



# FEED<sup>THE</sup>FUTURE

The U.S. Government's Global Hunger & Food Security Initiative

## POLITICAL ECONOMY OF THE BUSINESS ENABLING ENVIRONMENT IN BANGLADESH

**FEED THE FUTURE BANGLADESH IMPROVING  
TRADE AND BUSINESS ENABLING ENVIRONMENT**



**USAID**  
FROM THE AMERICAN PEOPLE

# POLITICAL ECONOMY OF THE BUSINESS ENABLING ENVIRONMENT IN BANGLADESH

## FEED THE FUTURE BANGLADESH IMPROVING TRADE AND BUSINESS ENABLING ENVIRONMENT

**Contract Number: 7200AA18D00012/72038820F00002**

**December 2020**

**Submitted by:**

International Development Group LLC  
1100 North Glebe Road, Suite 950  
Arlington, VA 22201  
Phone: +1 (571) 336-7980  
Fax: +1 (571) 336-7998

**DISCLAIMER**

This report is made possible by the support of the American People through the United States Agency for International Development (USAID). The contents of this report were prepared by International Development Group LLC (IDG) under contract number IDIQ No. 7200AA18D00012/720388220F00002. The views expressed herein are the sole responsibility of International Development Group LLC and do not necessarily reflect the views of USAID or the United States Government.

# TABLE OF CONTENTS

Table of Contents .....	i
List of Acronyms .....	ii
Executive Summary .....	iv
<b>I. Introduction .....</b>	<b>1</b>
<b>II. Methodology .....</b>	<b>2</b>
<b>III. Data on Economic Performance and the BEE .....</b>	<b>3</b>
A. Strong Growth and Structural Transformation .....	3
B. Low Productivity .....	7
C. Relatively High Rates of Investment and Low Rates of Exports.....	8
D. Rising Export Concentration.....	9
E. Inefficient Ports .....	9
F. High Rates of Informal Employment and Weak Entrepreneur Support System.....	12
G. Weak Governance.....	15
H. Low Competitiveness and Challenging Business Environment .....	17
<b>IV. Findings from Diagnostics.....</b>	<b>21</b>
A. Weak Institutions.....	22
B. Poor Regulatory Framework.....	23
1. Fragmented Regulations:.....	23
2. Arbitrary Enforcement: .....	26
3. Weak Contract Enforcement .....	27
4. Complex Trade Procedures .....	27
5. Anti-export Bias .....	28
C. Regulatory Capture.....	29
D. Limits of RMG.....	30
<b>V. Political Settlements in Bangladesh and the Political Economy of the BEE.....</b>	<b>31</b>
A. Political Settlements in Bangladesh .....	32
1. Weak Dominant Party: 1971-1975.....	32
2. Authoritarian Clientelism: 1975-1990.....	33
3. Competitive Clientelism: 1991-2006.....	35
4. Dominant Party: 2008- .....	36
A. Political Economy of the BEE .....	39
<b>VI. Suggestions for Feed the Future Bangladesh Trade Activity Activities.....</b>	<b>42</b>
A. Business Enabling Environment .....	42
B. Trade Facilitation.....	43
C. Food Safety.....	44

## LIST OF ACRONYMS

ACC	Anti-Corruption Commission
ACE	Anti-Corruption Evidence
ADB	Asian Development Bank
AL	Awami League
BB	Bangladesh Bank
BEE	Business Enabling Environment
BFSa	Bangladesh Food Safety Authority
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BKMEA	Bangladesh Knitwear Manufacturers and Exporters Association
BNP	Bangladesh Nationalist Party
BSTI	Bangladesh Standards and Testing Institution
BTI	Bertelsmann Stiftung Transformation Index
BUILD	Business Initiative Leading Development
CAG	Comptroller & Auditor General
CEO	Chief Executive Officer
CHC	Custom House of Chittagong
CPA	Certified Public Accountant
CTG	Caretaker Government
CTMS	Container Terminal Management System
C&F	Clearing and Forwarding
DAE	Department of Agricultural Extension
DfID	Department for International Development
EGBMP	Enterprise Growth and Bank Modernization Project
EPZ	Export Processing Zones
FAO	Food and Agricultural Organization
FSI	Fragile States Index
FSPDSME	Financial Sector Project for the Development of Small and Medium-Sized Enterprises
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GOB	Government of Bangladesh
ICT	Information and Communications Technology
ISO	International Organization for Standardization
IT	Information Technology
IPP	Independent Power Producers
JICA	Japan International Cooperation Agency
KII	Key Informant Interview
LPI	Logistics Performance Index
LSCI	Liner Shipping Connectivity Index
MoHFW	Ministry of Health and Family Welfare
MOU	Memorandum of Understanding
MP	Member of Parliament
MSME	Micro, Small, and Medium Enterprises
NBR	National Board of Revenue
PKSF	Palli Karma Sahayak Foundation
PPP	Purchasing Power Parity
RMG	Ready-Made Garment
SCD	Systematic Country Diagnostic
SME	Small and Medium Enterprises
SPS	Sanitary and Phytosanitary
SWOT	Strengths, Weaknesses, Opportunities, and Threats
	State-owned Enterprise
TRS	Time Release Study
UN	United Nations
UNDP	United Nations Development Programme

USDA  
VAT  
WEF  
USDA

United States Department of Agriculture  
Value-added Tax  
World Economic Forum  
United States Department of Agriculture

## EXECUTIVE SUMMARY

Over the past few decades, Bangladesh has achieved rapid rates of gross domestic product (GDP) growth and poverty reduction. In addition, the rate of per capita GDP growth over the past decade, about 5.2 percent per year<sup>1</sup>, has been the most rapid sustained growth acceleration since the country achieved independence nearly forty years ago. The most visible manifestation of Bangladesh's economic transformation over the past three decades is the explosive growth of Ready-Made Garment (RMG) exports. Prior to the 1980s, RMG production was negligible in Bangladesh. Today, it is the second-largest RMG exporter in the world.

Rapid economic growth in Bangladesh has not been the result of creating a Business Enabling Environment (BEE) to promote it. Nor has it materially improved as a result of recent economic development. Rather, the formal BEE in Bangladesh is beset with regulatory fragmentation; arbitrary application of regulations; regulatory capture; and weak contract enforcement. Bangladesh has been able to grow rapidly despite the poor formal BEE due to the development of a set of relatively predictable informal norms and procedures that allow firms to operate relatively effectively if they offer individual and political party benefits to key politicians and civil servants. These expenditures transform the complex and opaque formal BEE in Bangladesh into a relatively predictable set of costs and procedures. Existing firms gain from this system not only through securing access to government resources, but also due to limits in competition resulting from the weak formal BEE. Consequently, a key obstacle to improving the BEE in Bangladesh is not only resistance from civil servants and politicians that benefit from the *status quo*, but from their beneficiary private sector counterparts as well. These firms perceive a more competitive BEE as a threat to their profitability.

Evidence suggests this informal system is becoming increasingly insufficient to sustain the country's current growth acceleration and transform its economy to the production of a more diverse set of higher value-added goods and services. First, Bangladesh's exports are increasingly concentrated within a narrow segment of RMG, in part, due to rising external competition. Second, growth in Bangladesh is increasingly a result of rising government investment. In particular, rates of export and private investment growth have slowed dramatically over the past decade compared to the fifteen years that preceded it. Third, rates of productivity and new business registration are quite low in Bangladesh compared to its level of income, while informal employment is very high and rising. Finally, tax revenue as a share of GDP is exceptionally low and is insufficient to fund needed investments in social development and physical infrastructure.

To assist the Government of Bangladesh (GOB) to create more inclusive and competitive economic institutions, USAID is implementing the Bangladesh Improving Trade and Business Enabling Environment Activity. The specific purposes of the project are "to bolster economic growth and food security by improving trade facilitation, enhancing market access, and improving the business enabling market."<sup>2</sup> The analysis contained in this report provides a set of recommendations for feasible activities and approaches to help achieve Feed the Future Bangladesh Trade Activity's main objectives given the economic and political environment in which they will take place.

The breadth of activities and existing initiatives Feed the Future Bangladesh Trade Activity could feasibly support for improving the BEE and trade facilitation are far broader and more ambitious than those it can realistically undertake to enhance food security. For the former, Feed the Future Bangladesh Trade Activity can build off a range of existing and previous development partner programs to improve the business enabling environment in Bangladesh. In particular, there are a range of viable opportunities to improve the BEE for micro-, small-, and medium-sized firms. By contrast, opportunities to improve food security are narrower. This is primarily because the apex food regulatory agency, the Bangladesh Food Safety Authority (BFSA), does not possess the resources it needs to enforce its mandate. In addition, there are powerful government and private sector entities that desire the agency to remain anemic. Moreover, BFSA needs to become an effective food safety regulator within an existing stable regulatory environment designed to produce weak enforcement of food safety regulations. BFSA's most binding constraints are poor inter-agency coordination, lack of resources, and low staff capacity. Feed the Future Bangladesh Trade Activity can best assist BFSA by helping the agency to develop actions plans to (1) secure greater resources, staff capacity, and leadership stability; and (2) improve its outreach activities with key counterparts to bolster its capacity to better advocate on its own behalf.

---

<sup>1</sup> Source: World Development Indicators

<sup>2</sup> <https://www.internationaldevelopmentgroup.com/projects/asia/bangladesh/feed-the-future-bangladesh-improving-trade-and-business-enabling>

## I. INTRODUCTION

Bangladesh has achieved substantial economic gains over the past few decades. Over the past twenty years, GDP growth per capita has averaged around 4.7 percent.<sup>3</sup> In addition, over the past three decades, the poverty rate<sup>4</sup> has fallen by close to 80 percent, from about 45 percent to approximately 9 percent in 2019.<sup>5</sup> The most vivid example of Bangladesh's impressive economic record over the past few decades is the growth of Ready-Made Garment (RMG) exports. RMG exports were nearly non-existent in Bangladesh in the 1980s. Today, Bangladesh is the second-largest exporter of RMGs in the world.

Despite these achievements, formal institutions to encourage development are generally weak in Bangladesh. Bangladesh rates very low in rankings of economic competitiveness, such as the World Economic Forum's Global Competitiveness Index, the World Bank's Ease of Doing Business index, and the Global Entrepreneurship and Development Institute's Global Entrepreneurship Index. While Bangladesh's institutional quality is about average relative to its level of income, it is low relative to its peers and aspirational peers in South Asia and Southeast Asia, such as India, Malaysia, and Vietnam.

Bangladesh has been able to achieve rapid growth under weak formal economic institutions due to a set of relatively predictable informal norms and procedures, or a stable deals environment<sup>6</sup>, that allow firms to operate relatively effectively if they pay political rents, such as contributions to political campaigns, and side payments to key civil servants. These expenditures compensate firms for the weak and challenging formal BEE in Bangladesh by transforming it into a relatively predictable set of costs and procedures. Many existing firms also gain from the system as they earn economic rents, not only through favorable treatment in areas where the GOB is the client, such as construction, but also due to limits in competition resulting from the weak formal BEE. As a result, a key impediment to reforming the BEE in Bangladesh is not only resistance from civil servants and politicians who gain from the status quo, but also their private sector counterparts. The latter understand that a more competitive BEE might threaten their economic rents as well as introduce more uncertainty into their actual BEE.

If growth has been generally rapid in Bangladesh despite the weak BEE, perhaps reforms to it are a solution in search of a problem. This is relatively easy to refute. There are numerous ways that the weak BEE is undermining development in Bangladesh:

- While productivity growth has been relatively rapid in Bangladesh over the past two decades, the country has very low productivity compared to its regional peers and is not making progress in narrowing the gap.
- RMG exports are increasingly becoming an enclave and the country is losing its comparative advantage in this sector. RMG exports currently account for about 85 percent of total exports and Bangladesh's export concentration within RMG is growing.<sup>7</sup> Efforts to move up the value chain, such as electronics and pharmaceuticals, have not been successful. At the same time, the sector is facing rising competition and its RMG export growth rates are slowing as a result.
- Firms producing for the domestic market enjoy considerable protection from foreign competition due to high effective rates of protection. Import duties are far higher for final products than for capital goods, raw materials, and intermediate goods. Non-trade barriers, such as complex regulatory requirements, create additional protections for domestic firms. Protection from foreign competition reduces incentives for existing firms to innovate and become more efficient.
- The private sector is highly segmented by level of productivity. Large firms account for just one percent of total firms, 14% of employment, and contribute to about 25 percent of GDP. By contrast, Micro, Small, and Medium Enterprises (MSMEs) businesses account for around 85 percent of non-farm private sector employment, but just about one-third of GDP.<sup>8</sup>

---

3 Source: World Development Indicators

4 Measured at Purchasing Power Parity (PPP) \$1.90 income per day, using constant 2011 PPP US dollars.

5 World Development Indicators, <https://www.adb.org/countries/bangladesh/poverty#accordion-0-0>. The economic impact of COVID-19 has led to a sharp increase in the rate of poverty. <https://www.dhakatribune.com/health/coronavirus/2020/08/12/covid-19-impact-national-poverty-rate-rises-to-29-5-as-of-june>.

