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BEYOND INCREMENTALISM: RETHINKING ECONOMIC REFORM IN BANGLADESH

by Selim Raihan

Bangladesh is at the crossroads where economic reform is no longer an option, but a requirement. There have been several structural flaws in key sectors, i.e. taxation, the financial sector, management of public spending, trade policy, and investment rules. These flaws have held the country back from maintaining high economic growth and building a resilient economy. Reform shortfalls in these sectors still undermine Bangladesh's ability to cope with domestic economic challenges as well as with external shocks. A reform-oriented and vision-driven development strategy is therefore needed to rectify inefficiencies in institutions, obsolete rules and regulations, policy discrepancies, and weak enforcement prevailing in these sectors.

The call for reform has been more aggressively voiced in the face of erosion of domestic macroeconomic fundamentals, i.e. insufficient reserves, widening fiscal gaps, inflation pressures, and exchange rate volatility. These have been compounded by a volatile global economy in the face of increased geopolitical tensions, tightening global financial conditions, and unstable global demand. Against this context, Bangladesh's aspiration to graduate smoothly from the LDC status and to achieve upper-middle-income status calls for not only additional public investment and social spending but even more significant structural and institutional changes that will trigger productivity, improve competitiveness, and drive quality investment.

Significantly, the most strident calls for reform have usually originated outside the state machinery. Think tanks, segments of the business community – especially those looking beyond short-term rent-seeking, and international development partners have consistently raised the imperative for reform. Through policy advocacy, policy analysis, and technical assistance, these actors have been able to show that reform is not only needed but achievable. Even under the past regime, through the 6th, 7th, and 9th Five-Year Plans, the then-ruling political elite officially recognized reform imperatives and made ambitious commitments. But those commitments were largely on paper, as tangible progress in their implementation was a mirage.

Principal obstacles to reform in Bangladesh have been manifested through anti-reform coalitions among political and business elites and elements of the bureaucracy. Rent-seeking opportunities are institutionally embedded in public institutions, and many in the nexus of political and business elites and bureaucrats see reform as a threat to their privileges. As a result, reforms that would interrupt these vicious cycles of rent-seeking, i.e., tax policy reform, streamlining public expenditure, banking sector overhauls, or regulatory reform, face either quiet dilution or outright policy paralysis.

It is also important to note that leading political elites in Bangladesh avoid deep reforms because these threaten the rent-seeking networks and power structures that sustain their dominance. Major political parties themselves lack internal democratic practices, making them resistant to transparency and institutional checks. As a result, they opt for incremental, uncoordinated changes that preserve control while projecting an image of

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reform, without challenging the underlying status quo. Regrettably, though it was expected that there would be major reform initiatives under the current interim government, guided by the reports of the White Paper Committee and the Task Force, unfortunately, attempts so far have remained either incremental or ineffective due to poor design or internal resistance.

What then needs to be done? First, reforms need to be initially politically smart, sequenced in a manner that builds momentum and credibility, but not necessarily giving rise to overwhelming opposition. It may mean beginning in areas where there is some elite consensus or where it can register some early successes seen by the public.

Second, design for reform should be context-dependent and achievable, not overambitious or too technocratic, but consonant with the country's political reality and administrative capacity. It is important to identify areas where a 'big-bang approach' is necessary due to the long-standing reform deadlocks, and where a gradual approach would be more appropriate.

Third, reform coalitions need to be expanded by mobilizing a greater array of actors, i.e. new segments of the

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business community, civil society, the media, and local institutions, who can exert demand-side pressure and lend legitimacy to reform efforts.

Fourth, strong reform-minded leadership from the state is needed. Reform-minded officials who can coordinate across bureaucratic silos, mobilize internal supporters, and sustain policy attention over time are key to building and sustaining momentum.

Fifth, development partners must act as facilitators by fostering policy innovation and capacity and by providing incentives for reform through financial and technical support.

Finally, deeper economic reforms in Bangladesh are unlikely to succeed without reforming political institutions and improving the nature of politics itself. A more accountable, transparent, and participatory political system is essential to overcome resistance, align incentives, and build the broad-based consensus needed for sustained structural change.

