACILITATED OR CONSTRAINED BANGLADESH'S DEVELOPMENT DURING 1990S**

#### **Domestic Factors Influencing Development**

3.1 *Inflation and Monetary Management* Inflation remained subdued during the 1990s averaging at around 5.4 per cent, which was nearly half of the rate observed during 1980s. Food accounts for 64.47 per cent of the value of the consumption basket that is used to construct the Consumers' Price Index (CPI). An important factor contributing to the observed low inflation rate was good agricultural harvest. In the years when agricultural output was affected by natural calamities such as flood, inflation rate hinged critically on the extent of food import and the efficiency with which food was distributed within the economy. Declining international prices of consumer goods also contributed to the low rate of inflation. The government followed a mildly expansionary monetary policy with broad money increasing at a trend rate of 11.7 per cent during 1990s against the trend rate of growth of 19.4 per cent during 1980s. A major problem of the monetary sector has been the high incidence of non-performing loans. In 1996, classified loan was 31.1 per cent of the total loan portfolio of the banking system in Bangladesh. In 1999, it stood at 38 per cent. In the case of nationalized commercial banks (NCBs), the proportion of classified loan in 1999 was 44 per cent.

3.2 *Fiscal Management* Fiscal management during the 1990s had both positive and negative development over the decade of the 1980s. On the revenue front, the revenue-GDP ratio remained virtually stagnant at around 7 per cent during 1980s. The trend rate of revenue growth was estimated to be only about 3 per cent during the decade. In contrast, revenue-GDP ratio increased from 7.2 per cent in 1990-91 to 8.9 per cent in 1999-00. The trend rate of revenue growth for the decade of the 1990s has been estimated at nearly 7 per cent. On the other hand, total expenditure-GDP ratio increased from 12.7 per cent in 1990-91 to 15.0 per cent in 1999-00, in contrast to a mildly declining expenditure-GDP ratio during the 1980s. The trend rate of growth of total expenditure was 3.1 per cent during 1980s and 6.6 per cent during 1990s. As a result, overall budget deficit expanded from 5.5 per cent in 1990-91 to 6.1 per cent in 1999-00. Current expenditure-GDP ratio showed a rising trend during both the decades albeit at a lower pace during 1990s. The trend rate of growth in current expenditure was 7.8 per cent during 1980s and 6.2 per cent during 1990s. The current expenditure-GDP ratio increased from 6.6 per cent in 1990-91 to 7.6 per cent in 1999-00.

3.3 *Domestic Resource Mobilization* A critical item in domestic resource mobilization is revenue effort of the government, particularly with regard to tax revenue earnings. Bangladesh's tax-GDP ratio is one of the lowest in the world. The ratio stood at 5.9 per cent in 1990-91 and rose to 7.1 per cent in 1999-00. These figures are way below the South Asian average of 12.4 per cent and 17.5 per cent recorded for the LDCs. Two factors negatively impacting upon domestic resource mobilization are the losses incurred by the State Owned Enterprises (SOEs) and increase in the level of non-performing loans of the Nationalized Commercial Banks (NCBs). Total loss of the loss-making public undertakings as a percentage of GDP increased from 0.78 per cent in 1990-91 to 1.3 per cent in 1999-00. Increase in non-

performing loans of the NCBs was 0.56 per cent of GDP in 1994-95 and 0.08 per cent in 1999-00. Combined erosion of savings due to these factors accounted between 1-2 per cent of GDP during 1990s. Foreign financing of deficit was around 4.7 per cent of GDP in 1990-91. In 1999-00, it came down to 2.8 per cent. Consequently, domestic financing of deficit registered significant increase. Domestic finance -GDP ratio was less than 1 per cent in 1990-91, but rose to 3.3 per cent in 1999-00. Apart from declining foreign finance, the other reason behind rising domestic finance was increased public expenditure due to flood in 1998-99. The need for increased domestic financing was met mostly from increased borrowings from the scheduled banks. Because of excess reserves lying with the NCBs, these measures did not cause much crowding out and the share of private sector in total bank credit remained stable at around 72 per cent. With overall money supply growing at a moderate rate, the increased borrowing did not have much adverse effect on inflation. However, by 1999-00, reserve ratio in the banking system came down to minimum statutory level rendering further borrowing by the government more destabilizing both in terms of inflation and crowding out of private investment.

3.4 *Trade Policy Reforms* Bangladesh carried out wide-ranging trade policy reforms during the past two decades. The reforms covered both tariff and non-tariff barriers. With regard to non-tariff barriers, the focus has been on deregulation of import procedure and elimination of quantitative restrictions. In the case of tariff barriers, the attempt has been to rationalize the tariff structure, reduce the number of duty slabs, and bring down tariff rates and their dispersion amongst similar commodities. Bangladesh has come a long way in terms of dismantling its non-tariff barriers. The system of import license has been virtually eliminated and the Control List of Banned and Restricted items has been brought down to a minimum. The role of the state trading body - the Trading Corporation of Bangladesh (TCB) in import and export has been curtailed, and there is now wider participation by the private sector in import and export trade that were earlier reserved for the TCB. As a least developed country, Bangladesh has been exempted in the Uruguay Round of agreements from making commitments regarding tariff reduction. However, rationalization of the tariff structure has been one of the key elements of trade policy reforms in Bangladesh. Prior to 1986, the tariff code had 24 tariff slabs, which were not based on easily discernible principles for assigning different rates to different products. In a bid to rationalize the tariff structure, the number of ad valorem custom duty rates has been reduced gradually, which stood at 12 in 1993-94, 6 in 1996-97 and 4 in 1999-00. Preferential rates of duties applicable to public sector enterprise were eliminated in 1989. Tariff reform was accelerated significantly in the fiscal year 1992-93 by the compression of custom duty rates into a range of 7.5-100% for most products accompanied by the removal of many end user defined distinctions. As a part of the rationalization measures, maximum tariff rate was reduced from a level of 350% in 1991-92 to 50% in 1995-96, 42.5% in 1997-98 and then further down to 37.5 per cent in 1999-00. As a result of these sustained efforts, average nominal protection, including all import duties and protective taxes, fell from 89 per cent in 1990-91 to 25 per cent in 1995-96, a drop of 64 percentage points. The import-weighted average protection rate fell by 21 percentage points. However, rapid trade liberalization carried out by Bangladesh does not seem to have contributed to broad based growth of export industries. The observed growth in export has been very narrowly based facilitated mainly by MFA and GSP and supported by pro-active export promotion measures of the government. The impact of trade liberalization on domestic market oriented industries seems to have been mixed. The



positive impacts resulted from easier access to imported raw materials while the negative impacts were due to displacement by competing imports. While import of paper facilitated growth of industries using paper as the input, e.g. *bidi*, books and periodicals etc, the paper industry itself experienced negative growth throughout 1990s due to displacement by competing imports. In the case of silk industry, the pre-weaving silk activities were adversely affected by the large-scale import of silk yarn while weaving of silk fabric got a strong stimulus from easier availability of imported yarn. A wide range of small and cottage industries, which are based on imported metals, chemicals, plastics etc were net beneficiaries. They faced less displacement because their products were competitive and catered to an income group whose consumption basket is less import-intensive. While adverse impact on inefficient import substituting industries is not an unexpected outcome of trade liberalization measures, in the case of Bangladesh the displacement by competing imports seems to have been more substantive due to rapid implementation of the import liberalization measures without prior announcements. Thus, an important shortcoming of Bangladesh's approach to trade liberalization has been the failure to announce in advance the timetable of planned changes in the trade policy. Such prior announcements would have given more time to the local firms to adjust and respond to the ensuing competition from imports. The other major limitation of the past trade liberalization measure in Bangladesh is that it has not been accompanied by complementary reforms in other areas to facilitate adequate supply response to the liberalization measures. Special areas of deficiency were the non-availability and high cost of credit, irregular supply of power and other utilities, deficient transport and communication infrastructure, poor and unreliable port facilities, deteriorating law and order situation, bureaucratic red-tapism and lack of improvements in labor skill. All these factors raised the cost of doing business in Bangladesh rendering the products of domestic industries less competitive against imports.

3.5 *Exchange Rate Policy* To enhance export competitiveness, Bangladesh shifted from a fixed exchange rate regime to a 'managed' system of floating exchange rate in 1979 under which the nominal exchange rate was allowed to adjust with fluctuations in the currencies of major trading partners. Since then, frequent depreciation of the nominal exchange rate of Taka was made in small amounts over the years. The adjustment aimed at keeping the real effective exchange rate (REER) unchanged or depreciate it marginally. Further steps towards liberalizing the exchange rate regime were undertaken during the 1990s. In October 1993, the government announced its intention to move to current account convertibility. Finally in 1996-97, Bangladesh government accepted the conditions of Article VIII of the IMF by making the Taka fully convertible for international current account transactions. Other measures include permission to exporters to retain a part of their foreign exchange earnings, enhanced foreign exchange entitlements for business and travels, withdrawal of restrictions on non-resident's portfolio investment, greater flexibility of the authorized foreign exchange dealers with respect to fixing the selling and buying rates and foreign exchange liquidity etc. Restrictions on the remittances of dividends, royalties, and the repatriation of capital have also been lifted. During the same period, other economies of South Asia that are important export competitors of Bangladesh also followed a competitive exchange rate policy. Taka has been devalued against dollar by about 53% since 1989/90. But other South Asian economies devalued their currency by an even greater extent as a result of which Taka has appreciated vis-à-vis Indian and Pakistani Rupee eroding the competitiveness of Bangladeshi exports. To ascertain what impact these reform

measures had on export, one needs to look at the trend in the real effective exchange rate (REER). Available evidence suggests that depreciation of REER has been relatively small during the decade of the 1990s. The evidence implies that the flexibility of exchange rate in Bangladesh was restricted by the attempt to safeguard the REER. To the extent that the REER deviated from the true equilibrium exchange rate, this approach to exchange rate adjustment may have eroded the competitiveness of Bangladesh's exports to some extent. One indication of this is the appreciation of taka vis-à-vis the currencies of India and Pakistan, who are major competitors of Bangladesh's main export items. The evidence also implies that while the pursuit of the market oriented exchange policy was generally supportive of export growth, exchange rate adjustment did not provide the key stimulus to growth of export in Bangladesh. The appreciation of taka vis-à-vis Indian rupee also contributed to increased illegal imports from India causing displacement of many indigenous products.