6 Pritchett, et al. (2015) define the deals environment as individual contracts between two or more parties with selective enforcement. A stable deals environment occurs when the actions of relevant stakeholders are relatively coordinated and predictable. Pritchett, Lant, Kunal Sen, and Eric Werker. 2015. *Deals and Development: The Political Dynamics of Growth Episodes*. Oxford: Oxford University Press.

7 Source: Observatory of Economic Complexity

8 Source: Bangladesh Economic Census

- Chittagong port is very inefficient compared to other major ports in South Asia and Southeast Asia, which raises costs and times of trade.
- Rates of informal employment are high and rising. Over the past five years, the rate of non-farm informal employment has risen from about 85 percent to just over 90 percent.<sup>9</sup>
- Tax revenue as a share of GDP in Bangladesh, less than 10 percent of GDP, is low, including for countries at its level of income.<sup>10</sup>
- Bangladesh rates very low on rates of new business registration, Information and Communications Technology (ICT) adoption, and measures of business innovation and dynamism. Entrepreneurs and new market entrants face a hostile environment not only from competitors, but also from government agencies.

The next section of the review discusses our methodology. Section three reviews relevant data on the BEE in Bangladesh. Section four examines binding constraints to reform using recent studies and diagnostics to identify. Section five presents our analysis of the challenges to reforming the BEE. Section six presents activities Feed the Future Bangladesh Trade Activity could undertake to improve the BEE in Bangladesh.

## II. METHODOLOGY

We conducted the research for this report principally between March and May 2020. The methodology we employed strayed rather dramatically from our original design due to challenges from COVID-19. Originally, we had planned to conduct key informant interviews (KIIs) and focus groups with relevant Government of Bangladesh officials; members of the private sector and their trade associations; civil society organizations, researchers, and policy institutes; and development partners. We also intended to conduct site visits to firms and the Port of Chittagong. We envisioned supplementing information we gathered through KIIs, focus groups, and site visits with existing research and documents.

The impact of COVID-19 necessitated a dramatic restructuring of our data collection plan. First, global international travel restrictions made it impossible for one of the authors of this report to travel to Bangladesh. Second, travel restrictions the GOB instituted largely confined the Bangladesh-based researcher to his house during the period we conducted the research. Third, stay-at-home restrictions and the GOBs main concern of addressing the economic and public health crises during the period we conducted the research made it very difficult to engage key stakeholders. As a result, we were able only to undertake a small number of KIIs and were not able to conduct focus groups or site visits. Rather, by necessity, we had to rely largely on existing documents.

Our methodology largely draws on the political settlements approach to political economy analysis. According to Khan (2017: 20)<sup>11</sup>:

“The political settlements framework looks at the distribution of power across political and economic organizations in a society (and its evolution over time) in order to understand the types of policies that emerge, and even more importantly, how effectively policies are implemented or distorted by the organizations that are affected by them.”

Applying the political settlement framework to an analysis of the BEE requires examining (1) how access to economic power affects access to political power and *vice-versa*; (2) how the distribution of economic and political power affects the BEE; and (3) how and why changes to access to economic and political opportunity changes over time. We supplemented the political settlement approach by considering the quality of the deals environment (Pritchett, et al. 2015), which examines how the credibility of decision-making processes between the private sector and the government in addition to the breadth of access to economic opportunity affects development outcomes. The deals environment encompasses both formal rules and informal systems that regulate economic activity. This is a particularly useful PEA method in countries where there is a sharp divergence between *de jure* and *de facto* interactions between the government and the private sector, such as Bangladesh.

---

<sup>9</sup> Source: World Development Indicators

<sup>10</sup> Source: World Development Indicators

<sup>11</sup> Khan, Mushtaq. 2017. Anti-Corruption in Bangladesh: A Political Settlements Analysis. Working Paper Number 3. London: Anti-Corruption Evidence (ACE) Research Consortium.



### III. DATA ON ECONOMIC PERFORMANCE AND THE BEE

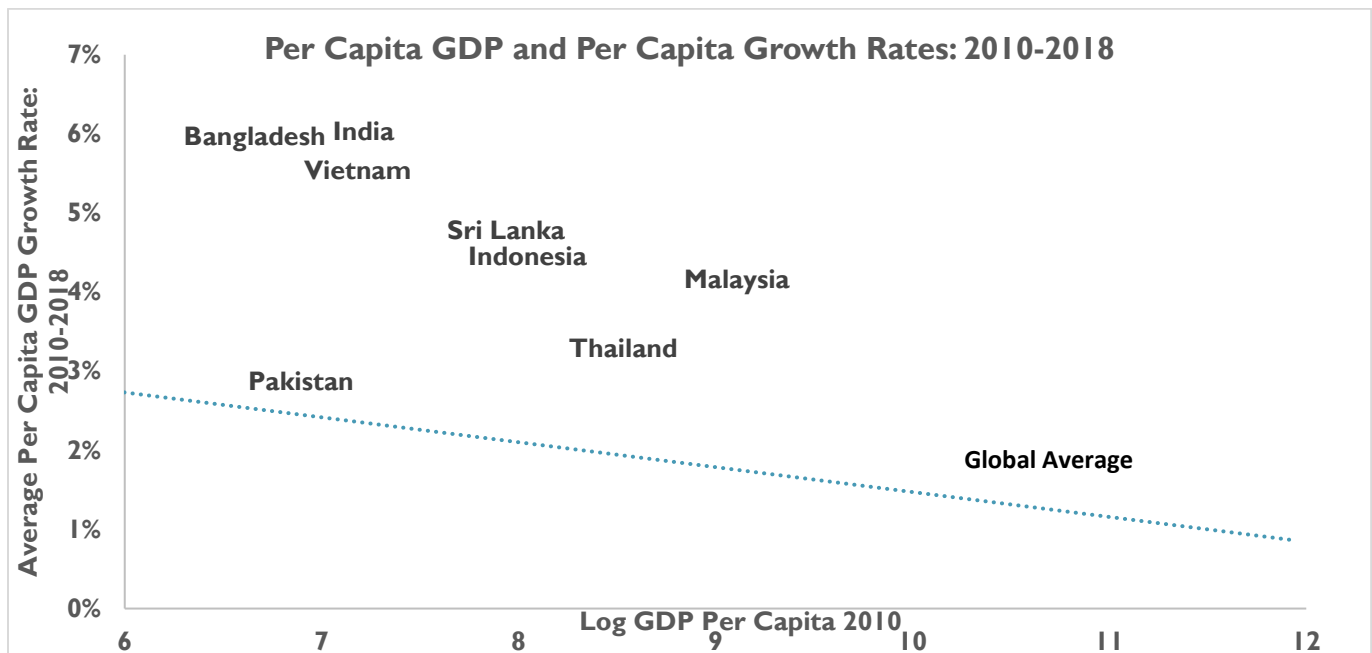
Below we review recent economic performance in Bangladesh, including macro and sector performance; institutional indicators; and benchmarking comparisons. We also attempt to identify indicators of the Bangladesh Paradox. Broadly speaking, we can identify the paradox as high rates of growth across sectors and substantial structural transformation away from agriculture to industry and services, yet:

- The private sector is bifurcated between millions of low productivity microenterprises and a few thousand comparatively highly productive large firms
- Rapid export growth, yet increasing export concentration, including within RMG
- Low rates of new formal business formation
- High and rising levels of informal employment
- Weak institutions
- Low competitiveness

#### A. STRONG GROWTH AND STRUCTURAL TRANSFORMATION

Real per capita GDP has grown at about 4.7 percent per year since 2000 and 5.4 percent since 2010. Bangladesh's per capita growth rate is far above average for countries at Bangladesh's level of income. Recent growth rates have been comparable to India and Vietnam, and much higher than other regional peers (Figure 1). The key drivers of growth are RMG exports and remittances.<sup>12</sup> They account for about two-thirds of GDP growth over the past two decades (Bourguignon and Raihan 2020).<sup>13</sup>

Figure 1



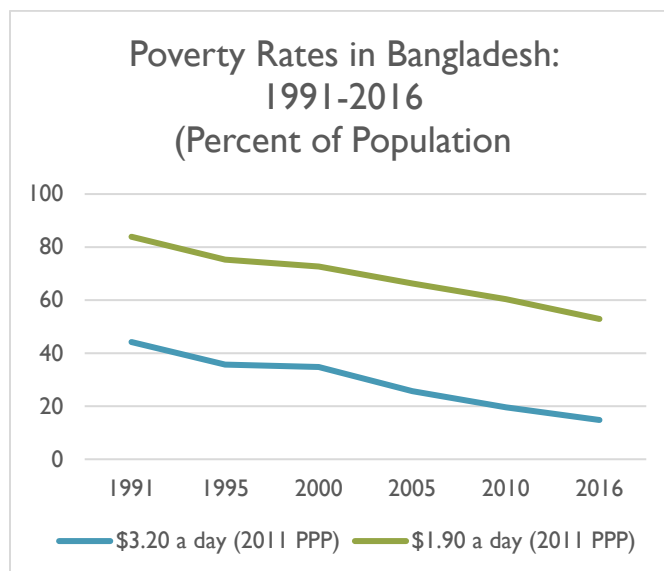
Source: World Development Indicators; dotted line is the global average correlation between GDP per Capita in 2010 and Per Capita growth rates from 2010-2018

<sup>12</sup> Remittances do not directly contribute to GDP. In Bangladesh, remittances have increased GDP growth rates through greater household consumption and investment. See: Hasan, S., R. Akhter, A. Abbasi, and S Saha. 2019. "Impact of Remittance on Economic Growth in Bangladesh." American Journal of Trade and Policy, 6(1): 41-48.

<sup>13</sup> Raihan, Selim and Francois Bourguignon. 2020. "An Institutional Diagnostic of Bangladesh: The Synthesis" in Raihan Bourguignon, (eds). Bangladesh Institutional Diagnostic. Oxford: Oxford Policy Management.

The percent of the population living in poverty is also falling. Rates of poverty at US\$1.90 per day at purchasing power parity are down from about 45 percent in the early 1990s to about 15 percent in 2016. Rates of poverty at US\$3.20 per day are down from about 83 percent in the early 1990s to about 53 percent (Figure 2).

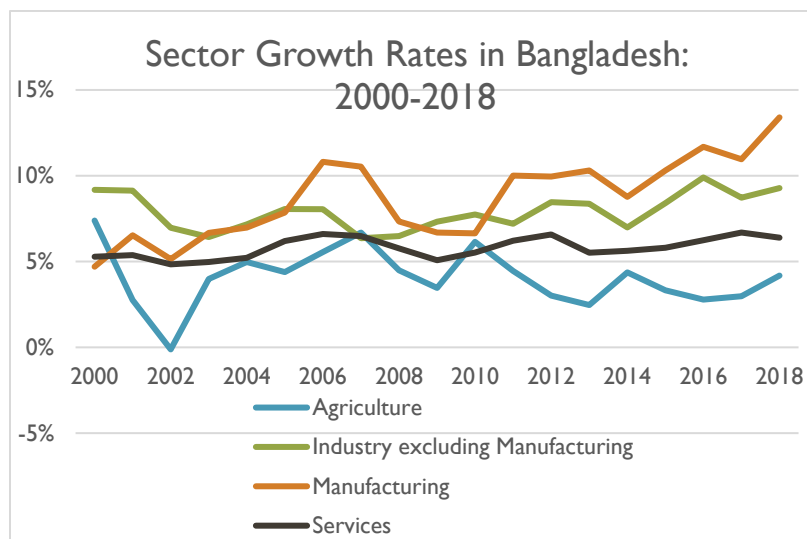
Figure 2



Source: World Development Indicators

Since 2000, manufacturing<sup>14</sup> and non-manufacturing industrial, such as construction, have seen the fastest growth rates, averaging nine percent and eight percent respectively for the past two decades, followed by services<sup>15</sup> at about six percent and agriculture<sup>16</sup> at about four percent (Figure 3).<sup>17</sup>

Figure 3



Source: World Development Indicators

<sup>14</sup> Key sub-sectors include textiles, pharmaceuticals, and food processing. Source: Bangladesh Bureau of Statistics. 2016. 2015 Statistical Yearbook Bangladesh. Dhaka: Bangladesh Bureau of Statistics.

