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CHARTING A PATH FORWARD: STRATEGIC PRIORITIES FOR BANGLADESH IN 2025

by Selim Raihan

As Bangladesh steps into a new year and looks forward to confronting ongoing economic and political challenges, the need for objectively assessing the country's current economic realities cannot be overstated. The economy is experiencing several complex challenges that require a cohesive and strategic approach. Key priorities for the upcoming national budget must also be outlined while underscoring the importance of a broader reform agenda.

The source of the economic hurdles lies in the unrelenting inflationary pressure which does not seem to recede. The Bangladesh Bank has resorted to hiking interest rates on many occasions in the past two years, with little effect on containing inflation. As a result, Bangladesh has been a major failure, whereas many neighbouring countries have successfully controlled inflationary pressure. While the past regime faced allegations of either inaction or improper action in combating inflation, the present interim government has also not been able to show any success so far. The failure emanates from the lack of coordination among monetary policy, fiscal policy, and domestic market management. By now, policymakers must understand that without a synchronized approach, these measures remain fragmented and ineffective. For the interim government, containing inflation and providing solace to low-income people must be the top priority.

Exports and remittance inflows have provided some respite, with recent performances promising. This has led to a marginal improvement in the position of the foreign reserve. The key, however, to sustaining this momentum is addressing the macroeconomic instability, labour unrest, and tensions that have bedevilled many factories. Furthermore, private investments remained stagnant in the context of high and rising interest rates and, an unfriendly business environment with unstable law and order. That has had a strangulating effect on job creation and industrial growth.

The foreign exchange market is another area of concern. While the Bangladesh Bank is signalling a shift toward a more market-driven exchange rate policy, careful timing and implementation are necessary to avoid exacerbating import costs and inflationary pressures. The transition should be well complemented with a properly communicated strategy in which businesses and consumers are duly prepared for it.

However, the absence of strong and resolute economic management from the interim government hasn't helped much in addressing the major economic challenges. The apparent lack of coordination in major economic issues raises concerns about the mechanism for making and implementing policy. It is high time for the interim government to show seriousness in addressing the challenges through comprehensive and effective interventions.

The White Paper Committee's recent report, submitted on December 1, has shed light on systemic corruption, illicit money transfers, cronyism, and rent-seeking activities that have plagued development projects, including mega projects, under the past regime. This report is a major call for the interim government to take decisive action against these entrenched practices. By implementing key recommendations from the report, the government can begin to address the root causes of inefficiency and corruption. This includes reforms in critical economic, political, administrative, and judicial domains — reforms that must be reflected in the government's allocations and priorities.

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While the mass uprising on August 5 had created optimism about a unified national effort toward reform and nation-building, the reality increasingly looks beset on all sides. Political tensions and disagreements over the scope of reforms, the duration of the interim government, and the timing of the next national election threaten to derail the focus on economic priorities. A confrontational political climate risks diverting attention from critical issues, including the persistent inflation that continues eroding ordinary citizens' purchasing power.

With these challenges in mind, policymakers must take actions that offer immediate economic relief and facilitate broader reform measures. Measures include coordinated efforts to contain inflation, cushion the effects of inflation on the most vulnerable through expanded social safety nets, and address supply-side drivers of inflation through investment in agriculture, energy, and transportation infrastructure.

At the same time, policymakers should lay the sound foundation for far-reaching reforms in key economic, political, administrative, and judicial domains. Apparently, there is some consensus on the direction of economic reforms, such as systemic inefficiency in the management of public finances, overhauling the taxation sector, restructuring the banking sector, and modernizing trade and investment policies. However, the directions of political, administrative, and judicial reforms remain far more contentious and marked by disagreement.

The challenge is to make sure that debates and disputes on reforms in the political, administrative, and judicial domains do not weaken the momentum to move ahead with economic reforms. These disagreements, if not carefully managed, risk overshadowing or derailing efforts to address structural economic challenges that are essential for ensuring stability and growth.