3.6 *Agriculture and Rural Development Strategy* Agriculture continues to occupy a dominant position in Bangladesh economy and is likely to remain so during the early decades of the current century. More than 75 per cent of the population resides in the rural areas and a significant proportion of them live below the poverty line. No growth or poverty alleviation strategy can, therefore, succeed in Bangladesh without a healthy agricultural sector. During the 1980s, Bangladesh carried out wide ranging reforms in its agricultural development policy by deregulating and liberalizing markets and trade in agricultural inputs and outputs and reducing agricultural subsidies. Available evidence suggests that the policy reform, on the whole, created positive impact on the sector. Reforms in the input market contributed to increased production, prices of irrigation equipment and other inputs declined with no clear evidence of adverse distributional consequences. In spite of these improvements a basic limitation of the agricultural sector in Bangladesh remained in terms of its lack of diversification. Recent studies have indicated that Bangladesh enjoys comparative advantage in the production of a wide range of non-rice crops. To achieve the desired diversification along the line suggested by the comparative advantage, there is need for a set of critical public support measures. Under donor persuasion and the dictates of Structural Adjustment Program, Bangladesh has brought down its level of public support to agriculture to an absolute minimum. Recent estimates of the Aggregate Measure of Support (AMS) to agriculture put this at around 1 per cent of agricultural output although the permissible limit of such support under the Agreement on Agriculture of the WTO is 10 per cent. Bangladesh also provides very little of the *green box and blue box* supports which are admissible under WTO regulation as trade non-distortionary supports. The issue of agricultural development also needs to be posited in the broader context of rural development. Till early 1980s, rural development was thought mainly in terms of agricultural development, which centered on crop agriculture and the thrust was on the spread of HYV for which provision of seed, fertilizer and irrigation was considered most crucial. Initially, this strategy stimulated agricultural growth. But growth was not strong enough to make a dent on the widespread level of rural poverty. Agricultural growth also began to slow down gradually with declining trend in factor productivity and consequently rural poverty situation started to worsen. In view of this outcome, diversification of agriculture, raising productivity in non-crop production, increasing cropping intensity and development of non-farm activities appeared as sensible poverty alleviation strategies. In mid 1980s, government of Bangladesh spelled out its revised Rural Development Strategy, whose focus was on the development of physical

infrastructure involving roads, markets, storage facilities, electricity, minor irrigation etc. The expectation was that development of rural physical infrastructure would stimulate development and diversification of the rural economy in general and that of agriculture in particular. The Strategy has since then, provided the framework for considerable investment by the government and the funding agencies under a series of projects known as Rural Development Projects (RDPs) during the late 1980s and the 1990s. There were several RDPs whose main thrust was on the development of rural roads (particularly FRBs) and markets (Growth Centers). These projects have been greatly successful in stimulating the rural economy and have earned the status of best practices in rural development parlance (Box 4.1).

3.6 *Food Security* Concerns underlying food security includes those relating to (i) adequate domestic production of food grains, (ii) building up of public stocks to meet production short falls, (iii) timely import of food grains to makeup for production and stock shortages, (iii) targeted food distribution to poor and vulnerable households particularly after natural disasters, and (iv) price stabilization. Food grain production was adversely affected in 1994-95, 1997-98 and 1998-99. Private import of food grains, allowed since 1994, played a positive role in those years in maintaining the price ceiling at import parity level. The positive experience with private sector import, however, does not eliminate the need for public stocks. Import parity prices may be unacceptably high in years of tight world markets. Export parity may not provide an effective floor price in years of bumper harvest because of export difficulties arising out of non-price factors. Public stocks are also needed for targeted distribution during emergencies. Public procurement of food grains has been less than optimal in the recent past because of a variety of reasons. The foremost of these are budgetary constraint and limitations of storage capacity. There are also institutional problems relating to slow purchase from and payments to small farmers, infrequent location of the procurement centers, and collusion between traders and officials in usurping the margin between market and procurement price. Notwithstanding these problems, the availability of food grains at national level was reasonably satisfactory during 1990s. Favorable weather coupled with prudent public support contributed to bumper crops during the second half of the decade. Private import of food grains eased the supply situation during years of bad harvest. However, adequate availability of food grain at national level does not guarantee food security for the poor households due to their lack of access to food. Distribution of food grain out of public stock has been adequate in meeting emergency needs after natural disaster. But there is also the chronic problem of food insecurity for nearly half the population living below the poverty line. Historically, the government attended this concern through programs such as Food for Works and Vulnerable Group Development that were mostly donor funded, with food grains supplied by food aid. But there has been a long-term decline in the trend of food aid flows to Bangladesh. Factors contributing to the declining trend included increased competition for aid, worsening of the aid climate, Agreement on Agriculture of the WTO de-linking food grain export from food aid, and estimates of increased availability of food at national level. The declining trend in food aid meant fewer resources available for targeting poor households

3.7 *Power Sector* Bangladesh faces serious problems of power shortages. Power generation capacity in 1999 was 3681 MW. But average daily generation in 1998-99 was 66 per cent i.e. 2400 MW. Average daily demand for electricity during this period was 2650 MW, which amounted to a daily load shedding of 250 MW. Accordingly,

consumption of electricity per capita in 1999 was only 110 KW, which is less than one third of per capita electricity consumption in South Asia. Demand for electricity grew at a rate of 8.5 per cent during the past decade but supply has grown at an average rate of 4.8 per cent only. The supply demand gap has thus been widening over time. The annual load shedding duration was 113 hours in 1991 and 763 hours in 1995 and 2870 hours (33 per cent of total operating hours) in 1997-98. The main reason behind the power shortage is lack of new investment as well as inadequate maintenance of the existing capacity. Due to lack of maintenance investment there is a continuous deterioration in the operating efficiency and quality of service. Plant efficiency is estimated at about 30 per cent. Up to 20 per cent of electricity is lost due to aging transmission lines. There are acute shortage of funds for the maintenance of the power infrastructure. The financial crisis of the power sector are largely due to rampant corruption and serious management deficiencies within parastatal power organizations Power Development Board (PDB) and Dhaka Electric Supply Authority (DESA). There are problems of overstaffing and high system loss averaging more than 30 per cent, and large unpaid dues. The combined net system-loss of PDB and DESA in one year is estimated at US\$100 million, which could in itself, provide the necessary investible fund for at least one 250 MW gas turbine. The outstanding due on DESA alone is Tk. 2.5 billion. Apart from internal problems of its power system, Bangladesh has also been exposed to a complete disruption in the availability of ODA for the power sector from its multilateral and bilateral donors because of the slow pace of reform in the sector required under World Bank's Energy Sector Policy Loan of 1989, and also due to changed policy of donors for using FDI for power sector. Demand forecasts suggest that maximum demand would grow from 3150 MW in 2000 to 4600 MW in 2005 and to 6780 MW in 2010. Finally, by 2015 maximum demand would reach 9900 MW. To meet the forecast demand will require investment of US\$4.4 billion in generation and US\$2.2 billion in transmission during the current decade. The overwhelming need to generate and add around 1200-1500 MW of electricity to the present system up to 2002 is inescapable. Given the supply shortage scenario, the government formulated a private power policy in October 1996 with a view to attracting FDI. Agreements were signed within 2 years (1997-99) for three 100 MW each floating barges. During the same period, 2 major land based contracts were also signed for supply of power of about 800 MW (combined cycle) capacity by 2002. The government has also taken several steps to augment PDB electricity generation capacity. The opening of the power generation activities to the private sector has been a positive development. But pouring more power into the system is not the only way of coming to grips with problems in this sector. Much more needs to be done with regard to outdated transmission and distribution lines, load management and above all huge system, transmission and distribution losses.

3.8 *Telecommunications Sector* Telecommunications infrastructure constitutes the backbone of today's information technology. The high rates of return and the extensive social and economic benefit that Bangladesh can derive for wider segment of the society through the application of information technology critically hinges on her ability to rapidly upgrade the existing telecommunication infrastructure. By world standard, the existing telecommunication facility in Bangladesh is a primitive one. In 1980 there were 120,000 telephone lines in the country, which increased to 241,190 by 1990. By 1999, number of telephone lines increased to 474,322. The current teledensity of 0.5 telephones for every 100 persons compares very unfavorably with 1.5 in India and 2.5 in Pakistan. Digital technology was first introduced in the

domestic telephone network in the late 1980s. Currently, 61 per cent of the telephone lines are digital. By 1981, the country had two earth stations for satellite communications and more were added during 1990s. These earth stations are much too small for the requirements of data communications. Data communication is therefore done with VSAT connections to satellite, a method that does not give all the bandwidth necessary for large Internet provision. The appropriate provision for high-speed data communication is Optical Fiber Gateway. When the Asian IT Highway - the undersea optical fiber cable in the Bay of Bengal - was laid in early 1990s, the government declined participation. The present government is now looking for a cost-effective way of connecting to the IT Highway through arrangements with Singapore Telecom for laying a submarine cable between Bangladesh and Singapore. The sector was opened up for private investment in 1994. Since then several private investors have entered into the sector mainly in the area of mobile telephones. There were some 128,664 telephones provided by the private sector in 1999-00. Recent important steps towards the development of the telecommunications sector include enactment of National Telecommunications Policy in 1998 (NTP98) and relaxation of controls by the public body Bangladesh Telegraph and Telephone Board (BTTB). The NTP98 has the provision for setting up an independent regulatory Bangladesh Telecommunications Regulatory Commission (BRTC).