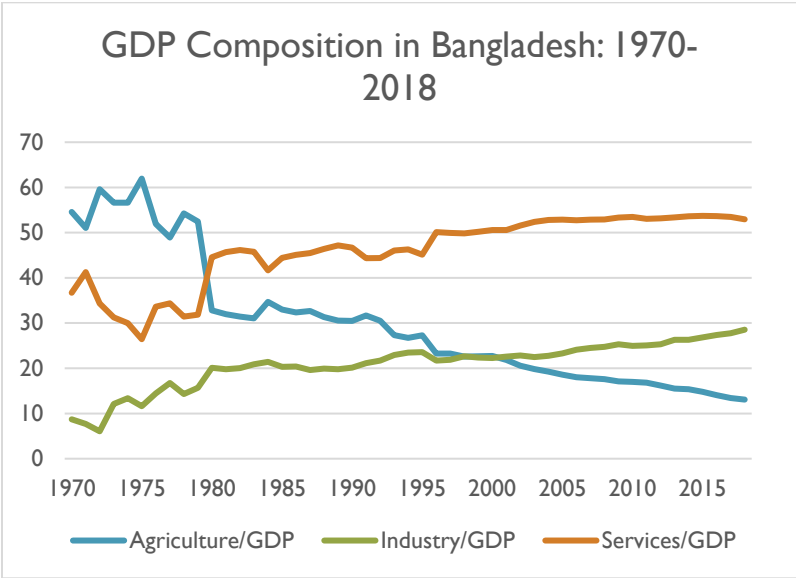
<sup>15</sup> Key sub-sectors include wholesale and retail trade; transport, storage, and communication; and community, social and personal services. Source: Bangladesh Bureau of Statistics. 2016. 2015 Statistical Yearbook Bangladesh. Dhaka: Bangladesh Bureau of Statistics.

<sup>16</sup> Rice is the main agricultural commodity in Bangladesh. Other key ones include jute, oilseeds, potatoes, and aquaculture. Source: Bangladesh Bureau of Statistics. 2016. 2015 Statistical Yearbook Bangladesh. Dhaka: Bangladesh Bureau of Statistics.

<sup>17</sup> The slow growth rate in agriculture in 2002 was largely a result of adverse weather. See: <http://www.fao.org/3/y6000e/y6000e08.htm>

Over the longer term, in the past forty years, Bangladesh’s economy has undergone a rather dramatic structural transformation towards industry and services and away from agriculture (Figure 4). At independence, agriculture, services, and industry accounted for about 55 percent of GDP, 35 percent, and 10 percent, respectively. Services overtook agriculture to be the largest sector in the early 1990s, and industry overtook agriculture about two decades ago. Today, the contributions of services, industry, and agriculture GDP are 55 percent, 28 percent, and 17 percent.

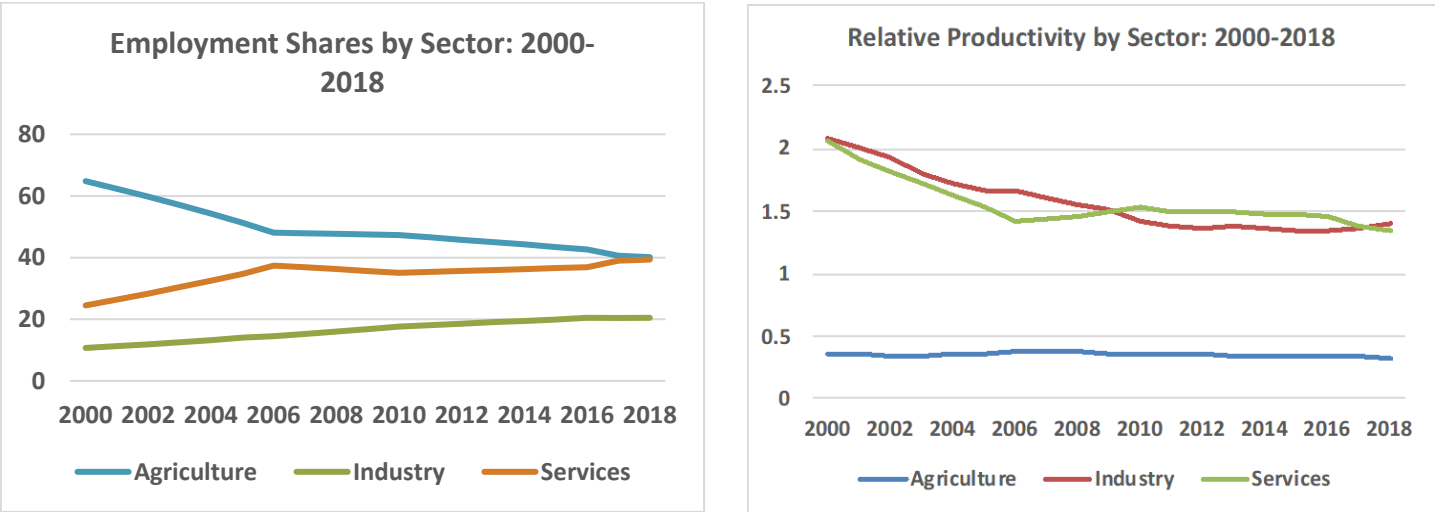
Figure 4



Source: World Development Indicators

Employment and relative productivity across the three headline sectors have shown an equally dramatic transformation over the past two decades (Figure 5). In 2000, employment shares in agriculture, industry, and services were about 65 percent, 25 percent, and 10 percent, respectively. Currently, about 40 percent of the population is employed in services and agriculture, and 20 percent are employed in industry. Relative productivity (i.e., sector output/sector employment) in agriculture has been stagnant for decades and is currently falling in services and industry. Relative productivity is falling in the latter two because employment in these sectors is rising faster than their contribution to GDP.

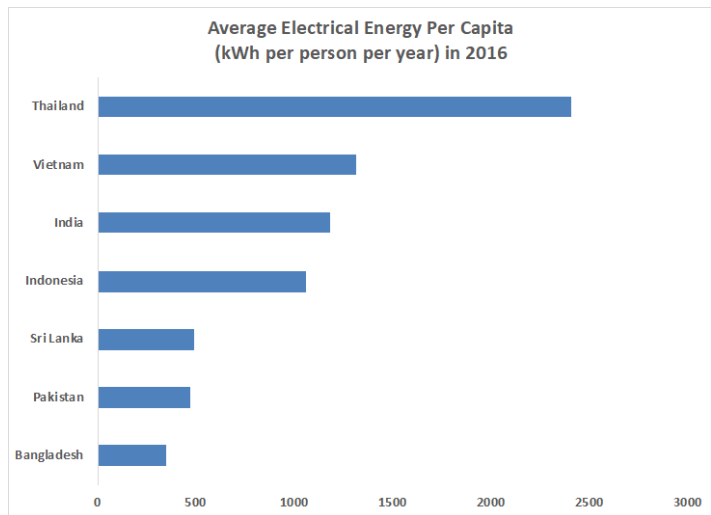
Figure 5



Source: World Development Indicators

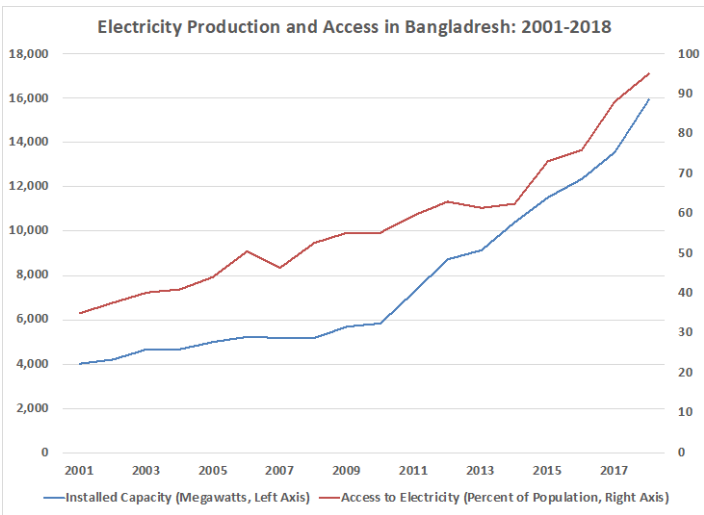
The growth in industry and services has occurred alongside major improvements in energy production and access to electricity. Over the past two decades, both have tripled and about half of the increase has come from private sector producers (Figures 7 and 8).<sup>18</sup> Currently, about 95 percent of the population has access to electricity, and generation capacity is about 18,000 megawatts. Bangladesh’s ranking on the World Economic Forum’s (WEF) Global Competitiveness Index (GCI) measure of the quality of electricity supply has risen from a nadir of 137 in 2013 to 101 in 2019. Nevertheless, per capita production remains very low, similar to Ghana and Lesotho, and far below most regional peers (Figure 6).

Figure 6



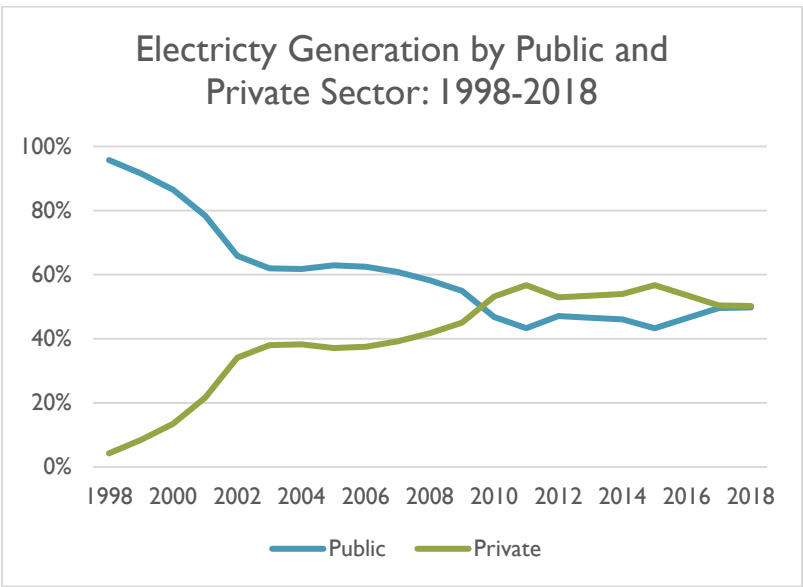
Source: Bangladesh Bureau of Statistics

Figure 7



Source: World Development Indicators

Figure 8



Source: Bangladesh Bureau of Statistics

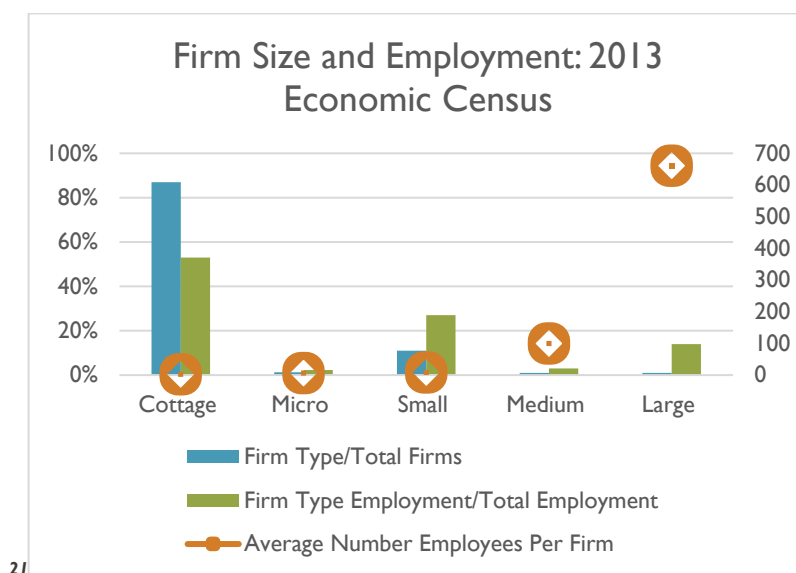
18 The GOB has been able to facilitate rapid growth in private sector electricity production though offering generous terms to Independent Power Producers (IPPs), such as guaranteed payments regardless of the amount of electricity the government buys. See: Haque, Mohammad. 2019. Bangladesh Power Sector. Dhaka: EBL Securities Limited.

