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THE LEAST DEVELOPED COUNTRIES**

THE PEOPLE'S REPUBLIC OF BANGLADESH

FIRST DRAFT OF THE NATIONAL PROGRAMME OF ACTION

(Summary)

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I. INTRODUCTION

1. With a population density of 752 per square kilometres, Bangladesh was the most densely populated country in the world, 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, classing it as a Least Developed Country. Agriculture accounted for nearly 30 per cent of GDP and provided direct and indirect employment to more than 60 per cent of the labour force. The share of manufacturing in GDP remained stagnant at around 13 per cent.

2. Many of the issues addressed in the Action Programme of 1990 were shaped by the events of the previous decade. Under the Structural Adjustment Programme, a wide range of policy reforms had been introduced, setting right most macro fundamentals, achieving an overall budget deficit of some 5 per cent of GDP. Strong growth of exports and remittances helped maintain the external current account deficit at around 3 per cent of GDP and inflation remained at a single digit level. On the other hand, economic growth of approximately 4 per cent was disappointing, with a low domestic savings rate of 11 per cent, an investment rate of 17 per cent, and foreign direct investment at an annual level of less than US\$ 10 million per year. Production and export bases remained undiversified, rendering the economy highly vulnerable to natural calamities and external economic shocks.

3. 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 the literacy rate was 44 per cent and 26 per cent among male and female population, respectively. While the gross primary school enrolment ratio was 76 per cent, the primary school completion ratio was only 41 per cent.

II. BANGLADESH'S ECONOMY DURING THE 1990s

Performance in the 1990s: Economic and Social Aspects

4. *Economic Growth.* Bangladesh's growth performance during the 1990s showed considerable improvement over the previous decade. While the annual compound growth rate of GDP growth remained at just above 4 per cent during the first half of the decade, it rose to 5.1 per cent during the second half, resulting in a growth rate of 4.8 per cent for the entire decade. The rate of growth per capita also grew at an encouraging annual compound rate of 3.3 per cent during the 1990s, which was partially due to the population growth rate, which fell from 2.2 per cent in the 1980s to 1.7 per cent during the 1990s. Nevertheless, at US\$ 368 in 1998-99, GDP per capita remains low compared with its South Asian neighbours and low-income countries in general.

5. *Sectoral Performance.* Agricultural crop accounted for 30.3 percent in 1990-91 and 22.9 per cent in 1999-2000. While the overall growth rate for the 1990s (1.4 per cent) was lower than in the previous decade, and – in fact – a negative growth rate was registered for the first half of the 1990s, the sector grew at 3.7 per cent during the second half of the decade. Among the non-crop agricultural activities, fishery demonstrated the most marked growth during the 1990s. Rising from a growth rate of 2.2 percent during the 1980s to 7.8 per cent during the 1990s, fishery's share in GDP grew by more than 1 percentage point to close to 4 per cent. The two other non-crop activities, namely forestry and livestock, grew at moderate

rates during the 1990s and the share of both sub-sectors in GDP declined. Overall, the manufacturing sector performed disappointingly. While the annual compound growth rate during the first half of the 1990s rose to 8.2 per cent against 3.1 percent during the previous decade, it fell to 5.5 percent during the second half of the 1990s. This was due partly to the fact that the higher growth had been narrowly based on a few export industries, particularly readymade garments, which began to falter for a variety of reasons.

6. *Structural Change.* The share of agriculture in GDP declined from 29.2 per cent in 1990-91 to 25.5 percent in 1999-2000. This 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 1998-99. 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 economic growth in the medium term.

7. *Social Issues.* Bangladesh performed relatively well in the area of human development. Key social indicators, such as life expectancy at birth, infant mortality rate, and total fertility rate are more positive than the average LDC rates. Nevertheless, it should be noted that while the indicators above reflect *rates of change*, actual *levels* remain low in comparison with many other LDCs. Moreover, other indicators, such as per capita income growth and reduction in income-poverty are unsatisfactory.

8. *Lessons Learned.* The possibility of achieving higher social results even at low levels of growth is illustrated by the Bangladesh experience. Many of the socially desirable outcomes such as lowering of infant mortality, reduction of population growth, the spread of elementary education, or women's empowerment need not be constrained by the average affluence of the country as measured by per capita GDP. Favourable social outcomes need not be growth-mediated, or be contingent upon achieving higher growth targets. Of course, rapid economic growth can be of great assistance to achieving these social objectives. However, economic growth is often constrained by factors of vulnerability or natural disasters. Even if the growth performance is constrained by these factors, there is no insurmountable barrier to achieving higher social results through more public action, greater public awareness and civic activism as well as responsive international aid policy.