Reform in Bangladesh has often faltered not for lack of ideas but due to the misalignment of political incentives. Overcoming this will require not just technical fixes, but a reconfiguration of the political and institutional conditions under which reforms are designed and implemented. Only then can Bangladesh transition from ad hoc policy adjustments to a robust and resilient economic transformation.

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A PARADIGM SHIFT IN AID: WHAT DOES IT MEAN FOR THE GLOBAL SOUTH?

by Mahtab Uddin

For decades, the promise of global development was rooted in a simple idea: the world, though unequal, could move forward together. Richer countries would support poorer ones through aid, trade, and investment, not out of charity, but out of shared interest and historical responsibility. However, that tide is shifting with the increased geopolitical tensions in the Middle East and Europe, and the rise of ultra-nationalism in the Western world.

National security has recently become a priority, putting global solidarity in the backseat. In June 2025, NATO countries announced plans to raise military spending to 5% of their GDP within a decade, up from the current 2% benchmark. The United States, once a major advocate of globalisation, has slashed its USAID budget by nearly 90%, a cut of around $60 billion. Across the West, aid budgets are shrinking as defence budgets grow.

Many developing countries are already struggling with rising debt, climate shocks, and fragile health systems. Against that backdrop, such a shift in tides signals more than policy alterations. It marks a turning point.

Every economic decision has an opportunity cost. Increasing military spending inevitably means cutting back elsewhere. Development assistance, which most rich countries already underfund (falling short of the UN's 0.7% of GNI target), is an easy target. However, the consequences of those cuts are not easy; these could often be life-changing for hundreds of millions of people in the Global South.

Development aid supports basic services that millions rely on in countries across Africa, Asia, and Latin America. Aid fills crucial gaps, from education and clean water to maternal health and disease prevention. When that support disappears, the poorest and most vulnerable suffer most.

Many existing studies have argued why and how development aid harms developing countries. It has sometimes buoyed bad governance in places with weak institutions and corruption. Critics point to cases where aid became a control tool, used to buy influence or impose policies that didn't fit local needs, establishing a neo-colonial relationship between the centre and periphery in the global geo-politics.

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Nevertheless, the evidence contradicting the aforementioned limitations is also aplenty.

Bangladesh is a good example. In the 1970s, it was dismissed by Henry Kissinger as an "international basket case", a country supposedly too broken to fix. Yet over the past five decades, Bangladesh has seen remarkable progress. Life expectancy has risen, child mortality has dropped, and millions have been lifted out of poverty.

Development aid played a part in this story. Between 1972 and 2023, Bangladesh received $54 billion from the Development Assistance Committee (DAC) countries through Official Development Assistance (ODA). Over one-third of this aid came from the US, the UK, and Germany.

Such development aids help in many ways. It contributes to generating knowledge, transferring technology, and strengthening education and healthcare structures, among others. ICDDR,B, for instance, a world-renowned health research center in Dhaka, set up with support from USAID in the late 70s, helped pioneer research and treatments that have saved millions of lives worldwide. Since its inception, the center has trained over 27,000 health professionals from 78 countries – one of its many contributions. Or think about the international response to the Rohingya refugee crisis, hosting nearly a million people displaced from Myanmar in Cox's Bazar, Bangladesh. Without global support, Bangladesh could not have managed this humanitarian challenge alone.

Development assistance is not just about projects or budgets. It's about building the foundation for a more stable, equitable world. It enables technology transfer, strengthens public institutions, and creates pathways out of poverty. It supports young people with scholarships, empowers women through social programmes, and helps countries prepare for climate change.

And it has spillover effects. As the COVID-19 pandemic showed, public health isn't local; it's global. The recent cut in aid is feared to cause hundreds of thousands of children from the poorer countries to miss their immunisations, resulting in life-changing consequences. Diseases don't stay within borders when vaccine programmes are cut due to aid reductions.