## B. LOW PRODUCTIVITY

The private sector is dominated by very small cottage industries. According to the 2013 Economic Census, about 90 percent of all firms are cottage industries<sup>19</sup> and they account for about 55 percent of total non-farm private sector employment. Their average size is two people. Large firms account for just 0.07 percent of all firms, but account for about 14 percent of total non-farm private sector employment and their average size is 660 people. MSMEs account for just 12 percent of all firms and about 30 percent of total non-farm private sector employment (Figure 9).

Medium-size businesses account for about 90 percent of small and medium enterprises (SMEs). The average sizes of MSMEs are six, eight, and 99 people, respectively. Business registration rates correlate strongly with firm size. The overall registration rate is 35 percent. All large firms are registered and MSME registration rates are about 90 percent. By contrast, the cottage industry registration rate is just 26 percent.<sup>20</sup>

Figure 9



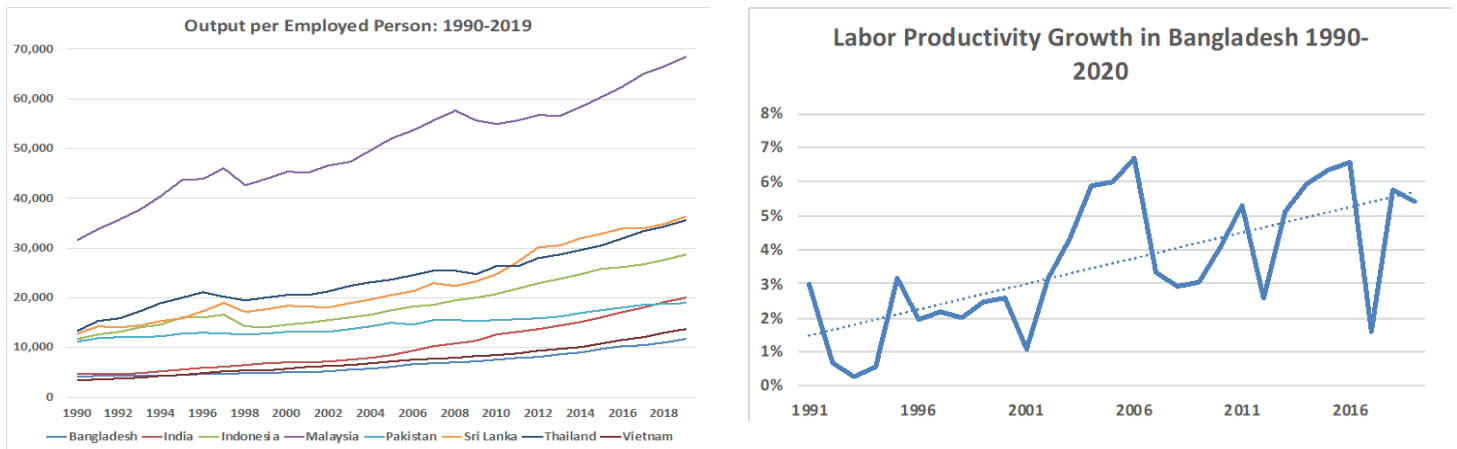
Source: Bangladesh Economic Census

<sup>19</sup> An industrial unit run by a maximum of 50 workers using local skills without adopting power-run mechanical equipment (source: [http://en.banglapedia.org/index.php?title=Cottage\\_Industry](http://en.banglapedia.org/index.php?title=Cottage_Industry)). The average size of a Cottage Firm in the 2013 Economic Census was two.

<sup>20</sup> Cottage industries are not required to register in Bangladesh and are exempt from some business taxes. Benefits of registration include assistance from GOB initiatives to support development of MSMEs, such as programs supported by the Bangladesh Small and Cottage Industries Corporation. Potential detriments are raising their visibility among tax officials and regulatory agencies. See Haider, Mohammed, Champa Dutta, and Ohidul Siddiqui. 2015. "Role of Bangladesh Small and Cottage Industries Corporation in Poverty Reduction." *South Asia Economic Journal* 16: 103-121.

Productivity is low compared to peers in South and Southeast Asia. Output per person has risen at about 3.5 percent per year since 1990 (Figure 10). However, Bangladesh’s regional peers have increased their productivity, on average, at about the same rate over the same period of time. As a result, Bangladesh is not narrowing its comparative productivity gap.

**Figure 10**

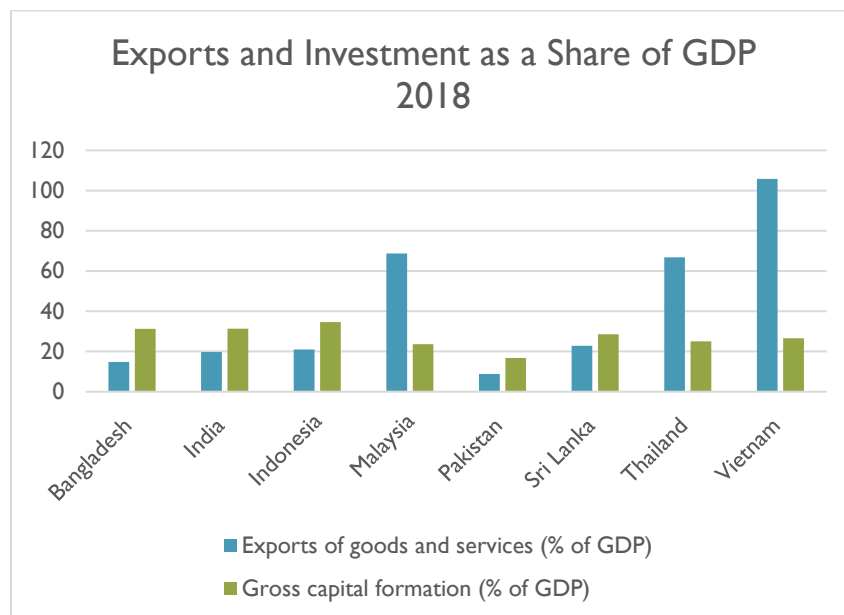


*Source: The Conference Board Total Economy Database*

### C. RELATIVELY HIGH RATES OF INVESTMENT AND LOW RATES OF EXPORTS

Bangladesh has relatively high rates of Gross Capital Formation compared to its peers and aspiring ones in South Asia and Southeast (Figure 11). Yet its exports as a share of GDP are very low compared to these countries. Exports as a share of GDP are also lower in Bangladesh than in India, Indonesia, and Sri Lanka.

**Figure 11**

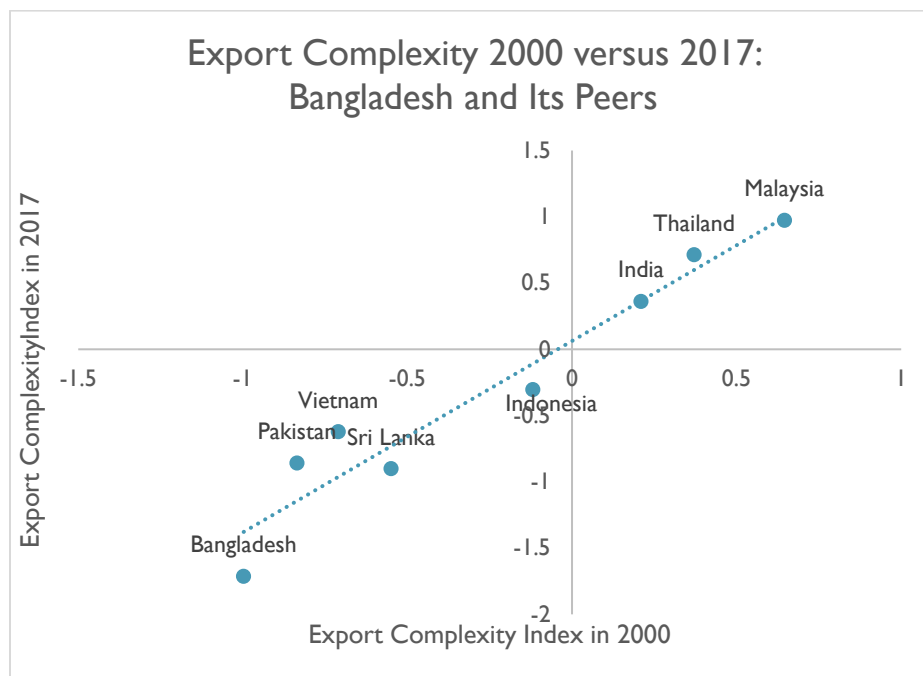


*Source: World Development Indicators*

## D. RISING EXPORT CONCENTRATION

Bangladesh's export complexity declined from 2000 to 2017 because exports became more concentrated in textiles (82 percent in 2000 versus 91 percent in 2017) and is very low compared to its South Asian and Southeast Asian peers. Bangladesh has, by far, the lowest export complexity compared to peers in the region and the gap between Bangladesh and its regional peers in this area has widened since 2000 (Figure 12).

Figure 12



Source: Observatory of Economic Complexity

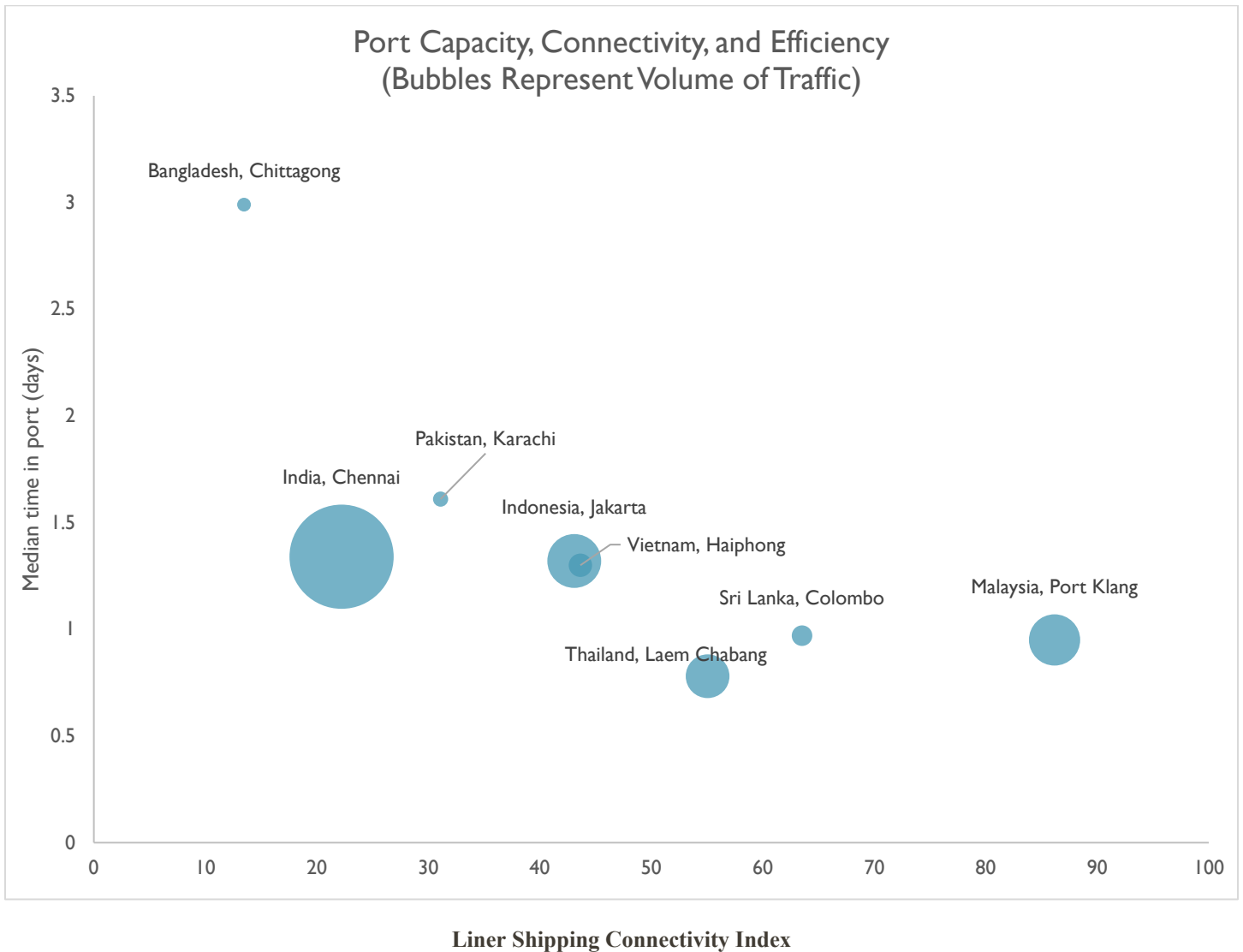
## E. INEFFICIENT PORTS

Bangladesh's port performance does not compare well with its regional peers on port volume, ship time spent in port, and its connectivity as measured by the Liner Shipping Connectivity Index (LSCI). The LSCI is a composite measure of:

- port traffic,
- container-carrying capacity,
- number of companies that provide regular services,
- the number of services, and
- the size of the largest ship it can service

While Bangladesh rates somewhat low on the LSCI, median ship time spent in port is very high. The port ranks sixth from the bottom of the 178 countries and territories covered in 2018. Chittagong port volumes (shown as bubbles in figure 13) are also very low compared to Bangladesh's peers in South and Southeast Asia, except for Karachi, Pakistan (Figure 13).