*3.9 Industrial Development Strategy* The goal of increasing efficiency and productivity in the industrial sector by transferring public sector industries to the private sector was stated in the Industrial Policy of 1991 and 1999. But the process of privatization has been painfully slow during this period. During the first half of 1990s, only 12 enterprises were privatized. During the later half the number of privatized units stood at 8. Apart from direct privatization, the government has also off loaded its share from 6 multinational and national companies. Very recently, the government has handed over 9 textile mills to the workers, employees and management of the concerned mills as a new form of privatization. Privatization of 11 other enterprises and sale of share of 10 other companies are in the final stage of implementation. In an attempt to expedite the process of privatization, the "Privatization Law" was enacted by the government in July 2000. The authority of the Privatization Board has also been elevated to that of a Commission through this measure. However, despite these measures, there were still 125 enterprises in the public sector at the end of 1999-00. The total loss of public sector enterprise in 1999-00 stood at Tk. 4819 million, which was nearly 4.3 per cent of industrial GDP in the large-scale manufacturing sector that year. Procedural complexities, bureaucratic delays, insufficient number and low levels of bids, and resistance by labor against possible job loss have been some of the main reasons behind the slow pace of privatization. The second major obstacle to industrial development in Bangladesh is problems relating to industrial finance. The public sector Development Financial Institutions (DFIs) responsible for industrial term lending became virtually non-operational in the late 1980s as aid agencies cut off flow of funds due to huge loan default. During the 1990s, the nationalized commercial banks (NCBs) stepped into the shoe of the DFIs and ended up with nearly 64 per cent share in the classified loans, which in turn was nearly 31 per cent of the total loan portfolio of the banking system. The difficulties relating to term lending by the NCBs has nearly starved the industrial sector of Bangladesh of institutional credit. Except for some success with leasing companies, development of alternative financing institutions, such as investment companies has been slow. Also, growth of the stock market and inflow of FDI have not been rapid enough to attend this concern.

Although policy reforms removed all restrictions on private investment, industrial development during 1990s were very narrowly based, as a wide range of structural constraints remained unresolved. These include inadequate power, communication and port facilities, deficient technology, lack of skilled workers, and corruption and red-tapism.

3.10 *Environment* Bangladesh has so far ratified and acceded to 22 international conventions, treaties and protocols related to environment. Amongst these the Agenda 21 is the basis to attain sustainable development through policies initiated and coordinated at the national level. Amongst the various environment related plans and programs undertaken by the government during 1990s, the major one is the National Environment Management Action Plan (NEMAP) prepared by the Ministry of Environment and Forest in consultation with people from all walks of life. NEMAP is the product of a pro-active public consultation process, where the concerned people had the opportunity to define the environmental concerns, priorities and problems, and suggest solutions. It is a synthesis of perceptions of the government, NGOs and the people on environmental issues and actions required to address them. Other important initiatives include Forestry Master Plan and National Conservation Strategy. A major breakthrough in the environmental problem was achieved with the signing of the long-term treaty on sharing of Ganges water with India in 1996. Notwithstanding these efforts, however, environmental problems faced by Bangladesh continue to be acute and diverse. Land, which is the main environmental resource and the source of income for vast majority of the population is under severe threat of degradation. Competing demand on land from non-agricultural uses of land has been creating environmental strains. Increased use of biomass for fuel purpose has been depriving the soil of valuable nutrient and organic matter. Indiscriminate use of chemical fertilizers, pesticides and polythene bags has been causing quality of land to deteriorate. Intrusion of sea-water into the main land due to decrease in normal river-flow caused by siltation, low rainfall, diversion of upstream river water, and increased coastal shrimp cultivation is raising the salinity of land. Increased salinity has not only been affecting soil fertility but also making the availability of fodder difficult. As a result the traditional ecological balance has been disrupted. A major victim of increased salinity has been the mangrove forest of Sundarbans. There is also the loss of cultivable and non-cultivable land due to riverbank erosion. Bangladesh has a classified natural forest area of around 6-8 per cent of the total land area, which is far below the desired level. Deforestation at the rate of 3-4 per cent a year is affecting topsoil and causing land erosion. Degradation of land also causes reduction of its capacity to retain water. The severe arsenic contamination--an emerging environmental disaster for some parts of Bangladesh--is thought to be an outcome of changing land composition. Excessive water withdrawn to meet increasing demand for irrigation, household and industrial use is also contributing to this process. Next to land degradation, water pollution is the major environmental hazard facing Bangladesh. Disposal of chemical fertilizers, insecticides and industrial effluent into river water are leading to severe pollution of the marine environment. Water pollution aggravated by silting up of bed levels and water logging are causing depletion of fish stocks. Air pollution is also a serious environmental hazard. Energy use, vehicular emissions and industrial production are contributing to air pollution. The most serious health risks arise from exposure to suspended particulate matters (SPM).

3.11 *Governance* Attempts to improve the state of governance have been directed towards reform of the legal framework, strengthening of law enforcement capacity, enhancing people's participation in local self-government system, reforming public administration institutions and improving the service delivery. Some of the recommendations of the Public Administration Reform Commission are being implemented. The permanent Law Commission has been working on identification and proposing reforms and modernization of laws. Amendments have been brought about in a wide range of Acts and Ordinances including the Bank Companies Act, Financial Institution Act, Negotiable Instrument Act, Securities and Exchange Commission Act etc. Steps are being taken towards establishment of National Human Rights Commission and the office of the Ombudsman. The recommendations of the Local Government Commission submitted in 1997 are also being implemented. Despite many of these positive government policy initiatives, Bangladesh continues to struggle to translate the policies into action, i.e. to establish a legal and regulatory framework that reflects the policies, to find the means to enforce the regulations and to develop an institutional support structure that can facilitate policy implementation. Weak institutions, pervasive corruption and deteriorating law and order situation plague everyday life of ordinary citizens. The persistent poor quality of economic governance is indicated by the unsatisfactory quality of services provided by the public agencies with very low level of client satisfaction. This encompasses the entire range of public economic and social services—from maintenance of roads and electricity generating and distributing stations, to telecommunication and public health care. Some of the poor service quality is, in part, attributable to archaic infrastructure and obsolete technology, i.e., the hardware aspects of the problem. But, in most part, the fault lies with the inefficiency of the institutional and human software. Poor incentives, rampant corruption, lack of regulatory capacity, absence of the “leadership factor” are some of the well-known ills of misgovernance. Exposure to greater market competition (or, at least, contestation), decentralization, broadening of private (including foreign) participation, higher consumer “voice”, overcoming negative trade-unionism, de-politicization of the functioning of public bodies are some of the remedies.

3.12 *Role of the NGOs* While, attempts to improve the state of governance continues, initiatives undertaken by the non-state sector involving non-governmental organizations (NGOs) and community based organizations (CBOs) have gone a long way in supplementing government programs in addressing poverty. These agencies as alternative delivery mechanism as well as vocal civic institution have played pivotal role in the field of micro-finance (Box 4.2), non-formal education, health, environment conservation and disaster-management. In order to provide a regular forum of dialogue between the government and NGOs, which would enhance mutual understanding and cooperation, the Government-NGO Consultative Council has been formed with representative from the government, NGOs and the civil society.

3.13 *Peace and Social Stability* The country's otherwise remarkable homogeneity in terms of language and culture notwithstanding, there has been a growing dissent in case of ethnic minorities, especially the hill people living in the Chittagong Hill Tracts (CHT). This was partly due to the failure of national integration, which did not allow much room for the non-Bengali people in the imagined community of the Bengali nation. But, the matter was made worse by the lack of socially sensitive and compensatory development policies during the most periods of post-Independence years. Attempts were made to deal with the issue of inter-ethnic conflict as a “law and order”

problem leading to growing militarization of the conflict itself. The government had to spend a sizable share of the defense budget on peacekeeping operations in CHT; the response of *shantibahini* (the military wing of the dissenting ethnic groups and organizations) to counter these attempts only reinforced the overall tendency towards militarization. All these processes led to a large number of internally displaced persons and further widened the chasm between the Bengali and the hill-people. In 1997, there has been a visible breakthrough in the above process, leading to a year-long dialogue and eventual signing up of a Peace Accord between the *Jana Sanghati Samity* (JSS) the representative Hill organization which led the counter-resistance and the Bangladesh government. This was a beginning of a new chapter in inter-ethnic relations. The Accord envisaged several measures including the return of the over 100,000 refugees that took shelter in the neighboring states of India during the conflict years, surrender of arms by the Shantibahini, formation of a regional council by the representatives of the hill people within a stipulated time-frame. The Accord also stipulated the formation of a Land Commission to resolve the land dispute cases and called for a strategy of accelerated economic and social development as a priority area. The compensatory higher allocation for the development of hill economy was warranted on the ground of very low level of infrastructural and human development in CHT. There has been a considerable progress in inter-ethnic relations since the signing of the Accord. The accord was signed without involvement of the third party. More than 70,000 refugees returned home after years in refugee camps. The Regional Council led by JSS was formed. A new chapter opened up indicating development potentials of the area with rich natural resource base. A number of disturbing moments, however, persist deserving immediate attention. First, many aspects of the Peace Accord are yet to be implemented. For instance, the regional council has been given very limited financial power and administrative authority. A more immediate and socially thorny issue pertains to the pathetic pace with which land dispute cases are being resolved. Evidently, mere formation of the Land Commission without backing it up with appropriate authority is doomed to be a failure. Second, for the success of the peace accord in CHT, a change in the mindset needed. Mutual confidence building needs to be strengthened as a key factor to the resolution of the vexing land issue and ending political tussle. While the CHT peace accord has been a major stabilizing development, there has been deterioration in the general law and order situation fueled by confrontational politics during the whole of 1990s.