It is, therefore, incumbent upon the interim government to stay focused on economic reforms with the same intensity as opening up dialogue and consensus-building on general institutional reforms. All these competing priorities require clear leadership, effective communication, and a commitment to incremental progress.

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WHY DOES BANGLADESH SPEND SO LITTLE ON EDUCATION AND HEALTHCARE, AND WHAT CAN BE DONE?

by Mahtab Uddin

In 1981, Bangladesh had 45 million people in the working age population (15-64). Male labour force participation rate (LFPR) was 84%, while female LFPR was only 4.5%. This was the set-up when the Readymade Garment (RMG) industry started in Bangladesh. It is no miracle that women got more employment in the garment sector. The magic lies in wages. Unlike the Lewis Model, which assumes surplus labour is absorbed in the capitalist sector, this labour comes from unused labour who were not in the labour market at all. The higher the stock of unused labour, the greater the potential for developing a labour-intensive industrial sector like RMG.

The same path has been seen in other industrialised countries like England, Hong Kong, South Korea, Vietnam and China. RMG was a stepping stone to a higher global value chain. In all such countries, during the take-off years to industrialisation, they planned for industrial diversification and invested more in education and healthcare. This is where Bangladesh diverged from others.

RMG, being Bangladesh's first major manufacturing export, they were given many benefits to foster quick growth. They boosted the sectorial growth but at a considerable cost. It created a shadow incentive for producers to concentrate solely on the RMG investment.

The new class of capitalists in Bangladesh were mainly from the RMG sector. They were also heavily linked to the political parties. Since the 1990s, at least a quarter of the members of parliament were directly associated with RMG industries. At least 90 per cent of the MPs in the 2023 election had business enterprises. Therefore, the interests of the policymakers and capitalists were intertwined, and both favoured low labour costs.

Given that the scope of corruption was higher in infrastructure, the government was more interested in spending after infrastructure than investing in human capital. In 2000, Bangladesh spent 2.1% of its GDP (20% of budget) on education. In 2023, the share fell to 1.78% of GDP (10.7% of budget). One of the reasons why our education expenditure did not increase much lies in the incentives of the capitalists. The RMG wage growth was much slower than the total RMG production growth, showing that the capitalists had more profits in their bags than they spent after workers' wages.

> "POOR HEALTH OUTCOMES, DRIVEN BY INADEQUATE HEALTHCARE ACCESS AND HIGH OUT-OF-POCKET EXPENSES, PUSH MILLIONS INTO POVERTY."

This underfunding translates to higher pupil-teacher ratio than the global average, inadequate teacher training, low teacher salaries, and a short compulsory education period of only five years, one of the lowest in the world. All these factors contribute to alarmingly high secondary school dropout rates, a large youth population not in education, employment, or training, and higher intensities of juvenile crimes in Bangladesh. Unsurprisingly, Bangladesh tops all these rankings in the world.

The healthcare sector faces a similarly grim picture. Public expenditure on healthcare as a percentage of GDP remains significantly lower than comparable countries like India (2.1%) and Thailand (3.6%). This chronic underfunding exacerbates existing problems, such as a critical shortage of trained medical professionals. In 2021, a staggering one-quarter of healthcare staff positions remained vacant due to lengthy and often corrupt recruitment processes. Moreover, the proliferation of unregulated diagnostic centres, many operating without proper certification or trained staff, further undermines the quality of healthcare services.

The consequences of this underinvestment in human capital are far-reaching and severe. Poor health outcomes, driven by inadequate healthcare access and high out-of-pocket expenses, push millions into poverty. The World Bank estimates that out-of-pocket healthcare expenditure pushes nearly 7% of the Bangladeshi population below the poverty line. Furthermore, low educational attainment severely limits economic opportunities for individuals and hinders national development. According to the World Economic Forum's Global Competitiveness Index, Bangladesh ranks low in human capital development, significantly impacting its overall competitiveness and hindering its potential for sustainable economic growth.