Figure 13



Source: United Nations Conference of Trade and Development

Bangladesh also ranks low compared to its peers on the World Bank Logistics Performance Index (LPI); (Figure 14). Overall, it ranked 100 out of 160 countries, about the same as Cambodia and Uganda. Its scores on Customs Efficiency and Infrastructure Quality are especially low. Its rank has also fallen from a high of 79 in 2010, although its rank has improved somewhat from its nadir of 108 in 2014. Bangladesh scores about average on the LPI for its level of income (not shown).



**Figure 14**

Logistics Performance Index 2018								
Country	Rank	LPI Score	Customs Efficiency	Infrastructure Quality	Int'l Shipments	Logistics Competence	Tracking & Tracing	Time
Bangladesh	100	2.58	2.3	2.39	2.56	2.48	2.79	2.92
India	44	3.18	2.96	2.91	3.21	3.13	3.32	3.5
Indonesia	46	3.15	2.67	2.89	3.23	3.1	3.3	3.67
Malaysia	41	3.22	2.9	3.15	3.35	3.3	3.15	3.46
Pakistan	122	2.42	2.12	2.2	2.63	2.59	2.27	2.66
Sri Lanka	94	2.6	2.58	2.49	2.51	2.42	2.79	2.79
Thailand	32	3.41	3.14	3.14	3.46	3.41	3.47	3.81
Vietnam	39	3.27	2.95	3.01	3.16	3.4	3.45	3.67

Scale: Red (worse) to green (best)

Source: World Development Indicators

Data on vessel turnaround time, the time a vessel spends at a port without moving, and container dwell time, the amount of time cargo remains in the port, show divergent trends, with the former rising and the latter falling each by about 30 percent from 2008 to 2017 (Table 1). Current turnaround and dwell times are about seven and 11 days, respectively. These do not compare well to other ports in the region. Vessel turnaround time in Chittagong is the highest for main ports in South Asia and container dwell times in main ports in Indonesia, Malaysia, and Thailand were about four days in 2015.

TABLE 1: VESSEL TURNAROUND AND CONTAINER DWELL TIME: 2008-2017		
FISCAL YEAR	VESSEL TURNAROUND TIME (DAYS)	CONTAINER DWELL TIME (DAYS)
2008–2009	5.5	16.9
2009–2010	4.3	16.6
2010–2011	3.2	17.1
2011–2012	3.2	16.1
2012–2013	3.4	17.2
2013–2014	3.2	15.6
2014–2015	4.0	17.5
2015–2016	6.0	11.9
2016–2017	6.9	11.0

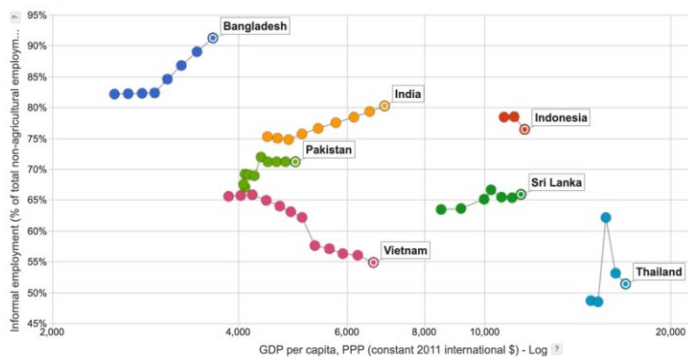
Source: Asian Development Bank Project Performance; Evaluation Report for Chittagong Port Trade Facilitation Project

## F. HIGH RATES OF INFORMAL EMPLOYMENT AND WEAK ENTREPRENEUR SUPPORT SYSTEM

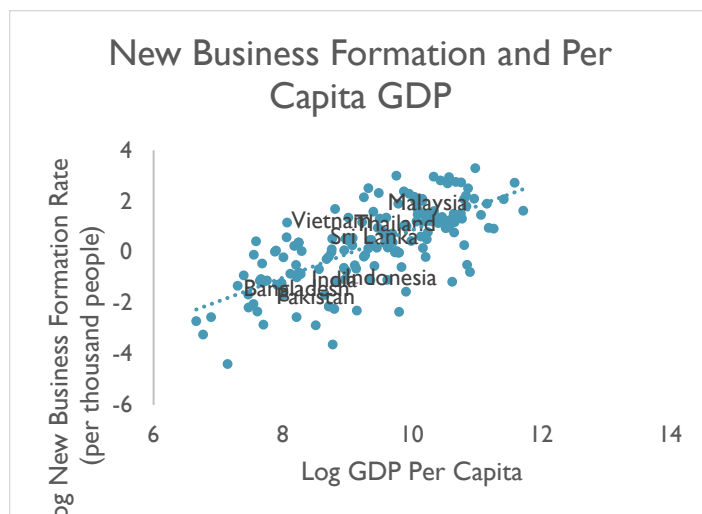
Informal employment rates are high and rising, and new business registration rates are very low in Bangladesh compared to other countries in South Asia and Southeast Asia (Figure 15). New business formation registration rates are similar to India and Pakistan, but far less than Sri Lanka and Southeast Asia. New business formation in Bangladesh also is low compared to other countries at its level of income.<sup>22</sup>

**Figure 15**

### Informal Employment and GDP Per Capita 2007-2018



[Link for left-side graph](#)

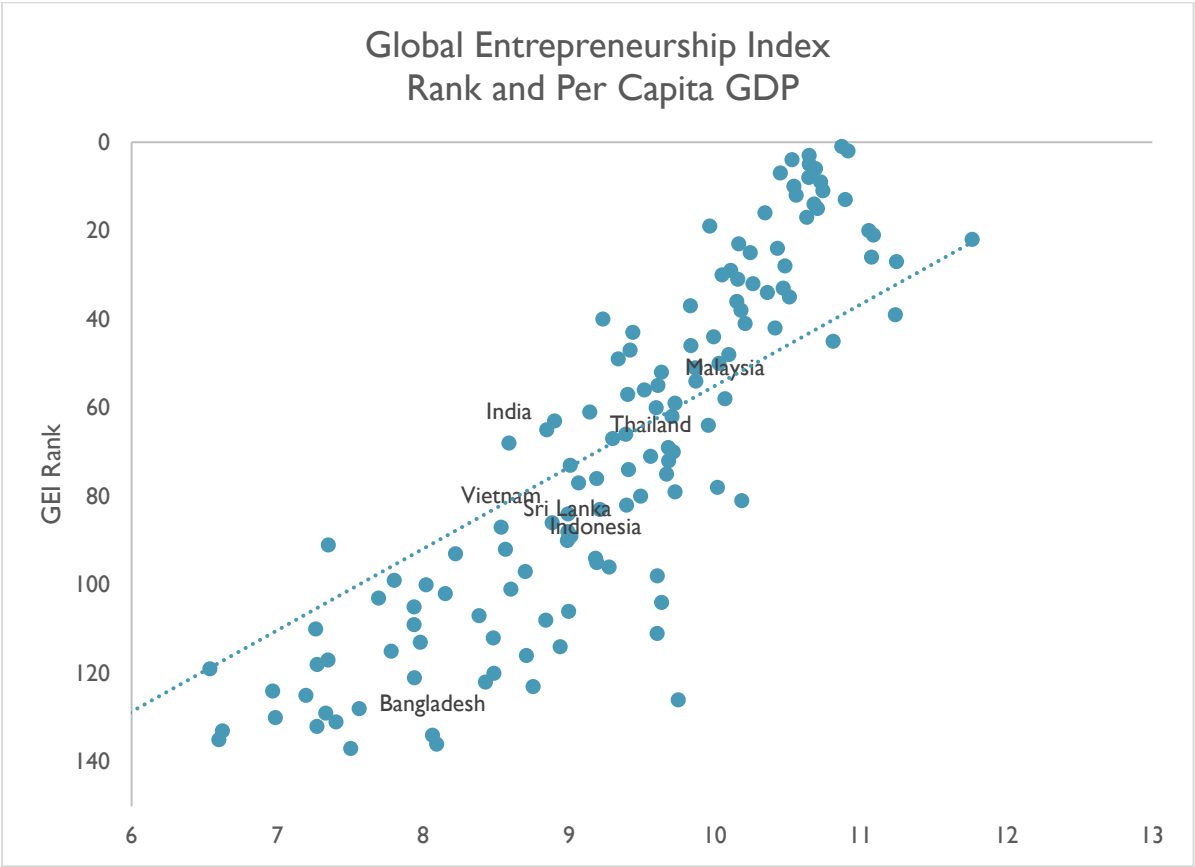


*Source: World Development Indicators*

<sup>22</sup> See Section III. F. below for a discussion of causes of low business registration rates in more detail.

Bangladesh rates very low on its entrepreneurship for its level of income and compared to peers in South Asia and Southeast Asia according to data from the Global Entrepreneurship and Development Institute (Figures 16 and 17). Bangladesh rates 134 out of 137 countries on the Global Entrepreneurship Index. It rates particularly low on Internationalization (exports and product complexity), Product Innovation (new product development and technology transfer), Startup Skills (level and quality of education, and Risk Acceptance (risk perception and country risk).

Figure 16



Log Per Capita GDP

Sources: Global Entrepreneurship and Development Institute; World Development Indicators

Figure 17

### Global Entrepreneurship Index and Components: Bangladesh and Peers

Country	Bangladesh	India	Indonesia	Malaysia	Pakistan	Sri Lanka	Thailand	Vietnam
GEI Rank (out of 137)	134	68	94	58	120	90	71	87
Opportunity Perception	0.23	0.34	0.25	0.40	0.26	0.36	0.37	0.16
Startup Skills	0.04	0.22	0.29	0.16	0.06	0.16	0.38	0.28
Risk Acceptance	0.05	0.40	0.23	0.56	0.02	0.07	0.19	0.07
Networking	0.10	0.14	0.61	0.58	0.11	0.07	0.25	0.25
Cultural Support	0.21	0.14	0.31	0.22	0.21	0.12	0.26	0.24
Opportunity Startup	0.32	0.33	0.31	0.61	0.11	0.25	0.34	0.20
Technology Absorption	0.13	0.05	0.08	0.09	0.14	0.05	0.11	0.22
Human Capital	0.13	0.29	0.16	0.63	0.10	0.31	0.49	0.46
Competition	0.13	0.61	0.25	0.41	0.21	0.47	0.28	0.22
Product Innovation	0.04	1.00	0.58	0.12	0.49	0.95	0.48	0.44
Process Innovation	0.14	0.53	0.20	0.90	0.21	0.24	0.41	0.19
High Growth	0.12	0.19	0.07	0.13	0.35	0.14	0.30	0.16
Internationalization	0.01	0.42	0.01	0.45	0.14	0.26	0.09	0.13
Risk Capital	0.07	0.15	0.14	0.14	0.05	0.13	0.28	0.48