### **External Factors Influencing Development**

3.14 *Problems of Market Access* The Action Programme 1990 provided for “enhanced access for products of LDCs through elimination, where possible, or substantial reduction of tariffs and non-tariff barriers”. But in reality, LDCs like Bangladesh benefited only from limited market access provided under the Generalized System of Preference (GSP) scheme of various countries. Recently, the European Union has agreed to provide broad based quota free and tariff free market access to all exports from LDCS except arms. But other major importers of Bangladesh’s export, namely USA, Canada and Japan are yet to provide such broad based market access. Recently, the USA has enacted the Trade and Development Act 2000 (USTDA), under which 72 countries of the sub-Saharan and Caribbean region have been granted duty-free and quota free access to the US apparel market. This is likely to restrict even further Bangladesh’s apparel export to USA. Apart from non-realization of the promise of zero-tariff access, market restrictions arising out of para-



tariff and non-tariff barriers, and rules of origin requirements also circumscribed Bangladesh's export growth potentials. As part of the three rounds of trade negotiations under South Asian Preferential Trading Arrangement (SAPTA), the member countries offered tariff concessions to the exports of other member countries. But persistence para-tariffs and non-tariff barriers have frustrated these attempts to enhance intra-regional trade. For certain categories of RMG exports in which Bangladesh has reached the MFA quota ceiling, quota restrictions put limit to access in the US market. There are also instances where USA imposed anti-dumping duty and countervailing duty on certain categories of textile exports from Bangladesh. The GSP facilities are subject to the rules of origin to ensure that the benefits are confined to goods manufactured in developing countries and do not accrue to goods originating in countries other than the developing countries. In the case of apparels, the EU rules of origin currently require a two-stage conversion, i.e. from yarn to fabric and fabric to RMG and knit-RMG to take place in the beneficiary country. The rules of origin, thus, restrict the scope of Bangladeshi garments manufacturers to avail the GSP facility since only a small proportion of the fabric used in RMG is of Bangladesh origin. In recent times, there has been strong revival amongst the developed countries of the "social concern" driven trade measures. These relate to labor, health and environmental standards and threaten restriction on the expansion of Bangladesh's export

3.15 *Official Development Assistance* The decade of the 1990s saw a worsening in the flow of external assistance and utilization levels. During 1980s, total yearly aid commitment fluctuated between US\$1500 million and US\$2000 million. In 1990-91, it slumped down to US\$1370 million. In fact, yearly aid commitment remained below the peak level of 1989-90 for all years during 1990s except 1993-94 and 1998-99. The situation was worse in terms of disbursement. Yearly disbursement declined steadily through most of 1990s and remained below the peak level of 1989-90 in all years. The share of grant in total assistance also fell marginally from 58 per cent in 1989-90 to 56 per cent in 1998-99. Disbursement as a proportion of commitment varied between 60 and 80 per cent during the last three years of 1990s as against 83 per cent in 1989-90. The evidence clearly indicates a downward trend in external development assistance contrary to the commitment made under the Action Programme 1990. The situation with respect to aid utilization level was also unsatisfactory. At year closing in 1999-00, accumulated foreign assistance in the pipeline amounted to US\$6375 million, which was more than three years' foreign assistance commitment made during this period.

3.16 *Foreign Direct Investment* Historically, foreign direct investment (FDI) has been insignificant in Bangladesh. During the decade of the 1980s, yearly FDI inflow amounted to less than US\$2 million. During the first three years of 1990s, it increased to the level of US\$10-US\$20 million. There was a surge in FDI inflow in 1994 when it rose to US\$371 million. In the subsequent two years, FDI was estimated at US\$77 million and US\$136 million respectively. In 1997-98, FDI inflow again shoot up to US\$386 million. Bangladesh has taken various steps towards attracting foreign direct investment. These include trade and exchange rate liberalization, current account convertibility, liberalization of the investment regime, setting up of Export Processing Zones etc. In fact, Bangladesh has one of the most liberal investment environment within the region. While, both India and Sri Lanka has retained certain approval procedure and limit on equity participation for FDI, Bangladesh has waived all prior

approval requirement and limits on foreign equity participation and repatriation of profit and income. While these measures provided the necessary incentive package, they did not prove sufficient to attract FDI in adequate amount. Bangladesh has lagged way behind other developing countries of Asia in attracting FDI. FDI is guided mainly by the opportunities of high returns and the associated risks. An important factor behind higher flow of FDI into India is the large size of domestic market that Bangladesh lacks. Most of the FDIs in EPZs in Bangladesh were in labor intensive export industries attracted by low wages. However, the flow of FDI remained confined to EPZs as the advantage of low labor wage was largely neutralized by the problems relating to infrastructure, bureaucratic red-tapism, and high cost of doing business. Recent surge in FDI inflow into Bangladesh was influenced mainly by the opening up of power, telecommunications, gas exploration and other infrastructure and service sectors to private investment - both domestic and foreign. The opportunity of high returns has provided the impetus for significant FDI inflow into these sectors in recent years. However, the dilemma Bangladesh now faces is how to generate sufficient foreign exchange earnings to finance remittance of profit and income originating from the FDI inflow into the service industries.

3.17 *Trade Related Technical and Financial Assistance* Global initiative through financial and technical assistance to complement the LDC efforts to upgrade the production and export capacity is an integral part of the Programme of Action 1990. This is also in accordance with the "Decisions on Measures in Favor of LDCs" and the Special and Differential Treatment Provisions of the Uruguay Round of Agreements. Technical and financial assistance are also needed to make the exports of LDCs compliant with new standard requirements. In the recent past Bangladesh has received a number trade related technical assistance projects and programs of varying scope and efficacy. But, on the whole, the implementation status of the promised global initiative has been far from satisfactory.

## **Vulnerability to Shocks**

3.18 *Coping with Natural Disasters* The territory of Bangladesh represents one of the most densely populated active deltas in the world. Some of the mighty rivers (the Ganges, the Jamuna, and the Meghna) run through it. Vulnerability to natural disasters, with frequent occurrence of floods and cyclones, is a "common" feature in Bangladesh. Almost in every year some parts of the country are affected by natural calamities. Owing to variation in topography in the eastern and western zone of the country some areas are affected by flood while some others are affected by drought even in the same year. Possibility of severe floods and droughts during the next decade, thus, remains as a major risk factor facing the Action Programme 2001-2010. Since independence, Bangladesh has experienced floods of major magnitude in 1974, 1984, 1987, 1988, and in 1998, and draughts in 1979, 1981, 1982, and in 1994. Vulnerability to natural disasters has adverse implications for the country's development. First, floods and droughts affect food-grain production, which cause fluctuations in food availability, employment and prices. Abnormal increases in food-grain prices and non-availability of jobs affect food entitlement of the poor and thereby creates transitional food security problems. The 1974 flood, for instance, was followed by widespread famine in the country due to failures of food entitlements, especially for the agricultural laborers and the landless engaged in rural non-farm

activities. Since then, natural calamities, particularly floods, have become a politically sensitive issue for the government. Second, every major disaster implies severe depletion of capital stock, eroding the basis for subsequent growth. According to one estimate done in the Planning Commission, the economy-wide effects of the 1998 flood were disastrous to the extent that it would take more than two years to restore the economy to the pre-flood level of capital stock. Third, frequent occurrence of flood breeds systemic risks and uncertainty. It discourages private capital formation and hence, depresses long-term growth in the economy. Fourth, social effects of natural disasters have long-term consequence for chronic poverty, which combined with environmentally fragile setting, often lead to dislocation and displacement of population groups, often termed as “environmental refugees”. There has been significant change in the approach to natural disaster, especially in respect of disaster-preparedness, disaster-mitigation and disaster coping. The most striking change that has taken place pertains to the increased resilience capacity of the Bangladesh economy (Box 3). This may be seen from the contrast drawn between the 1988 and the 1998 flood. By hydrological data, the 1998 flood was more severe than the 1988 flood both in terms of intensity (the flood water stayed up to 60 days in the 1998 flood compared with the 1988 flood) and geographical coverage (more territories and population were affected by the latter flood). Nevertheless, the macroeconomic and social effects of the 1998 flood were much less compared with the 1988 flood.

## **IV. Success Stories**

**Box 4.1**  
**Rural Roads & Markets Improvement: A Success Story**

Growth center markets are principal centers for assembly, wholesale and retail transactions of agricultural and non-agricultural goods and services in the rural areas and act as nerve centers for the rural areas. There are some 2100 such growth center markets in Bangladesh. As of now, most of them have deplorable infrastructure situation. Common facilities such as paved walkways, interior roads, market yards, sales platforms and covered sheds used by the vendors etc are extremely poor. Supply of clean water, garbage disposal, drainage etc are virtually non-existent resulting in high levels of spoilage.

These secondary markets are connected with the regional and national arterial road network and with the headquarters of the lowest tier of the administrative unit called *upazila* (*sub-district*) through Feeder Roads Type B (FRBs). About 77 per cent of the FRBs are earthen, which do not provide year-round access to motorized transport. Many "all season" FRBs are, again, cut by annual flood. There are weaknesses in road design and construction practices and almost total absence of maintenance.

Several Rural Development Projects (RDPs) sought to improve the FRBs and the growth centers during the late 1980s and 1990s. Of these the ace projects are Rural Roads and Markets Improvement and Maintenance Projects (RRMIMP) 1 & 2 implemented in 14 districts of greater Dhaka and northwest region. The second project has an additional physical component of improving river jetties for easy landing and unloading facility for country boats.