Against these turbulent times, there are a few things that the developing countries can align themselves with. As such, the idea of South-South cooperation (SSC) has long been in discussion. It is high time that the Global South countries boost their collaboration in development. The countries can also focus on a policy to "look East" or strengthen cooperation with alternative sources, such as BRICS and GCC countries. Lastly, there is no alternative to collective dialogues. The developing countries should bring this issue to the UN forum, where the rich countries committed to allocating 0.7% of their GNI as ODA.

The future of development cooperation is at a crossroads. If rich countries retreat from their commitments, they may save money in the short term, but at great cost. The world will become more divided, more fragile, and more prone to crisis.

Development aid is not a handout. It is a shared investment in a future that works for all.

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WHY ESG STANDARDS MATTER MORE THAN EVER FOR BANGLADESH?

by Zubayer Hossen

The global investment landscape is not what it used to be. These days, investors are looking beyond profits - they want to know where their money is going and what kind of impact it is having. Is it helping clean the air, making workplaces safer, and encouraging fair treatment and good governance? This is where Environmental, Social, and Governance (ESG) standards come in.

For Bangladesh, ESG standards matter more now than at any time in the past. On 24 November 2026, we will officially graduate from the UN's list of Least Developed Countries (LDCs). It is a big step forward, but it also implies losing trade preferences and access to concessional development finance. As we step into a more competitive global market, the quality of growth and how we earn investor confidence will be crucial.

Worldwide, ESG performance is becoming a key indicator of how investors decide where to invest their money. Countries that score well on ESG are seen as safer bets - more stable, more future-proof. ESG is not just about the image. It is about showing that we are serious about sustainability, equity, and transparency.

Let us pause for a second and break down the ESG concept. This is not some development buzzword. "E" is for environment - things like climate resilience, clean energy, and pollution control. "S" stands for social - everything from working conditions and community impact to gender inclusion. "G" is governance - how rules are made, whether they are followed, and how institutions hold up under pressure.

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Investors now treat ESG as a core part of assessing long-term risk. This means ESG is no longer a "nice to have". It is a key factor in economic decision-making.

Bangladesh has taken some steps in the right direction. The Bangladesh Securities and Exchange Commission (BSEC) has made the inclusion of ESG reporting in the annual reports compulsory according to the Sustainability Reporting Guidelines (SRG) for the listed companies. The Bangladesh Bank has issued guidelines on sustainability and climate-related financial disclosure for all the banks and financial institutions operating in Bangladesh. Moreover, NGOs in Bangladesh are reporting on ESG performance voluntarily. But real ESG integration is still thin on the ground. Most businesses are at the early stages - if they are engaging at all.

Awareness of ESG is still limited, especially among small and medium enterprises. Even among larger firms, ESG reporting often reads more like a marketing effort than a reflection of measurable progress. There is no unified national roadmap, and that leads to fragmentation.

Social and governance challenges remain serious as well. Issues like child labour, workplace safety concerns, and uneven enforcement of labour laws continue to draw negative attention. If we add slow judicial processes and inconsistent regulations to those, it becomes clear why many investors hesitate.

Another major hurdle is that ESG disclosures are not mandatory. Most firms can simply choose not to report anything. Banks and financial institutions also do not consistently assess ESG risks. This allows weak practices to go unchecked. Agencies like BSEC, Bangladesh Bank, and various ministries are all working on bits and pieces of ESG, but they rarely pull in the same direction. Our financial sector also needs to modernise. Tools like green bonds and ESG-linked loans are rare. Without those, companies have few options to fund sustainable growth.

ESG is not just about foreign investors; local companies have a lot to gain. Strong ESG performance can reduce operational risks, cut costs, and build stronger relationships with workers and consumers. And with more Bangladeshi firms entering global supply chains, especially in garments, pharmaceuticals, and leather, keeping up with international ESG standards is no longer optional.