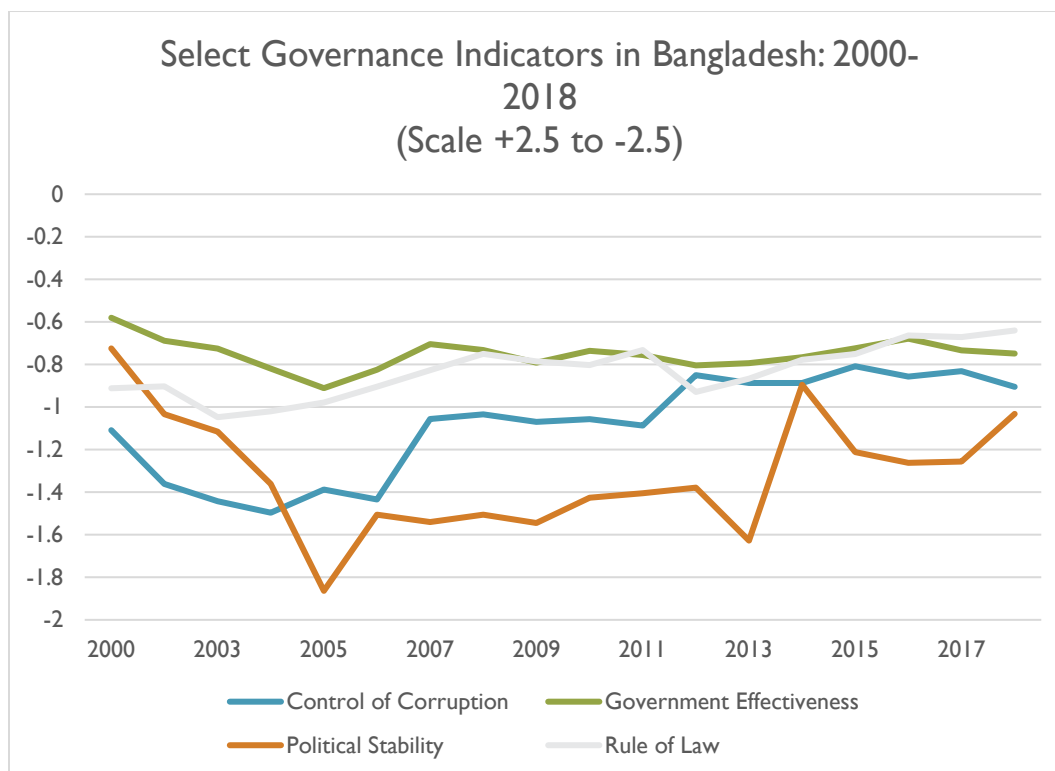
Scale: Red (worse) to green (best)

Source: Global Entrepreneurship and Development Institute

## G. WEAK GOVERNANCE

Governance in Bangladesh is relatively poor and has largely remained the same over the past decade, with the exception of improvements in Political Stability. In addition, while Control of Corruption and Political Stability<sup>23</sup> have improved compared to twenty years ago, there has been little change in Government Effectiveness and Rule of Law over the same time period (Figure 18).

Figure 18

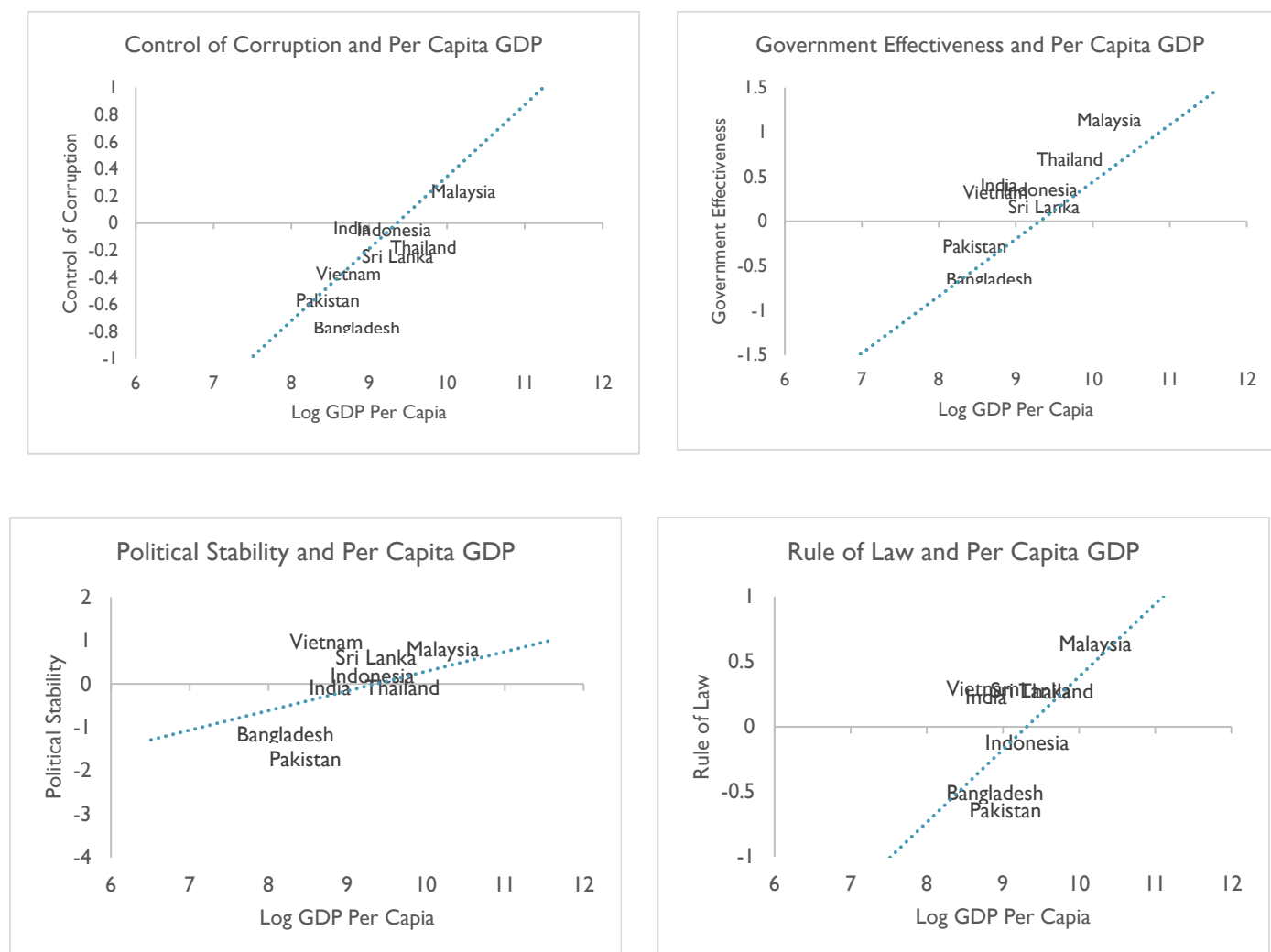


*Source: Worldwide Governance Indicators*

Governance in Bangladesh does not compare favorably to its regional peers (Figure 19). It rates about the same as Pakistan on Control of Corruption, Government Effectiveness, Political Stability, and Rule of Law. Malaysia rates the highest in Control of Corruption, Government Effectiveness, and Rule of Law, while Vietnam rates highest in Political Stability. India, Indonesia, Sri Lanka, and Thailand are largely in the middle. With the partial exception of political stability, governance in Bangladesh is about average for its level of development.

<sup>23</sup> The decline in political stability in 2005 followed a terrorist attack targeting the opposition Awami League, allegedly connected to the ruling Bangladesh Nationalist Party, and catalyzed the collapse of its rule in 2006. The fall in stability in 2014 was due to violence surrounding the flawed 2014 election. Section V. A. discusses political stability in Bangladesh in more detail.

**Figure 19**  
**Governance and Economic Development: Bangladesh and Its Regional Peers**  
**(Blue Dotted Line is Global Average)**

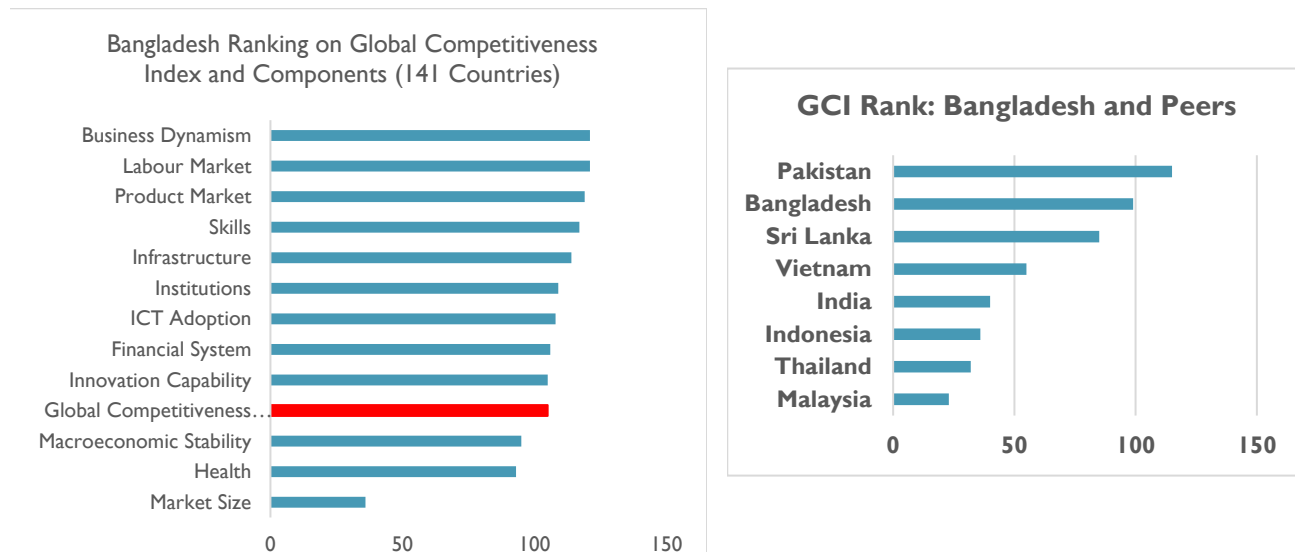


*Source: Worldwide Governance Indicators*

## H. LOW COMPETITIVENESS AND CHALLENGING BUSINESS ENVIRONMENT

Bangladesh does not have a very competitive economy. For example, Bangladesh ranks 105 out of 141 countries on the World Economic Forum’s 2019 Global Competitiveness Index. Bangladesh performs slightly better than Pakistan, but well behind India, Indonesia, Malaysia, Sri Lanka, Thailand, and Vietnam. Its main strengths are health, macroeconomic stability, and market size. Key weaknesses are institutions, skills, innovation, and ICT adoption (Figure 20).