Special features of the two projects included the following: (a) Emphasis on design and construction standards. For that purpose a design and supervision consultant was involved through out the project. (b) Emphasis on maintenance through (i) measures to enhance the resource base of the local government and (b) support to existing best practice for maintenance such as the provision of destitute length women assigned with the task of maintaining specific length of the road. (c) Training for increasing the managerial and technical capacity of government agencies, local governments and local construction industry. The second project had the other distinctive feature of using participatory approach in the selection, design and implementation of various components of the project.

Findings from evaluation studies of the first project showed the following: (a) Volume of traffic increased significantly in the first year after road development - Motorized (116%), Non motorized (58%), even pedestrian (13%). The only mode that declined in importance was bullock-cart (-54%). (b) Total cargo transportation went up by 113% in the first year and another 43% over next five years. Share of motorized vehicle went up from 41% before road development to 70% one year after road development. Similar situation happened with the number of passengers transported. (c) Transportation charge per ton kilometer came down by 70% in the first year. (d) User cost saving on original and generated freight traffic was estimated by the Project Appraisal Report to be a maximum of Tk. 2 million per year and accordingly the IRR was estimated to be 22%. Evaluation data showed yearly user cost saving to be nearly Tk. 6 million. (e) Market survey data showed that number of permanent shops went up by 26%, temporary sellers by 80% and toll revenue by 117%. Spoilage went down by 2%. The evidence also suggest positive impact of road development on economic participation rate, agricultural diversification, access to institutional services and the level of poverty.

### **Box 4.2** **The Success of Micro-credit**

Bangladesh has achieved impressive success in extending micro-credit facility to the assetless poor households who were earlier considered “non-bankable” under the traditional collateral-based financial practices. The idea of micro-credit rests on four key ideas. These are the ideas of *relative homogeneity*, *social collateral*, *individual ownership* and *access to developmental knowledge at the grassroots level*. First, the poor are organized into relatively homogeneous groups in terms of initial asset endowments, which helps bonding and bridging, leading to mutual trust, support and networking. Second, while lending in most cases is made to the individual it is the group as a whole that remains responsible for the repayment of the individual loans. The cost of individual default is high since non-repayment of any one member may bar any future loans to the other members of the group. This results in peer screening, monitoring and pressure to ensure full repayment except under some extraordinary circumstances such as unexpected income shocks. Third, the system harnesses the entrepreneurial potentials of the poor, rewarding the innovation and risk-taking while penalizing inefficiencies. The choice over the loan project entirely lies with the borrower who usually takes decision in consultation with the group. Fourth, the external agency (or *animator*) plays an important role in facilitating the development of institutional capability of the poor, especially by providing them access to the domain of developmental knowledge traditionally reserved for the non-poor. The knowledge in this case encompasses information and training (and mutual sharpening) of diverse nature ranging from training on how to “do organization”, keep financial accounting, get access to primary and promotive health, and raise the level of social awareness.

There has been a rapid expansion of micro-credit programs over the last two decades. The programs are implemented under various institutional arrangements run by non-governmental organizations (NGO), community-based organizations (CBO) as well as (increasingly so) by government agencies (GO). The average annual disbursement of loans from these programs currently stands over taka 5000 crores (about 1 billion US\$), far exceeding the scale of total rural operations of nationalized banks and specialized banking institutions taken together. One recent estimate suggests that the aggregate number of borrowers would be about 5 million borrowers. About 90 per cent of these are poor women. The general repayment performance is outstanding by any standard: the share of cash recovery as proportion of the total dues is over 90 per cent (it is over 70 per cent even in a flood-affected agriculturally bad year). This stands in sharp contrast to the performance of the traditional banking system where the weight of non-performing assets is as high as 45 per cent.

Successive evaluations have found micro-credit programs to be beneficial to their members. The economic effects in terms of broad based growth opportunities (as measured by income, expenditure, asset, employment) generated because of these programs have been rather modest, however. This is primarily because the average size of loan disbursed under micro-credit is rather modest limiting the possibility of a big-push. These programs have various non-credit components as well. Available evaluations tend to suggest that poor members that get enrolled in such programs receive social awareness training, often packaged with health and education. The aggregate social effects seem to have been higher than the income or asset generating effects. The aggregate effects of micro-credit have been poverty reducing both as part of enhanced “voice” and increased income/ employment. The poverty and human development situation could have been much worse in the absence of these programs.

**Box 4.3**  
**Success in Coping with Disaster**

Bangladesh has finally come out of the shadow of famine. This is the central message that emerges from reviewing the overall performance record, not just the government, suggesting a turning point in the societal capacity to deal with disaster events even of the scale of the 1998 deluge. This success was not unique, for ever since the famine that struck in 1974, successive governments took various steps in developing institutional capability to cope and mitigate disaster (flood, drought, cyclone, epidemic all of which visited Bangladesh every now and then). Since independence, Bangladesh have experienced floods of major magnitude in 1974, 1984, 1987, 1988, and in 1998, and draughts in 1979, 1981, 1982, and in 1994.

The 1998 flood in Bangladesh caused a 2.2 million MT shortfall in rice production and threatened food security of tens of millions of households. The flood water stayed for 68 days and affected a much larger area than the earlier major flood of 1988. The flood was viewed by many as the worse disaster that hit Bangladesh in the twentieth century.

What are the salient features of the “handling” of the crisis triggered by the 1998 flood that may lead one to conclude about the enhanced crisis-coping capacity of the Bangladeshi state? *First*, it is true that despite the best efforts of donors and government, public distribution of rice and wheat was only 188 thousand MTs more than originally planned for July 1998 through April 1999. Nonetheless, a major food crisis was averted as private imports, made possible by trade liberalization in 1994 (allowing private import of food grains), stabilized market prices and supplies. *Second*, recent studies have shown that government direct distribution programs such as immediate relief efforts and medium-term Vulnerable group Feeding (VGF) programme was found to be well-targeted to poor areas, and within those, to the poor households. The list of the economically most distressed areas was prepared for priority attention. *Third*, NGOs and civic agencies played a crucial role in the immediate relief efforts, thus supplementing possible government failure. *Fourth*, surveillance initiatives at the grassroots level and from below operated throughout the difficult months of September-December 1998: civic action committee such as Nagorik Durjog Mukabala Uddoyog (NDMU) were formed and functioned, regularly feeding the press about the changing situation on the ground. Agencies such as Save the Children (UK) carried out rapid nutritional surveys in the most disaster prone areas. *Fifth*, while NGOs extended a big helping hand to the government in the midst of crisis, the relationship between the two was by no means one-sided. Flood has adversely affected the repayment capacity of the NGO borrowers of micro-credit. As these NGOs mostly operate banking on the revolving loan funds, they themselves were entangled in “liquidity crisis” in finding new sources of credit for sustaining credit operations once the flood water started to recede. Government came forward to help the major NGOs under the circumstances offering new loanable funds. This eased the liquidity pressure that built-up around the micro-finance operations of NGOs. Apart from the indirect support, the government also undertook an ambitious programme of disbursing over taka 3000 crore (about US\$ 600 million) ostensibly to assist mainly the small farmers and share-croppers. Although there has been some leakage to the non-target farmers and traders, the overall effect of this initiative on the recovery and growth of the rural economy was favorable. *Sixth*, government was able to avert major public health crisis during the time of disaster. Most of the success was due to higher level of citizen awareness about the basic preventive and promotive health measures. *Seventh*, the presence of active political opposition and free press helped the government indirectly by pin-pointing the weaknesses in the coping mechanism as well as indicating the potential dangers that lay ahead.

## V. PROGRAMME OF ACTION 2001-2010

### Objectives

5.1 The Programme of Action aims to consolidate the gains achieved during the previous decade and contribute to a significant improvement in the human conditions in Bangladesh during the present decade. In that pursuit, national policies will revolve around the following priorities:

- A significant reduction in extreme poverty;
- Developing human resources to support long-term development;
- Achieving gender equality and empowerment of women;
- Removing supply-side constraints to accelerate growth and employment generation;
- Achieving competitiveness of domestic production;
- Integrating with the globalized world economy;
- Promoting good governance and social stability;
- Reducing vulnerability and conserving the environment.

### Broad Strategies

#### *Promoting people-centered development*

5.2 A basic tenet of the poverty reduction strategy will be the pursuit of broad-based and equitable “pro-poor” growth. An essential element of this strategy will be adequate access of the poor to basic social services, productive resources and decision making so that poor are in a position to benefit from expanding opportunities made available through the process of growth. Mainstreaming the gender perspective in the conception, design and implementation of all development policies and interventions will be a key instrument in the fight against poverty. Principles of human rights, social justice, and democracy will be the accompanying attributes of such a people-centered development strategy. Also, greater alignment will be sought between national policies (e.g. five-year plans, PRSP etc) and external assistance strategies of development partners.

#### *Strengthening human capital through access to basic social services*

5.3 The strategy for human development will involve building on the success achieved during the previous decade by (a) increasing budgetary allocation in favor of social infrastructure and basic social services, (b) encouraging involvement of all stakeholders, including civil society and local communities, in the design, implementation and evaluation measures relating to the provisions of social infrastructures and basic social services, (c) paying greater attention to good governance as well as issues of quality and equity in social services across gender, social groups and regions.

#### *Pursuing efficient market based development*

5.4 Building on the past efforts and experiences, a distortion free incentive structure will be put in place through appropriate policy reforms and sound macroeconomic



management. Appropriate legal, institutional and supervisory arrangement will be set up to promote the efficiency of the market, counter possible market failures and create safety nets for the most vulnerable groups of the population.

#### *Augmenting productive capacities through private initiative*

5.5 Diversification and growth of the production base will be sought mainly through private initiative. Public undertaking in production activities will be allowed where public sector involvement is essential to facilitate the growth of the private sector and/or where there are overriding social concerns to be accommodated. The role of the government will be to facilitate private sector led development through appropriate legal, institutional and policy framework and complementary investments in institutional, physical and social infrastructure, information generation and dissemination, R&D efforts for acquisition and adaptation of technology, skill formation and market research to identify new trading opportunities conducive to niche product development. Regular and extensive private-public dialogue will be the basis of the interactive development process. Strengthening national statistical system will aim at creating a comprehensive and integrated information base.