What needs to happen? First, ESG reporting should be obligatory for listed companies as well as big private firms. The reporting must be clear, with internationally trusted standards like the Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB). When companies start reporting the same way, people will be able to compare them and trust what they are seeing. This kind of honesty will build real confidence in investors. Second, Bangladesh Bank could do a lot more to push financial institutions to think long-term. If banks start offering more ESG-linked loans or encourage green bonds, businesses will have good reasons to take sustainability seriously. Third, we need to sensitise the small and mid-sized businesses with plain-language guides, workshops, and hands-on support that will help them start making changes. Fourth, a national ESG task force - made up of voices from business, government, and civil society - could bring some order to chaos. And finally, ESG has to be part of how we plan as a country. Not an afterthought - something baked into our climate goals, our industrial policy, and how we define progress.

Bangladesh is entering a new era. The choices we make now will shape how the world sees us in the future. ESG is a way to rethink how we measure success. It brings people, the environment, and governance into the conversation - things we often treat as secondary, but which, in truth, hold everything together. When these elements are ignored, progress tends to unravel. But when they are part of the foundation, we end up with something more stable, more inclusive, and more human. ESG will not fix everything, but it gives us a framework to do better - if we choose to take it seriously. The path is there. It is up to us to walk it.

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SANEM Events

CONFERENCE: Dr Selim Raihan, Professor of Economics at the University of Dhaka and Executive Director of SANEM, attended the 2025 WIDER Development Conference titled “Safeguarding Tomorrow – Innovative Approaches to Growth and Equity”, held in Helsinki, Finland, from June 9–11, 2025. He presented his paper on “Social Protection in Bangladesh: Policies, Practices, and Lessons” at the parallel session titled “Learning and innovating in low-income countries”.

CONFERENCE: The DEEP International Conference on Poverty Evidence, organized by DEEP was held in Arusha, Tanzania from June 11 to 13, 2025. The theme of the conference was “Re-energising the Race to 2030: Data and Evidence to Accelerate Progress Towards SDG 1.” Dr Selim Raihan spoke at the panel discussion on “National Poverty Challenges and Strategies in Bangladesh”. He also presented his paper on "The Price of Inaction on Social Protection: Results from CGE Model Exercise for 27 Countries in Asia and the Pacific” at a parallel session on social protection.

MEETING: Dr Bazlul Haque Khondker, Chairman of SANEM, attended the third meeting of the National Transfer Accounts (NTA) Technical Committee under the project titled “Integrating Population Dynamics and Development Issues into National Plans and Policies (PD4Development)” held at Bangladesh Planning Commission on June 26, 2025. The meeting was chaired by Dr Monzur Hossain, Member (Secretary), General Economics Division (GED), Planning Commission.

CONFERENCE: Dr Selim Raihan attended the conference titled “The Economics of Digital Public Infrastructure” jointly organized by the Global Development Network (GDN) and Co-Develop held in New Delhi, India on June 28, 2025.

DISCUSSION: Ms Eshrat Sharmin, Deputy Director of SANEM, was a special guest at the post budget discussion of Mahila Parishad, held at Segunbagicha on June 17, 2025. Dr Manzoor Hossain, member (secretary) of General Economics Division, Bangladesh Planning Commission was the chief guest and the presentation was delivered by Professor Sharmind Neelormi.

PARTICIPATION: Mr Zubayer Hossen, Programme Director of SANEM, and Ms Arpita Chakraborty, Research Associate of SANEM, attended the inception workshop on “Eco-Industrial Parks Light Touch Activities in Bangladesh” organized by UNIDO on June 25, 2025. Ms Eshrat Sharmin participated in the Fourth Social Insurance Forum titled “Employment Injury Scheme (EIS) in Bangladesh: An Interim Review” organized by CPD and GIZ on June 25, 2025. Mr Sheikh Tausif Ahmed, Research Associate of SANEM, attended the “Monthly Macroeconomic Insights (MMI) – A Post-Budget Analysis” organized by PRI and DFAT on June 26, 2025. Mr Mohammad Iftekharul Islam, Research Associate of SANEM, participated in the seminar titled “Enhancing Bangladesh’s Logistics Sector for Sustainable Economic Growth” organized by DCCI on 29 June, 2025.

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