Factors that Enhanced Bangladesh's Development in the 1990s

9. Building in part on initiatives that were introduced in the 1980s, Bangladesh can point to a series of achievements over the past decade, which contributed positively to the overall development of the country. In the economic sphere, the government's handling of the macroeconomic framework clearly had a stabilising influence. Furthermore, the government launched a range of policy initiatives aimed at deregulating and liberalising the market. Restrictions on private investment (both national and foreign) are now virtually non-existent and approval requirements have been eliminated. Opening up infrastructure development to the private sector has already lead to sizeable foreign investment in power generation and telecommunications, where bottlenecks are beginning to be reduced. In the external trade sector, the pace of liberalisation has also been particularly high, generating new business opportunities.

10. In the area of agriculture and rural development, the revised Rural Development Strategy of the mid-1980s, continued to be implemented, focusing increasingly on the development of physical infrastructure including roads, markets, storage facilities, electricity, minor irrigation, etc. These projects appear to have been greatly successful in stimulating the

rural economy and have earned international recognition. Private import of food grains, allowed since 1994, played a positive role since then in maintaining the price ceiling at import parity level. Overall, availability of food grains at national level was reasonably satisfactory during the 1990s. Favourable weather coupled with prudent public support contributed to bumper crops during the second half of the decade.

11. Bangladesh has also been able to register considerable progress in tackling its wide range of poverty-related problems, contributing to an increased optimism regarding the country's ability to tackle its unusually heavy burden of social problems. It is particularly with respect to population control that the country has achieved the most impressive social success. The population growth rate is one of the lowest in the developing world. Unlike the record of the West and the East Asian countries, it achieved a transition from a high fertility to a low fertility regime at a relatively low level of income.

12. In a country, which has been haunted by severe cycles of droughts and floods, there has been a significant change in the approach to natural disasters, especially in respect of disaster-preparedness, disaster-mitigation and disaster coping. For example, according to hydrological data, the 1998 flood was more severe than the 1988 flood, in terms of intensity and geographical coverage. Nevertheless, the macroeconomic and social effects were much less compared with the 1988, indicating that the government and society in general are beginning to come to grips with one of the country's greatest blights.

13. Global initiatives, through financial and technical assistance aimed at complementing Bangladesh's developmental efforts in all areas, are an integral part of the Programme of Action 1990. These initiatives have, and are expected to continue to have, a positive impact on Bangladesh's economy, administration and society in general.

Factors that Constrained Bangladesh's Development in the 1990s

14. Despite many of the above-mentioned governmental 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. The dismal quality of economic governance is indicated by the poor 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 distribution stations, to telecommunication and public health care. Some of the poor service quality is partially attributable to archaic infrastructure and obsolete technology. But in most part, the fault lies with the inefficiency of the institutional and human software. Poor incentives, lack of regulatory capacity, and absence of the "leadership factor" are some of the well-known ills of misgovernance.

15. In the manufacturing sector, some of the primary obstacles to business development include bureaucratic red-tapism, problems of finance, underdeveloped infrastructure, technological backwardness, lack of skilled workers, the law and order situation, political instability and displacement by imports. Investors complain of harassment, delays and corruption they face in ports, banks, tax departments and agencies providing utilities and support services. The cost of doing business is high, escalated by extortion. Infrastructure development, especially power supply, ports, telecommunications has been painfully slow, there are few signs that Bangladesh's loan default culture is being tackled in any way and, overall, there is little progress towards privatisation.

16. With the liberalisation of Bangladesh's trade policies, adverse effects of globalisation are being felt increasingly strongly as Bangladesh struggles to remain competitive. Bangladeshi businesses are finding it difficult to provide the required quality of goods and services and trained human resources, while various supply-side bottlenecks put local industries at a relative disadvantage vis-à-vis competing imports. Overall, Bangladesh has performed rather poorly in addressing the non-price or the structural constraints to export growth. Price competitiveness provided the necessary but not the sufficient condition for achieving broad-based export growth. Failure of Bangladesh to move towards greater structural competitiveness has caused the country's exports to have a very narrow base both in terms of composition and destination, and it has not been possible to replicate the success story of garment export in other potential areas. Bangladesh thus failed to broaden her export markets and to climb the value ladder.

17. Despite the advances made in the agricultural sector, food insecurity remains a chronic problem for nearly half of the population living below the poverty line. At the same time, there is a declining trend of food aid flows to Bangladesh for some of the following reasons: increased competition for aid, worsening of the aid climate, the Agreement on Agriculture of the WTO de-linking food grain export from food aid, and estimates of increased availability of food at the national level. However, less food aid has meant that fewer governmental resources were available for targeting poor households.

18. The evidence also indicates a downward trend in overall external development assistance, contrary to the commitment made under the Action Programme 1990. However, equally alarming is the situation with respect to the aid utilisation level, which has fallen steadily throughout the 1990s. Disbursement as a proportion of commitment varied between 60 and 80 per cent during the last three years of the 1990s. In 1999-2000, accumulated foreign assistance in the pipeline amounted to US\$ 6375 million, which is more than 3 years' foreign assistance commitment made during their period and nearly US\$ 94 million higher than at the level observed at the beginning of the decade.