To address these critical challenges, Bangladesh must prioritise a significant shift towards human capital development. This requires a substantial increase in public spending on education and healthcare, aiming to allocate at least 6% of GDP to education and 5% to healthcare, in line with international best practices. Concurrently, a comprehensive reform of the education system is imperative, including extending mandatory education to at least ten years, significantly improving teacher training and salaries, and modernising the curriculum to international standards. Strengthening the healthcare system necessitates increased public sector investment, improved medical staff recruitment and training, and robust regulation of the private healthcare sector. Finally, combating corruption at all levels is crucial to ensure effective and equitable allocation of resources in both sectors.

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AN ANALYSIS OF BANGLADESH'S ADP BUDGET: CHALLENGES AND REFORMS

by Md. Tuhin Ahmed

The Annual Development Programme (ADP) plays a crucial role in Bangladesh's economic growth and social development. Every year, the government allocates resources through the ADP to finance infrastructure, education, healthcare, and other development projects. Over the years, Bangladesh's ADP budget has steadily increased, rising from about BDT 3,000 crore in the 1980s to over BDT 2,65,000 crore in FY 2024-25. To address regional disparities, the government has introduced a district-wise development plan. In recent years, the focus has also shifted towards large-scale projects, including the Padma Bridge, Dhaka Metro Rail, and Rooppur Nuclear Power Plant, all of which aim to enhance infrastructure and drive long-term economic growth.

Sectoral allocations reveal a consistent focus on transport and communication, which received nearly 26.67% of the ADP allocation in FY 2024-25. Other sectors, such as power (15.38%), education (11.90%), and health (7.80%), are also prioritized, though their funding shares often change based on political priorities and project readiness.

Key Challenges in the ADP Budget. Firstly, a recurring issue with the ADP is the low implementation rate, particularly during the first half of the fiscal year. In the first five months of FY 2024-25, the implementation rate stands at just 12.29%.

Historically, less than 40% of the allocated funds are utilized in the first six months, which leads to a rush in the latter half of the year. This often results in poor-quality work, inefficient use of resources, and delays in project completion.

Secondly, bureaucratic delays remain a persistent issue. Complex approval procedures, regulatory hurdles in land acquisition, and environmental clearances often slow project implementation. These inefficiencies within government departments contribute to the delayed start and completion of projects, leading to cost overruns and missed deadlines.

> A MORE STRATEGIC, TRANSPARENT, AND ACCOUNTABLE APPROACH TO THE ADP IS VITAL FOR BANGLADESH

Thirdly, corruption and financial mismanagement continue to undermine the effectiveness of the ADP. According to a report in 2024 by Transparency International, Bangladesh, nearly 5-6% of project costs are paid by contractors as bribes to Project Teams, and nearly 6-8% is paid by contractors as bribes to field inspection teams, as such about 11-14% of the project costs are bribes.

Fourthly, project delays and cost overruns are a recurring problem, particularly with mega-projects. Large infrastructure projects like the Padma Bridge have experienced extended timelines and increased costs due to inefficiencies in planning, procurement, and execution. These delays create an unnecessary financial burden on the government and hinder overall development progress.

Lastly, the weak monitoring and accountability mechanisms in place are a significant challenge. Without robust systems for evaluating project progress and outcomes, it becomes difficult to identify bottlenecks, track fund utilization, or ensure that projects are completed as planned. The lack of accountability exacerbates issues like corruption and mismanagement, resulting in unsatisfactory project outcomes.

Suggested Reforms. To address these challenges and improve the ADP's effectiveness, several reforms are essential. Firstly, major issues contributing to low implementation rates are land acquisition problems, delays in the tender process, inadequate feasibility studies, and starting projects without secured foreign funding. To tackle this, the government should prioritize strengthening project planning and feasibility studies. Before approving any project, a comprehensive feasibility study should be conducted, incorporating risk management frameworks to ensure realistic timelines and cost estimates.