#### *Fiscal management and domestic resources mobilization*

5.6 Improved fiscal management will be sought through raising the quality of public expenditure, enhanced revenue efforts, and containing domestic financing of deficit at a sustainable level. Containing SOE losses through better management and accelerated divestiture of public sector enterprises, debt recovery, and financial sector reform will be integral parts of this endeavor. Greater mobilization of domestic resource will be targeted through appropriate incentives to saving, promotion of micro-finance, and development of the capital market.

#### *Diversification of the rural economy*

5.7 Given that more than 75 per cent of the population resides in the rural areas and a significant proportion of them live below the poverty line, diversification of the rural economy focusing on development of agriculture, fishery, livestock, rural industry and other non-farm activities through improvements of rural infrastructure, provision of finance and extension service will be important components of poverty alleviation strategy. Food security shall receive attention as part of strategy for poverty reduction and response to vulnerability. There is significant scope for replicating on wider scale Bangladesh's successes of participatory approach based rural infrastructure development projects.

#### *High priority for energy and infrastructure development*

5.8 The opening up of the energy and infrastructure sector for private investment - both private and foreign- has facilitated inflow of considerable foreign investment into these sectors. Further progress in these area will require (a) restructuring and reform of the relevant parastatal bodies to provide more room and efficient support to the private sector, and (b) creating complementary infrastructure facilities such as generation, transmission and distribution of power, optic fiber gateway for

telecommunications and information technology with external supports. A critical area of action in the next decade will have to be the improvement in the physical facilities and management of the country's major ports, to facilitate the growth of trade and commerce.

#### *Financial intermediation for private sector development*

5.9 Resolution of the weaknesses of financial intermediation will be targeted for the enhancement of private investment in general and manufacturing growth in particular. The persistent loan default situation continuing from the past has resulted in high cost of borrowing and inhibited private investment. Debt recovery with strict enforcement of law, political insulation of the banking system, greater monitoring by the central bank and reform of the public sector financial institutions, which have already been initiated, will be sustained as the overriding agenda for private sector development in the coming decade. Innovative financial institutions outside of the traditional banking system will be required to cater to the needs of venture capital, and collateral free micro-finance particularly for small and cottage industries.

#### *Seeking global integration through enhanced competitiveness*

5.10 Removing procedural and institutional bottleneck that increase transaction cost, improving standards and quality control, and raising productivity and efficiency at plant level through improved working conditions and better terms of employment will be the prime basis of augmenting competitiveness. Effective and informed participation in multilateral negotiations on trade including better market access, finance, technology transfer and related area will be sought through human and institutional capacity building.

#### *Regional cooperation in developmental efforts*

5.11 Regional and sub-regional cooperation, particularly in the areas of human and productive capacity building, health, education, professional training, agriculture, water resources, environment, science and technology, trade and investment, transit-transport cooperation, technical cooperation and exchange of best practices will be drawn upon to augment developmental efforts. Regional cooperation will also be a steppingstone towards integration with the world economy.

#### *Legal and regulatory framework for good governance*

5.12 Efforts to establish an effective, fair and stable institutional, legal and regulatory framework for the public sector, private sector and civil society while ensuring independence of executive, legislative and judiciary will form the cornerstone of the drive towards transparency, accountability, and the prevalence of the rule of law for good governance. Setting up of National Human Rights Commission and the Office of the Ombudsman will be important steps in that direction

### *Strengthening local governance through financial and administrative devolution*

5.13 Decentralization through transfer or devolution of authority and financial resources will be necessary to secure effective local governance. Empowerment of women and the local population already initiated will be strengthened.

### *Capacity building for good governance*

5.14 Strengthening human and institutional capacity for the formulation, application and evaluation of policies and actions including suitable incentives will be attempted for improved governance both at national and local levels.

### *Integrating environmental concerns*

5.15 Environmental components will be included into all development programs and projects to distinguish, identify and assess the sustainable dimension of the projects. In this context, the National Environment Management Action Plan (NEMAP), Forestry Master Plan, and National Conservation Strategy will provide the overall framework.

### *Attracting FDI for accelerating development*

5.16 Bangladesh has one of the most liberal investment regime in the region, but lagged way behind other developing countries in Asia in attracting FDI. There is urgent need for projecting a positive image of the country to prospective foreign investors highlighting measures undertaken for strengthening the legal framework, lowering transaction cost and improving investment climate.

## **Growth Target, Investment Profile and Resource Requirement**

5.17 Bangladesh has been successful in reaching nearly 6 per cent growth rate in late 1990s thus breaking the 4 per cent growth barrier that persisted until the early 1990s. Per capita income in Bangladesh, however, still remains much too low. If economic growth has to bring about perceptible change in the prevailing poverty and unemployment situation, Bangladesh must raise growth to a sustainable level approaching 7-8 per cent over the medium term - i.e. by 2005 and the end of the decade.

5.18 The growth rate for the first year has been projected at 5.7 per cent based on an optimistic scenario of the current year's performance. The average annual compound growth rate has been envisaged to be 7.0 per cent during the first five year of the Action Plan and 8 per cent during the second half.

5.19 Table1 gives the investment profile for the fifth and the terminal year of the Action Plan 2000-01. Based on investment data for 1999-00 and the expected growth rate of 5.7 per cent in the first year the ICVR works out to be 3.93 in 1999-00. Based on assumptions regarding growth in factor productivity, the estimates of ICVR yields projected investment figures, which shows that that to achieve the target growth, investment in the fifth year will have to be nearly 25 per cent of GDP against the

current year investment-GDP ratio of about 22 per cent. The investment ratio-GDP ratio reaches 27 per cent in the terminal year.

**Table 1**  
**Investment Profile for the Decade of 2000**  
**(in 1995-96 prices)**

Year	GDP	GDP Growth (%)	ICVR	(million taka)	
				Investment	Investment as % of GDP
1999-00	2040200	5.5	3.93	457005	22.4
2000-01	2196491	5.7	3.70	504105	23.3
2004-05	2861486	7.0	3.50	715372	25.0
2009-2010	4204461	8.0	3.25	1135204	27.0

5.20 Given Bangladesh's track record with population control, it will be realistic to target a population growth rate of 1.4 per cent by the year 2005 and 1.0 per cent by the terminal year of the Action Plan in 2010. This would mean a rate of growth of 5.6 per cent in per capita income during the first half of the decade and 7 per cent during the second half raising current per capita income from approximately US\$370 to US\$ 486 in 2004-05 and to US\$682 in the terminal year 2009-10 in 1999-00 prices.

5.21 Resource requirement for financing the investment programme is estimated to be Tk. 2875 billion for first five years of the Action Plan and Tk. 4365 billion during the second half in constant 1995-96 prices. On the basis of the observed share of 30.03 per cent of external resources in plan outlay during the first two years of the FFYP, the target for the share of external resource in investment financing is set at 25 per cent during the first half of the decade and 20 per cent during the second half of the Action Plan (Table 2)

**Table 2**  
**Resource Requirement and Sources of Finance**

Source	2000-05		2005-2010		Total	
	Amount	%	Amount	%	Amount	%
Domestic	2156	75	3492	80	5648	78
External	719	25	873	20	1592	22
Total	2875	100	4365	100	7240	100

5.22 Domestic saving stood at 17.8 per cent of GDP in 1999-00. The saving rate is envisaged to rise to at least 22 per cent in the terminal year of the Action Plan to accommodate domestic financing requirement of investment.

5.23 The external debt burden of Bangladesh is rather low relative to LDCs as a group, with total debt service at 10 per cent of export of goods and services. Nevertheless, debt relief by bilateral donors will reduce pressure on external reserve and generate more resources for poverty alleviation and development.

## **Agenda for Social Action**

### *Reducing the Incidence, Depth and Severity of Income-Poverty*

#### Challenges

5.24 The very slow progress in income-poverty reduction since the early eighties stands out as one of the most challenging feature of Bangladesh's development. Per capita GDP growth has increased from about 2 per cent per annum between the early eighties and the early nineties to 3.8 per cent over the last three years. Near doubling of the per capita income growth rate did not result in significant dent on poverty. While the poverty reduction rate improved from 0.4 to 0.8 per cent per year between the same period, it remained far below the desired rate of 2-3 per cent per year observed in fast poverty reducing economies.

5.25 Part of the answer lies in the slow rate of economic growth itself, as reflected in the slow growth of agriculture in the first half of the nineties and sluggish growth of manufacturing in the second half of the nineties. The other factor underlying the slow progress in income-poverty is linked with the sharply rising trend in economic (and not just income) inequality. Without addressing the issue of economic inequality in Bangladesh society, the goal of faster poverty reduction cannot be achieved.

5.26 Even the otherwise modest progress in poverty removal was not uniform throughout the country. Within urban areas, the poverty rate is higher in non-metropolitan municipality areas compared with metropolitan areas. Within rural areas, some districts and areas had much higher poverty than in other areas. The most prominent factor of difference seems to be associated with ecological vulnerability (as in the case of river-erosion belts of Kurigram, Jamalpur, and Sirajganj districts).

5.27 There is a widespread feminization of poverty in both rural and urban Bangladesh. But, the issue goes beyond the familiar income poverty rate differentials between female-headed and male-headed households. The more pertinent issue is the heightened *vulnerability* of poor women even when she is earning better than before following inclusion in some income earning jobs. Violence against women has particularly increased in recent years, directly affecting the freedom and human rights of women in general and poor women in particular who are more subjected to such harassment.