19. A further obstacle to development has been the growing social instability, violence and crime. Partially, this is due to increasing dissent of ethnic minorities, especially the hill people living in the Chittagong Hill Tracts, which is due – to some extent – to the failure of national integration, which did not allow much room for non-Bengali people, and has been compounded by a lack of socially sensitive and compensatory development policies in past decades. At the same time, a generally deteriorating law and order situation, including increasing violence against women, can be registered.

20. Over the past decade, Bangladesh has also experienced worsening environmental degradation: the depletion of fish stocks and deterioration of water quality due to arsenic and other pollution, deforestation at a rate of 3 to 4 per cent per year, over-exploitation of common property resources due to poverty and increased landlessness; industrial and vehicular pollution, and unsustainable commercial exploitation of resources. Also, widespread land degradation is reported, including desertification, erosion, and salinisation. Inevitably, it is the poor who are the main victims.

21. Finally, Bangladesh continues to be very vulnerable to natural disasters, which – even though the country appears to be improving its capacity to deal with them – inescapably have serious adverse implications on the country's development. During the past decade, Bangladesh experienced a severe drought in 1994 and floods in 1998.

III. PROGRAMME OF ACTION FOR BANGLADESH 2001-2010

22. *Economic Growth and Structural Change.* If economic growth is to bring about perceptible change in the prevailing situation of poverty and unemployment, Bangladesh must raise growth to a sustainable level approaching 7 per cent over the medium term. The proportion of output contributed by industry and modern services, will have to increase significantly in the coming decade to sustain and accelerate the growth momentum that has been achieved.

23. *Agriculture and Rural Development.* Given the continued dominance of agriculture and the rural sector in the overall economy, Bangladesh must have a healthy agricultural sector for any growth or poverty alleviation strategy to succeed. Critical areas requiring support are (a) agricultural credit, (b) input price subsidy, (c) processing and marketing cost for potential exports, (d) export credit, and (e) research and extension system for dissemination of improved technology and better practices for non-rice crops and non-crop agriculture. In this context, Bangladesh needs to seek resolution of the conflicting guidelines given by WTO and the World Bank and IMF. Bangladesh needs to continue with its integrated rural development strategy, focussing on the development of rural infrastructure.

24. *Food Security.* In order to free government resources for poverty alleviation and other development programmes, the long-term declining trend in food aid flows should be halted. There is a need for a steady and increasing flow of resources from donors to tackle the food insecurity problem in Bangladesh.

25. *Manufacturing Growth and Private Sector Development.* Resolution of the weaknesses of financial intermediation is critical to the enhancement of private investment in general and manufacturing growth in particular. 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 have to be the overriding agenda for private sector development in the coming decade. Relaxing the infrastructure bottlenecks and improving governance in ports, tax departments, utility services and other government departments also assume critical importance for private sector development and manufacturing growth. Deregulation, privatisation, rationalisation in discretionary power have to be the prime instruments for tackling problems of governance.

26. *Macroeconomic Stability: Fiscal Agenda.* Containment of the fiscal deficit, reduction of domestic financing of the deficit, improved tax collection better control of current expenditure and improved quality of development expenditure seem to form the corner stones of the fiscal agenda in the coming decade. The fiscal situation also needs to be relieved of the pressure from continued high state-owned enterprise losses and non-performing loans in the nationalised commercial sector.

27. *Energy and Infrastructure.* Private investment in infrastructure should continue to be encouraged. Further progress in the infrastructure sectors 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 revamped power transmission and distribution lines, and optic fibre gateways for telecommunications. A critical area of action in the next decade will be the improvement of the physical facilities and management of the country's major ports, which have constituted considerable hindrances to the growth of trade and commerce.

28. *Export.* Bangladesh's main failure in facilitating exports has been in addressing the non-price factors to export growth, particularly with respect to institutions, infrastructure and human resource development. These remain top agenda items for action in the next decade. There should also be firmer and more concrete commitment from the international community with respect to market access and financial and technical support to expand the export base and raise export competitiveness.

29. *External Development Assistance.* Improvements in aid utilisation levels and bringing down the level of aid in the pipeline remains the overriding policy agenda for the next decade. At the same time, the international community needs to reverse the declining trend in external assistance, particularly with regard to concessional aid.

30. *Worker's Remittances.* The government needs to make a concerted effort to raise the level of manpower export in order to increase workers remittances.

31. *Setting Social Targets for Bangladesh.* Bearing in mind international and regional targets such as "Strategy 21 Goals", "ESCAP Goals" or targets set under the "Paris Declaration", Bangladesh is developing targets that are appropriate to its context. In using 20 indicators based on the broader *capability perspective on poverty* developed by Amartya Sen, the focus is not just on the short-fall of income, but also on deprivations in other aspects of well-being.