Secondly, to combat bureaucratic delays, enhancing the implementation capacity of government agencies is crucial. This could be achieved by providing necessary training to staff, streamlining procurement processes, and ensuring timely fund disbursement.

Thirdly, addressing corruption and financial mismanagement requires the introduction of transparent tracking mechanisms. Digital platforms should be used to monitor project progress and fund utilization in real-time. Making this information publicly available will increase transparency and reduce opportunities for corruption. Engaging independent bodies and civil society organizations in monitoring will further improve accountability. Additionally, stricter penalties and more rigorous audits can deter unethical practices.

Fourthly, to mitigate project delays and cost overruns, the government should adopt a more strategic approach to project execution. This involves setting clear project timelines and holding contractors accountable for meeting deadlines and budgets.

Last but not least, to improve monitoring and accountability, the existing Implementation Monitoring and Evaluation Division (IMED) should be strengthened. This can be achieved by enhancing its capacity to conduct regular audits and performance reviews of ongoing projects. Utilizing digital platforms to track milestones and fund usage will ensure that projects stay on track and allow for prompt resolution of any issues.

Indeed, a more strategic, transparent, and accountable approach to the ADP is vital for Bangladesh to achieve its long-term development goals, ensuring that the benefits of growth reach all segments of society.

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SANEM Events

DISCUSSION: SANEM in collaboration with ActionAid Bangladesh organized a round table discussion on"Navigating the Future: Youth Empowerment to Develop Just, Resilient, and Sustainable Bangladesh" on December 4, 2024, at the Westin Dhaka. The discussion was chaired by Ms Farah Kabir, Country Director of ActionAid Bangladesh. Dr Selim Raihan, Professor of Economics at the University of Dhaka and Executive Director of SANEM, delivered the welcome remarks at the discussion. Mr Md. Ekramul Hasan, Research Associate at SANEM, presented the keynote presentation on the study's findings. The event also featured several respected personnel including Mr Rezaul Maksud Jahedi, Secretary, Ministry of Youth and Sports, as Chief Guest. Ms Afia Mubasshira Tiasha, Senior Research Associate at SANEM, moderated the discussion.

TRAINING: SANEM and IFPRI jointly organized the Advanced Training on CGE Modelling in Kathmandu on December 7, 2024. Dr James Thurlow, Dr Selim Raihan and Dr Barun Deb Pal conducted the training. 14 young researchers from South Asia participated in the event.

CONFERENCE: The 15th South Asia Economic Summit, titled "Unleashing an Equitable Green Transformation in South Asia," was organized by the South Asia Watch on Trade, Economics, and Environment (SAWTEE) and its regional partners and held in Kathmandu from December 11 to 13, 2024. Dr Selim Raihan was a panellist in the session "Sustainability-based trade measures: An emerging challenge for global trade" at this conference.

MEETING: Dr Selim Raihan attended the Global Development Network (GDN) Board Meeting at the World Bank Headquarters in Washington, DC, on December 15–16, 2024. This meeting was pivotal in discussing the strategic challenges and outlook for GDN over the next decade.

SEMINAR: The International Seminar on "Reconnecting the Bay of Bengal Region: Exploring the Convergence of Interests" was held at the BIISS Auditorium in Dhaka on December 22, 2024. Dr Selim Raihan made a presentation on "Bangladesh's LDC Graduation Journey: Exploring Prospects for Regional Collaboration in the Bay of Bengal".

RESEARCH SEMINAR: Ms Afia Mubasshira Tiasha, Senior Research Associate at SANEM, attended the research seminar organized by the Policy Research Institute (PRI) on "Health Effects of Climate Change and Mitigating Effects of Climate Policy: Evidence from Bangladesh." Dr Minhaj Mahmud, Senior Economist at the Asian Development Bank (ADB), presented at the PRI Conference Room in Dhaka on December 11, 2024.

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