#### Measures

5.28 Poverty can be reduced in different ways. This is because poverty is caused by many factors. Despite the diverse nature of causes of poverty, one can group them into some broad policy-relevant categories. Poverty can be influenced via six channels, namely, macro-stability, growth projects, human development, micro-credit-based self-employment, income transfer programs (often known as "safety nets"), and social mobilization (empowerment at both gender and institutional levels). Appropriate policy mix needs to be worked out to achieve the target of eradicating poverty in the shortest possible time.

## Targets

5.29 The incidence of extreme poverty is currently assessed at 25 per cent. To achieve the internationally accepted target of reducing extreme poverty by half by the year 2015, the incidence of extreme poverty in Bangladesh must be reduced, on average, by about 1 percentage point per year. However, this is not enough from the viewpoint of accelerated poverty reduction strategy, which has been declared as the national goal in the Sixth Five year Plan. In order to eradicate extreme poverty by 2015, its incidence needs to be reduced by about 2 percentage points per year.

5.30 The incidence of overall rural head-count needs to be brought to a level of 35 per cent by 2010 (from the 1995/96 level of 51 per cent).

## *Reducing the Burden of Ill-Health*

### Challenges

5.31 While there has been some improvement in maternal mortality in the nineties, the overall progress has been slow. The problem of maternal health (antenatal and neonatal care) demands priority attention. Bangladesh ranks very high in the World Table on maternal mortality with estimates varying from 4.8 to 4.4, and further improvement is required to be at par with regional level estimated at 2.4 to 3.5. A major factor contributing to such a high rate of maternal mortality in Bangladesh is the prevalence of childbirth at home, largely outside the purview of the formal system of health care, with very limited assistance from the trained birth assistants (TBAs). The poor health care for mother also leads to very high incidence of low birth-weight babies in Bangladesh (exceeding over 50%).

5.32 There has been a reported slippage in the coverage of immunization in recent years in some areas, leading to partial vaccination, undercoverage, and low efficiency.

5.33 Although the gender gap in mortality has come down, it is still persisting, as reflected in higher male life expectancy over female life expectancy (59.1 vs. 58.6 years in 1996), although women have a natural biological propensity to live (about five years) longer than men do. Similarly, infant mortality condition of all irrespective residence, background and gender had improved over the recent years, but the improvement was least for urban female infants. Hence, a larger gender gap in infant mortality favoring women noted in the early 80s for urban area disappeared largely by mid-1990s. Indeed, by mid-90s the gender gap in infant mortality favoring girls in both areas had reached a minimal level.

5.34 A special attention needs to be given to reproductive health concerns since they constitute an important cause of illnesses of the women of reproductive ages. This cause accounts for 18 per cent of their acute illnesses, 24 per cent of their repeat illnesses, and as high as 35 per cent of the major illnesses.

5.35 The access of the poorest of the poor to health care services remains a burning issue. The children of the poorest income have double the mortality risk than those belonging to households in the top income bracket. The burden of morbidity also falls disproportionately on the poorest. The latter (the lowest two income decile groups)

spend about 7-10 per cent of their income on meeting private health expenses, while they receive only 3 per cent of their income as public health subsidies.

### Measures

5.36 The idea of setting up Community Clinics (CC) needs to be supported in order to have increasing coverage of primary health care services for achieving “Health for All” by the year 2004. The provisioning of Essential Service Package (ESP) is a step in right direction. However, the scope and coverage of ESP needs to be increased to include not only the reproductive health care and child health care (which is the present emphasis), but also curative health services for the poorest and the most vulnerable. Programme structure provides a useful framework for public intervention in health sector. The private sector will also be encouraged to improve and extend health services to rural areas.

5.37 Given the intersectoral impact on health outcomes, improvement in health status would be increasingly dependent on possible health consequences of development projects in non-health sectors. Health concerns need to be built into the design and implementation of non-health projects and programs, ranging from manufacturing to transportation, housing to agriculture.

5.38 There is an urgent need for setting up basic primary health infrastructure (with the provision for the referrals) in the urban areas especially designed to cater to the services of the urban poor.

5.39 Given the faster progress in reducing fertility over the last two decades, steps should be taken sustain the progressive gains on this score. The apparent slow-down in the TFR over the recent years—as indicated by BDHS data of 1996/97 and 1999/00—is a cause of concern. Possible policy slippage on this score must be avoided.

### Targets

5.40 (a) To bring down the level of infant mortality below 40 deaths per 1000 live births by 2005; (b) To reduce maternal mortality to a level of 2.4 per 1000 live births by 2005; (c) To increase life expectancy at birth to 66 years by 2005, and (d) To achieve the demographic goal of net replacement rate (NRR-1) by the year 2003.

### *Reducing Nutritional Deprivations*

### Challenges

5.41 Bangladesh is characterized by very high incidence of low birth-weight babies (believed to be about 50 per cent). This is mainly due to the poor nutritional care of mothers, an area desiring much to be improved. High incidence of low birth-weight babies is an important determinant of child malnutrition, especially during the first two years. As a result, the incidence of malnourished children still remains very high notwithstanding some trends of progress in the nineties.

5.42 Considerable gender gap persists in the nutritional status, as documented by the recently released data of the 1999/00 BDHS. The percentage of underweight (below

minus two standard deviations, or  $-2SD$ , from the reference median) children is about 49.8 per cent in case of female child and 45.9 per cent in case of male child under five years. This yields a gender gap of 3.9 percentage points. The female disadvantage in nutritional status shows very little variation even if one focuses on the extreme deprivation such as *severe underweight* (with  $-3SD$ ). In this case the matched gap turns out to be 2.7 percentage points. Much of this deprivation is the result of long-term discrimination. Thus, the rate of stunting shows that the incidence of *severe stunting* (with  $-3SD$ ) is assessed at 19.4 per cent for the under-five girls as opposed to 17.3 per cent for the under-five boys. This is reflective of considerable gender-based intra-household inequality in health care and nutritional support, which needs to be addressed socially and via appropriate empowerment supporting policies strengthening status of the women.

### Measures

5.43 Priority attention must be given to maternal health care and mother's nutrition to ensure better nutritional status of children and hence, protect and enhance productivity of future generations. Since mother's well being cannot be seen in isolation from the issue of ensuring well-being of women (and girl child) in general, the approach calls for eliminating all forms of female disadvantages in nutrition, health care and schooling. Caring for women while important in its own right thus becomes also an issue of policy choice, an instrumental means, for promoting economic growth and broad-based social development. To this end support should be provided to the further expansion of National Nutrition Programme (NNP), which targets pregnant and lactating mothers, and children under 2 years of age. The implementation of NNP in all upazillas of the country by the year 2010 must be viewed as one of the most important social targets.

### Targets

5.44 (a) To eradicate acute malnutrition (percentage below  $-3 SD$ ) among pregnant and lactating mothers and among children under 2 years of age by 2005 and (b) to bring the indicator of "percentage of under-five children underweight" to a level of 35 per cent by 2005.

### *Reducing the Burden of Illiteracy*

### Challenges

5.45 The aggregate performance assessed on account of HDI or HPI is a quantitative measure and hence, says very little about the quality of the indicators that enter into such an index. Thus, success in expanding literacy or enrolment at primary level does not convey the alarming message of general deterioration in the quality of primary, secondary and higher secondary education in the country. Achievement tests show that only 8<sup>th</sup> graders attain the level of knowledge that is supposed to be acquired by the 5<sup>th</sup> graders. The recent dismally poor graduation-rate (over 50%) in the secondary certificate examination shows the very poor quality of schooling. The remedies in improving the quality lies in allocating more resources to the education budget needed for improving the school structure, library and lab facility, salary of the teachers, more teachers, more classrooms, construction of new schools, etc. This is over and above the general issue of improving local level school governance. The quality issue



applies equally (if not more) to the performance of the ailing health sector, with very high degree of client's dissatisfaction, poor output, and rising costs.

### Measures

5.46 The focus on non-formal education needs to be pursued vigorously. Currently, it is implemented through three delivery modes: (a) center-based NGO programs, (b) district/upazila based Total Literacy Movement (TLM) and (c) centers run by voluntary organizations. Government needs to continue supporting these programs in order to sustain and improve basic literacy skills acquired by male and female neo-literates.

5.47 The further expansion of Food-for-Education programs needs to be linked with the issues of capacity building (both hardware and software). More schools are necessary in the backward areas where poverty is concentrated. Given the fast expansion of primary education, the demand for secondary education is expected to increase at a rapid pace in the near future. This should be taken into consideration in making sub-sector allocations within the broad education sector.

### Targets

5.48 (a) To attain 70 per cent literacy rate by 2002, and 100 per cent by 2007; (b) To bring all children of age group of 6-10 years under the formal primary education system; (c) To close the remaining gender gap in primary and secondary education, and promote participation of women in every sphere of education; (d) To expand vocational, technical, specialized and professional education and training facilities.

## *Reducing Regional Differentials in Social Indicators*

### Challenges

5.49 Superior performance of the social indicators at the average urban level conceals significant variation by poverty status. In many non-income respects, the situation of the urban poor may be worse than their rural counterparts. This is because there is a visible lack of social sector (including safety net) programs targeted to the urban poor and the poorest. For instance, many of the targeted education and health programs are in operation in rural areas but missing in urban areas.

5.50 Human development tends to be specially lagging behind in infrastructurally poor areas. There is still persisting gap between infrastructurally advanced and backward areas, within both rural and urban sectors. Of particular importance is the gap observed between the metropolitan and non-metropolitan (municipality) areas, as well as between large and small towns. Policies and incentive structures should be put in place to encourage decentralized urbanization and empowering local government with adequate investments in social and physical infrastructures of smaller agglomerations.