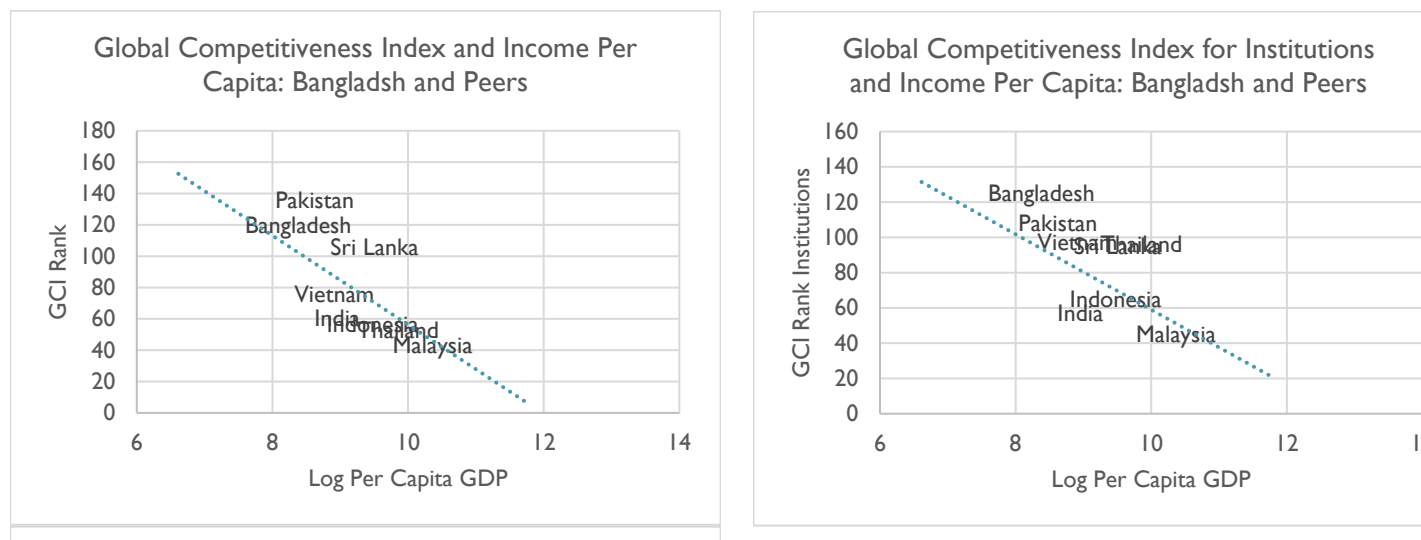
Figure 20



Source: World Bank Doing Business Index

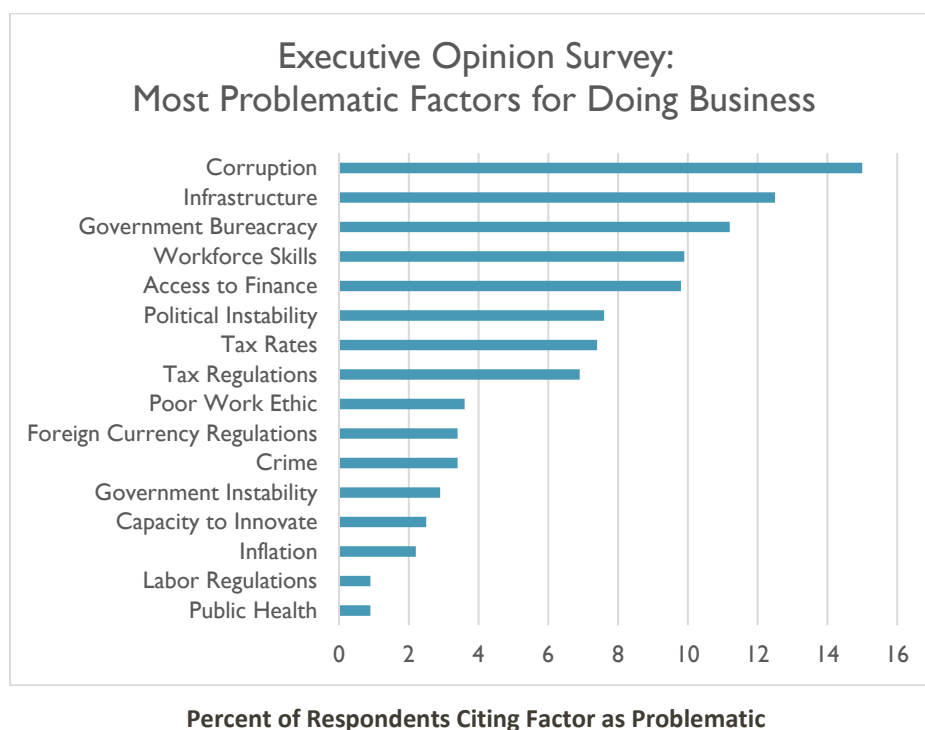
Bangladesh scores about average for countries at its level of income on the overall GCI and slightly below average for countries at its level of income on the GCI’s Institutions component (Figure 21). The WEF Executive Opinion Survey, a survey of the country’s leading business leaders, identifies corruption, infrastructure, bureaucracy, skills, and access to finance as top constraints to business development in Bangladesh (Figure 22).

Figure 21



Source: World Development Indicators and World Economic Forum

**Figure 22**

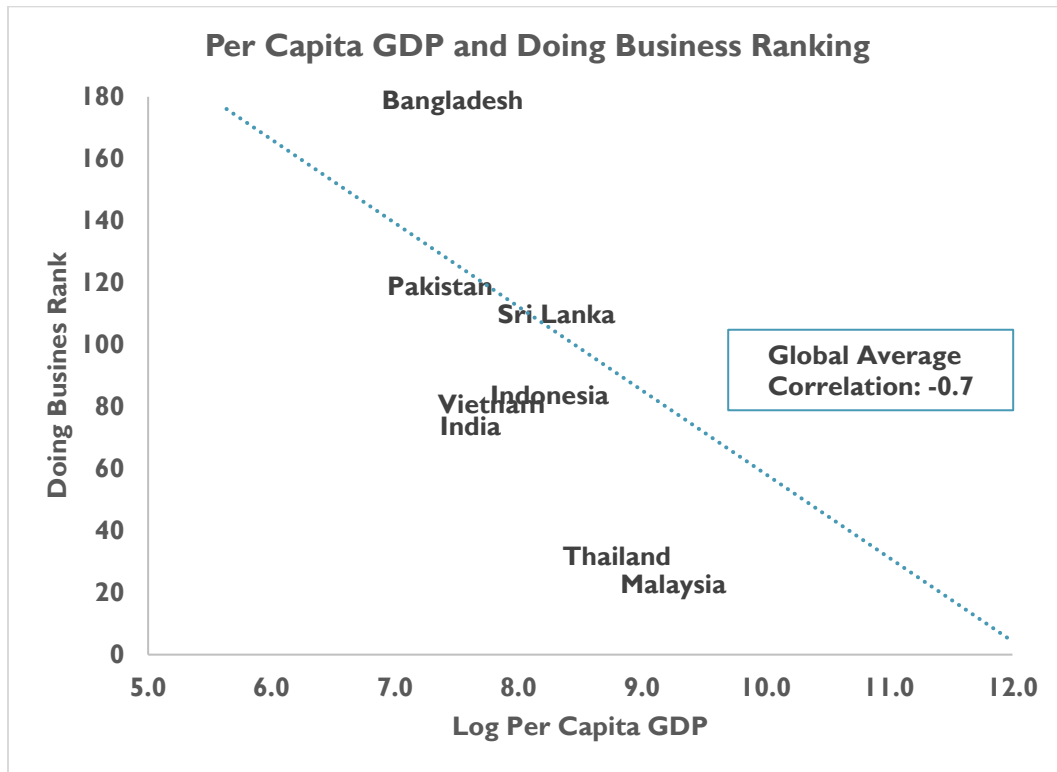


*Source: World Economic Forum*

In addition, Bangladesh does not compare well to regional peers or globally (Figure 23). It ranks 168 out of 190 countries on the World Bank’s Ease of Doing Business indicators. It performs close to Burundi, Cameroon, and Sudan. It also performs far worse than the average for countries at its level of income. The overall correlation between income per capita and Doing Business Rank suggests a country at Bangladesh’s level of income should rank at about 100, far above its rank of 168. Most of Bangladesh’s peers rank at or above average for their level of income. Bangladesh is also making slower progress on improving its Doing Business Rankings compared to peers in South Asia and Southeast Asia (Figure 24).



Figure 23

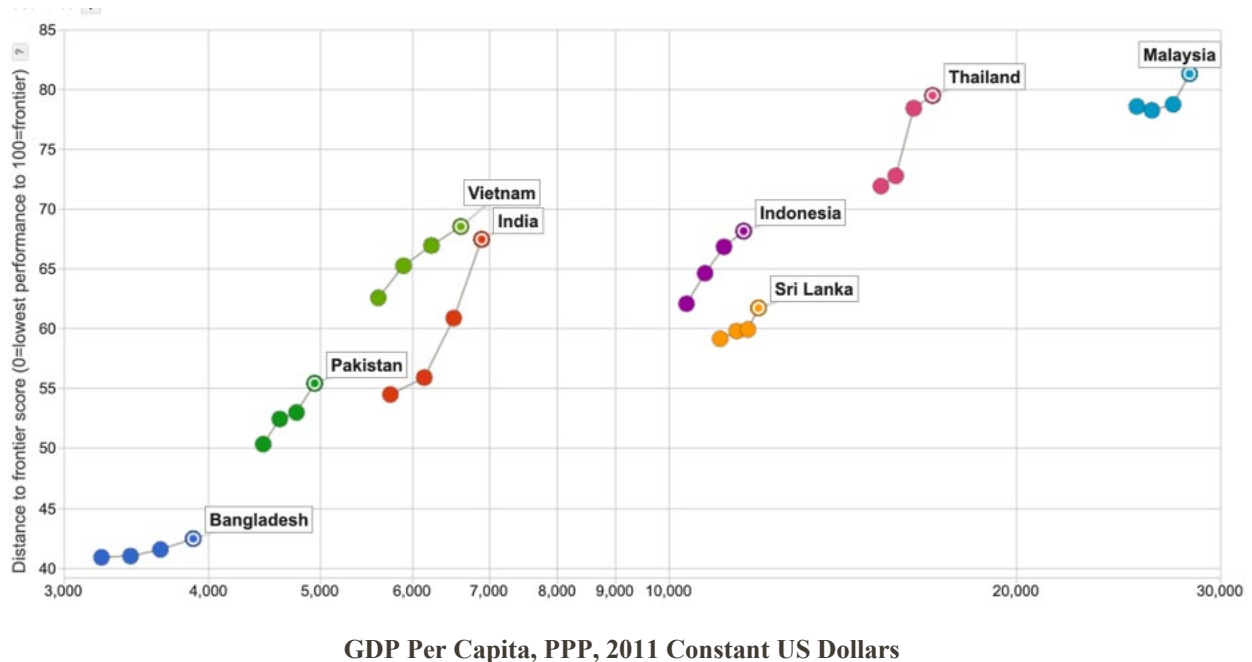


Source: World Bank Doing Business Index and World Development Indicators

Figure 24

Distance to Frontier Scores for Bangladesh and Regional Peers: 2015 to 2018

[Link](#)



*Source: World Bank Doing Business Index and World Development Indicators*

Bangladesh scores close to the bottom of four of ten of the Doing Business rankings ten components (Getting Electricity, Registering Property, Trading across Borders, and Enforcing Contracts). Its best ranking is on Protecting Minority Investors (72), but this is still second from the bottom compared to regional peers. Its ranking is lower than comparator countries in South Asia and Southeast Asia in all components of the Ease of Doing Business rankings but two, Starting a Business and Paying Taxes, where its rank is second from the bottom (Figure 25).

**Figure 25**

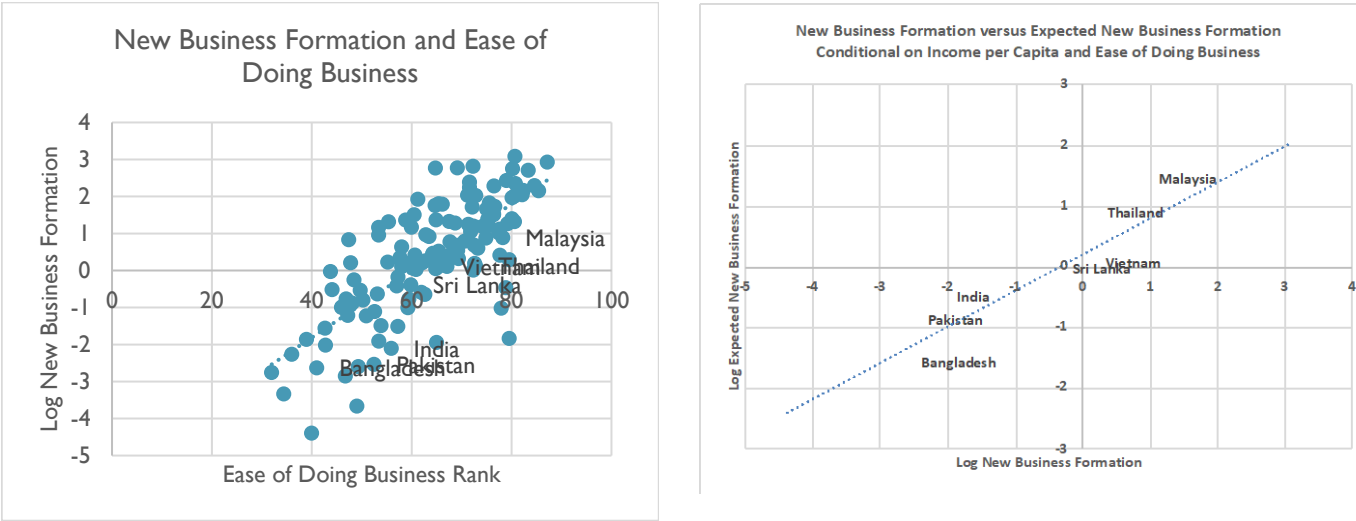
<b>Doing Business Rankings by Component: Bangladesh and Regional Peers</b>								
Country	Bangladesh	India	Indonesia	Malaysia	Pakistan	Sri Lanka	Thailand	Vietnam
Overall Rank	168	63	73	12	108	99	21	70
Starting a Business	131	136	140	126	72	85	47	115
Dealing with Construction Permits	135	27	110	2	112	66	34	25
Getting Electricity	176	22	33	4	123	89	6	27
Registering Property	184	154	106	33	151	138	67	64
Getting Credit	119	25	48	37	119	132	48	25
Protecting Minority Investors	72	13	37	2	28	28	3	97
Paying Taxes	151	115	81	80	161	142	68	109
Trading across Borders	176	68	116	49	111	96	62	104
Enforcing Contracts	189	163	139	35	156	164	37	68
Resolving Insolvency	154	52	38	40	58	94	24	122

Scale: Red (worse) to green (best)

*Source: World Bank Doing Business Index*

There is a very strong correlation between Ease of Doing Business Rank, formal new business formation, and per capita GDP (Figure 26). Bangladesh’s level of new business registration is lower than others at its ranking on the Ease of Doing Business index. Yet the level of new business registration is very close to the expected level based on Bangladesh’s income per capita and Ease of Doing Business Rank. The implication from these findings is not that new business formation is low. Rather, the implication would appear to be that formal business registration is low because it is much easier for small firms, which account for well over 90 percent of all firms in Bangladesh, to operate informally as only about 25 percent of cottage industries are registered.