### Measures

5.51 Public policy can play a critically needed *equalizing* (re-distributive) role in

reducing further the observed rural-urban gap in human development. Strategy for accelerated rural growth and social development must include a combination of elements of advanced technology (including bio-technology, medical technology, and information technology), public investments in physical infrastructures, institutions for good governance, and social mobilization of the poor (including the women and the marginalized social groups and ethnicity). NGOs can play a crucial role in the process as catalyser of new development initiatives from below. The rich experience of Bangladesh in the area of grassroots mobilization through external agencies such as NGOs has been important part of the new development initiatives of the nineties. However, that is not enough to expedite the process initiated so far.

5.52 Spatial dimensions of economic and social well-being would be given due attention in resource allocations, project selections, and programme implementation.

### Targets

5.53 (a) To remove rural-urban disparity in primary and secondary enrollments, basic health indicators such as infant and child mortality, life expectancy at birth, access to safe drinking, and sanitation by 2005; (b) To reduce the regional dispersions in these indicators by prioritizing physical and human investments to the poor areas, with special focus on environmentally fragile areas (char and haor areas, river-erosion areas, drought- and flood-prone settings, areas located in hill-tracts and inhabited by marginalized communities and ethnicities). To this at least 30 per cent of the resources must be earmarked for the development of these areas.

## **Agricultural Development**

### *Three pronged strategy*

5.54 Given the experience of agricultural development in the past, the broad strategy of agricultural development over the next decade will have to be diversification of the sector. This, in turn, would necessitate actions along three lines. First, attempts must be made to intensify crop production so as to release resources for other non-crop productions. Second, Bangladesh has comparative advantage in a number of high valued crops and attempts need to be made to diversify agriculture into such competitive products. Third, development of non-crop agriculture also needs to be pursued simultaneously.

### *Intensification of crop agriculture*

5.55 Intensification of agriculture through increased yields and higher cropping intensity will require intervention in several areas. By far the most critical input constraint is expansion of irrigation and better water management. Production of improved quality seed and their timely distribution will also be important in this respect. Past experiences have shown the critical role played by research, technological improvements and extension services. With deregulation of fertilizer import there is now enhanced scope for optimal and balanced fertilizer application. At the macro level, conducive policy environment will be needed to provide right incentives. Public investment in agriculture will have to be augmented to provide broad based infrastructural support.

### *Diversification into competitive products*

5.56 Intensification of rice production will release land and other resources, which may be put to other use such as cultivation of non-rice crops. There are certain geographical areas comprising flood free uplands and these may be targeted for the cultivation of vegetables, spices and other non-rice crops. Some of the non-rice crops such as pulses, oilseeds, and other fodder crops can be integrated with rice based farming system. Crop diversification can also benefit from research on the adoption of shorter maturity HYVs. For certain categories of non-rice crops such as fruits, vegetables and spices, preservation and quality control, reduction of post-harvest loss and promotion of agri-business and agro-processing may facilitate production and marketing of those crops. In general, there will be need for greater investment in transport and communication infrastructure and information network to support marketing of the perishable non-rice crops.

### *Development of non-crop agriculture*

5.57 Development of non-crop agriculture in Bangladesh has suffered in the past due to poor quality breeds and deficient management practices. Technological and marketing factors have also acted as binding constraints to the development of this sub-sector. Provision of finance and veterinary service can greatly facilitate homestead based subsistence oriented production of livestock. There also exist immense potential of fish cultivation in the flood plains through participatory mode of development.

## **Industrial Development**

5.58 The review of the past industrial performance and the analysis of factors that contributed to or hindered its growth suggest the following as important elements of a strategy for industrial development during the next decade.

### *Resolution of the problem of industrial finance*

5.59 The discontinuity of operation of the Development Finance Institutions (DFIs) and lack of access to resources for investment on the part of the Nationalized Commercial Banks (NCBs) has severely reduced availability of institutional credit for the industrial sector. The experience of the 1990s has shown that commercial banks in Bangladesh are not adequate substitutes of the DFIs for meeting the country's demand for term loan financing. A number of investment companies that came into existence to cater to this need failed to realize their statutory objective because of their limited capacity to mobilize funds and their choice to operate as quasi-commercial banks. The leasing companies have done quite well, but their limited resources and operation fall short of the need. The growth of the stock market and the inflow of FDI have also been grossly inadequate to make up for the short fall in institutional finance. Clearly, there is urgent need for new institutional initiative to resolve the problem of industrial finance in Bangladesh. The new institution will have to generate funds from a wide range of sources. The main distinguishing feature of the institution will be that it will be run in line with best practice methods of investment financing, which will require competent

professional staff devoted to identifying investment opportunities and following them through marketing of outputs of supported enterprises.

*Proper pacing and sequencing of trade policy reform*

5.60 Rapid trade liberalization carried out by Bangladesh does not seem to have contributed to broad based or rapid growth of export industries. The impact on domestic market oriented industries has been mixed. Amongst the shortcomings of trade liberalization in Bangladesh are that the entrepreneurs did not have prior notice or were not prepared to adjust to the changed policy regime characterized by low protection and absence of complementary reforms in other areas to facilitate adequate supply response to the liberalization measures. Future trade liberalization measures, therefore, should correct for these limitations and be accompanied by adequate steps designed to relax various supply-side bottlenecks.

*Pursuing competitive exchange rate policy*

5.61 Bangladesh has been following a “managed but flexible” exchange rate policy aimed at keeping the real effective exchange rate (REER) unchanged or depreciate it marginally. While this has been generally supportive of export growth policy, faster devaluation of the currencies of export competing countries has eroded the competitiveness of some of her exports and contributed to increased inflow of illegal imports. Restoring and retaining the balance in bilateral exchange rate with export competing countries will, therefore, be an important element of Bangladesh’s exchange rate policy.

*Retaining competitiveness of RMG exports beyond 2005*

5.62 The concern with competitiveness of Bangladesh’s RMG sector after 2005 has so far remained confined to efforts towards setting up of backward linkage industries. But there is need for careful assessment of the comparative advantage of the different segments of backward linkage industries as well as the other factors which significantly erode the competitiveness of Bangladesh’s export – such as skill up-gradation and training arrangements for the workers, better management practices, improved maintenance of machinery, adoption of better technology, better working conditions, political unrest, frequent power failures, deteriorating law and order situation, high dependence of the exporters on intermediaries, delays in port clearance, port congestion, bureaucratic red-tapism etc. The challenges that will emerge after termination of the multi-fiber arrangement (MFA) need to be recognized and addressed with urgency.

*Skill and technology upgradation in leather and leather product industries*

5.63 The unrealized potential of leather industry is reflected in the fact that nearly 65 per cent of the export earnings of the sector is still due to export of crust leather where the extent of value addition is much less compared to finished leather and leather products. Resolution of the skill and technology constraint appears as a sine-qua-non for the development of this industry.

### *Realizing the potentials of information and communication technology industries*

5.64 Information technology (IT) has been identified as one of the thrust sub-sectors for development. Computer software and data entry industry has tremendous prospect for employment generation and export earning in Bangladesh. In spite of various measures undertaken for its development, IT sector in Bangladesh has remained miniscule. IT investment has mostly been confined to information processing, where Bangladeshi firms have developed alliance with international firms, mostly from USA, for data entry and medical form processing etc. The growth has proven to be painfully slow mainly because of the poor informatics infrastructure in Bangladesh, which includes high costs of data transmission, poor productivity, lack of trained programmers and management personnel, and poor market promotion by Bangladeshi firms. The following steps are considered essential towards the development of the industry: (i) improved and decentralized telecommunication facilities, (ii) development of skilled manpower, (iii) provision of finance, (iv) fiscal support, and (v) marketing assistance.

### *Supportive measures for small and cottage industries*

5.65 Past reforms in macro policy framework helped remove a large part of the policy bias against small and cottage industries that prevailed earlier. Recent studies confirm that the reforms did have positive impacts, which are reflected in a fairly rapid growth of the sector during the past decade. However, because of their structural weaknesses the small and cottage industries may need more pro-active policies for their development beyond the removal of the policy biases. These include increased public investment in the sector particularly in the area of training, extension, research, market promotion etc., provision of finance, and preferential fiscal measures.

### **Risk Factors and the Critical Role of International Support**

5.66 The narrow production base of Bangladesh economy renders it highly vulnerable to exogenous shocks. A major threat that is now looming high in the horizon of Bangladesh economy is the possible displacement of its apparel industry by competing exporters after the phasing out of MFA in 2005. Currently, apparel export accounts for about 75 per cent of Bangladesh's gross export earnings. The industry employs nearly 2 million workers, which constitutes more than 40 per cent of manufacturing employment. Nearly 90 per cent of the workers in apparel industry are women which also contributes to their empowerment, mobility and expansion of individual choices. Under the WTO Agreement on Textiles and Clothing (ATC), the MFA is going to be phased out by 2005. The gradual reduction in the import tariffs on clothing is also going to erode the benefit that Bangladesh enjoys under GSP facilities. As a result, Bangladesh will face stiff competition from countries which until now were restricted because of the quota or the high level of import tariff. Bangladesh will be specially disadvantaged in this competition, as it is dependent on imports for more than 80 per cent of its fabric needs for the apparel industry. The threat of displacement by competing exporters has become higher because of the Trade and Development Act 2000 (USTDA) enacted recently by the USA, under which 72 countries of the sub-Saharan and Caribbean regions have been granted duty-free and quota-free access to the US apparel market. The growth

momentum of Bangladesh in economic as well as social front will suffer serious reversal unless appropriate remedial measures are taken.

5.67 Bangladesh urgently needs international support to be able to withstand such exogenous shock. In the short run, there is a strong case for providing quota and tariff free access to Bangladesh's export by its major trading partners prior to the phasing out of MFA in 2005. In the medium and long run, Bangladesh will need technical and financial support to diversify its production base and achieve greater competitiveness by relaxing various supply-side bottlenecks. Realization of the targets set in the Action Programme 2001-2010 hinges critically on the extent to which the international community lives up to its commitment with regard to greater market access, increased ODA support, larger inflow of FDI and enhanced technical assistance.