Figure 26



Source: World Bank Doing Business Index and World Development Indicators

#### IV. FINDINGS FROM DIAGNOSTICS

There have been a number of recent diagnostics on constraints to improving the BEE in Bangladesh. The table below summarizes the key findings of some of the more prominent studies. Common findings are weak institutions, a poor regulatory environment, regulatory capture, and the limits of RMG as a driver of diversification. We review some of the more common findings and draw on more targeted diagnostics below.

TABLE 2: KEY POINTS FROM RECENT BEE ASSESSMENTS OF BANGLADESH
<p><b>World Bank 2015 Bangladesh Systemic Country Diagnostic</b></p> <ul style="list-style-type: none"> <li>• Growth potential of investment is constrained by weak institutions.</li> <li>• Excessive regulations.</li> <li>• Paying tax in Bangladesh is plagued with numerous policy and administrative complexities.</li> <li>• Emerging sectors and new businesses get the brunt of excessive regulations</li> <li>• Access to land is difficult.</li> <li>• Poor enforcement of contracts.</li> <li>• Regulatory enforcement remains a major hurdle.</li> <li>• Trading across borders is burdened with high costs and time for trade.</li> <li>• High hidden costs remain a major hindrance to doing business.</li> </ul>
<p><b>International Finance Corporation 2020 Building Competitive Sectors for Export Diversification</b></p> <ul style="list-style-type: none"> <li>• Bangladesh does not have a competitive economy.</li> <li>• Government efforts to improve the business enabling environment have been slow.</li> <li>• Regulatory systems are generally ineffective, and enforcement is uneven.</li> <li>• Bangladesh rates very low on regulatory measures affecting trade.</li> <li>• Logistics are poor and logistics costs are high.</li> <li>• Infrastructure and institutions for training are insufficient.</li> <li>• Access to finance is a challenge.</li> <li>• The tariff system is not conducive for non-RMG exports and protects inefficient firms selling to the domestic market.</li> </ul>

- Investors perceive compliance with environmental and safety standards to be low.

#### **Bertelsmann Stiftung Transformation Index (BTI) 2018 and 2020 Bangladesh Reports**

- Market competition in Bangladesh functions under a weak institutional framework.
- The steering capacity of the state is impeded by partisan politics and widespread corruption.
- Competitive political interests within the ruling party delay policy implementation.
- Appointments to state-owned financial institutions have had disastrous consequences.
- Inefficient utilization of resources due to corruption and lack of accountability.
- The domination of industrialists and businessmen in parliament hijacks governance priorities.
- The ruling party has no regard for transparency.

#### **Department for International Development (DfID) USAID 2014 Growth Diagnostic**

- Insufficient electricity is a constraint to growth.
- Corruption is a major obstacle to economic growth by increasing the cost of doing business
- Lack of contract enforcement is highly problematic
- Bangladesh has a very high-profit tax
- Insecure land tenure is exacerbated by a corrupt, costly, and ambiguous land titling and registration system.

#### **Raihan, et al. 2017 Bangladesh Sectoral Growth Diagnostic**

- Three potential high-growth sectors: agro-processing, leather, and ICT.
- Major constraints to agro-processing: Market access, inadequate infrastructure, problems at processing stages, lack of access to finance, lack of skilled labor, and institutional inefficiency.
- Major challenges to leather: Sluggish progress of relocation, lack of skilled labor, health and environmental hazards, lack of access to duty-free import of raw materials and machinery, and the high cost of doing business.
- Major constraints to ICT: Skills mismatch, inadequate infrastructure, lack of access to finance, an inadequate financial system, weak governance, and lack of supportive government policies.

#### **Asian Development Bank 2016 Country Diagnostic**

- The success of the RMG sector has inadvertently come at the expense of diversifying.
- The RMG sector has limited potential to expand the economy in its current state.
- The domestic economy has become more concentrated in a few sectors.
- Poor quality of education is a major constraint to growth.
- Effective tariff protection rates on non-RMG final goods have stunted their exports.
- Domestic producers are aware that profitability depends on relative protection.

## **A. WEAK INSTITUTIONS**

Recent diagnostics on the BEE in Bangladesh tend to benchmark it relative to a set of comparator countries and/or standards of good economic governance but generally do not address its causes. For example, according to DfID/USAID (2014: 61)<sup>24</sup>:

weak institutions and endemic corruption in Bangladesh undermine the public sector's ability to facilitate a good business environment...and are a major concern for private investment growth.

The World Bank 2015 Systematic Country Diagnostic (SCD) also observes that Bangladesh's economy will struggle to become more complex without stronger economic institutions (World Bank 2015: 15)<sup>25</sup>:

many Bangladeshi institutions are not adequately equipped to address key challenges the country faces...Stronger public sector institutions are needed to manage Bangladesh's larger and more complex economy. Moreover, accelerating economic progress will require going into a more complicated phase of reforms that address a whole range of factors adversely affecting investment incentives and production efficiency, including corruption.

24 USAID and DfID. 2014. Bangladesh Inclusive Growth Diagnostic. Washington, DC: USAID.

25 World Bank. 2015. Bangladesh - More and Better Jobs to Accelerate Shared Growth and End Extreme Poverty: A Systematic Country Diagnostic. Washington, DC: The World Bank.

The BTI (2018) assessment of the BEE in Bangladesh best captures the links between corruption and lack of accountability by highlighting that the former can only effectively function with the latter (BTI 2018: 11)<sup>26</sup>:

public office holders are rarely subjected to judicial or parliamentary scrutiny...The Anti-Corruption Commission (ACC) remains the most ineffective body...According to the ACC 2015 annual report, poor conviction rates due to shoddy investigations led to the acquittal of 207 out of 306 corruption convicts. Though the government pushed the Anti-Corruption Commission (Amendment) Bill of 2016 in parliament to provide more teeth to the ACC...the situation on the ground remained unchanged.

Widespread corruption in public life is an unfortunate reality in Bangladesh. The Comptroller & Auditor General (CAG) audits government expenditures but rarely requests that the government explain large-scale spending or points to irregularities in expenditure. A sense of impunity is widespread as the anti-corruption commission has never convicted any high-profile politicians or businessmen. Most of the corruption cases are politically motivated and public faith in the ACC is absent...

Party financing is one of the grayest areas where unaccounted money is deposited. There is no audit or regulatory mechanism in place to scrutinize sources of party funding. Access to relevant information pertaining to governance is absent.

The BTI 2020 report also highlighted the issue stating (BTI 2020: 29)<sup>27</sup>:

it is difficult for the government to implement its promise to fight corruption, or to steer the economy in a way that would benefit all strata of the society. There are numerous institutional defenders of the status quo. For example, the politicized bureaucracy and administration would prefer to maintain the status quo. The government will not introduce any institutional reforms that would undermine its monopoly on the use of power by strengthening democracy.

## **B. POOR REGULATORY FRAMEWORK**

Bangladesh's poor regulatory framework features prominently in recent BEE diagnostics. Some of the clearest examples include fragmented regulations; arbitrary enforcement; particularly weak contract enforcement; complex trade procedures; and an anti-export tariff policy.

### **I. FRAGMENTED REGULATIONS:**

In Bangladesh, starting a business requires firms to complete nine steps, present at least 31 documents to six different agencies (including commercial banks), and takes about three weeks (Tables 2 and 3). Registering at the Registrar of Joint Stock Companies and Firms, obtaining a trade license, and registering for value-added tax (VAT) are especially burdensome as they require seven, six, and nine documents respectively

---

26 Bertelsmann Stiftung. 2018. BTI 2018 Country Report - Bangladesh. Gütersloh: Bertelsmann Stiftung.

27 Bertelsmann Stiftung. 2020. BTI 2020 Country Report - Bangladesh. Gütersloh: Bertelsmann Stiftung.

**TABLE 2: PROCEDURES FOR STARTING A BUSINESS IN BANGLADESH**

PROCEDURE	MINIMUM NUMBER OF DOCUMENTS	AGENCY	TIME
<b>Verify the uniqueness of the proposed company name on the website of the Registrar of Joint Stock Companies and Firms</b>	1	Registrar of Joint Stock Companies and Firms	Less than one day (online)
<b>Register at the Registrar of Joint Stock Companies and Firms</b>	7	Registrar of Joint Stock Companies and Firms	Less than one day (online)
<b>Pay all applicable registration fees and duties at a designated bank</b>	4	Designated Bank	1 day
<b>Make a company seal</b>	1	Seal Maker	1 day
<b>Obtain a Tax Identification Number</b>	1	National Board of Revenue	Less than one day (online)
<b>Open a Bank Account</b>	1	Commercial Bank	1 day
<b>Obtain a trade license</b>	6	City Corporation	1 week
<b>Register for VAT</b>	9	National Board of Revenue	1 week
<b>Receive physical inspection of the business premises by a government agent and after VAT registration</b>	1	National Board of Revenue	1 day

**\*Food safety (Sanitary and Phytosanitary) regulations are similarly fragmented. At least 10 ministries have jurisdiction over food safety issues.**

*Source: World Bank Doing Business Index*

**TABLE 3: KEY MINISTRIES AND AGENCIES WITH JURISDICTION OVER FOOD SAFETY**

MINISTRY	FOOD INSPECTION AND ENFORCEMENT AGENCIES AND DEPARTMENTS
<b>Food</b>	Bangladesh Food Safety Authority
<b>Local Government, Rural Development and Cooperatives</b>	308 municipalities and eight or nine city corporations
<b>Health and Family Welfare</b>	Directorate General of Health Services (seven divisions, 64 districts, 480 upazilas); Institute of Public Health; Institute of Epidemiology, Disease Control, and Research
<b>Agriculture</b>	Department of Agriculture Extension
<b>Fisheries and Livestock</b>	Department of Fisheries; Department of Livestock Services
<b>Industries</b>	Bangladesh Standards and Testing Institution
<b>Finance</b>	Department of Customs
<b>Home affairs</b>	Department of Police
<b>Establishment</b>	Executive magistrates in mobile courts
<b>Law</b>	Food courts

*Source: Feed the Future - Bangladesh Improving Trade and the Business Enabling Environment Mapping of Current Food Safety and Oversight Framework in Bangladesh*

Likewise, there is very little institutional coordination and no strategic vision or overarching policy framework to support SMEs (Andrianaivo, et al. 2018)<sup>28</sup>. About a dozen ministries and agencies regulate SMEs, including:

- Bangladesh Council of Scientific and Industrial Research
- Bangladesh Industrial Technical Assistance Centre
- Bangladesh Small and Cottage Industries Corporation
- Business Promotion Council
- Department of Youth Development under the Ministry of Youth and Sports
- Ministry of Commerce
- Ministry of Industry
- MSME Department of Bangladesh Bank
- Other agencies focusing on specific sectors:
- Palli Karma Sahayak Foundation (PKSF), an APEX organization established by GOB
- Small and Cottage Industries Training Institute
- SME Foundation, under the Ministry of Industry

According to the World Bank (2015:69), regulatory fragmentation is:

<sup>28</sup> Andrianaivo, Mihasonirina, Ilias Skamnelos, Ilias, and Aminanta Ndiaye. 2018. Financing Solutions for Micro, Small, and Medium Enterprises in Bangladesh. Washington, DC: World Bank.

reflected in outdated and at-times conflicting rules, laws, and regulations that govern the interfaces between government and businesses...Due to the high time and cost burdens of compliance, many firms tend to remain informal, and these informal firms pose a challenge to the business practices of the formal private sector.

## 2. ARBITRARY ENFORCEMENT:

Two desultory results of fragmented regulations in the context of weak institutions are arbitrary enforcement and opportunities for rent-seeking. According to the World Bank (2015: 71):

Regulatory enforcement...is exacerbated by an unclear and uncertain inspections regime...inspections become tools for rent-seeking, creating regulatory burdens on business and delivering negative impacts on society, citizens, and business.

World Bank (2019) traces the various mechanisms that link fragmented regulations with arbitrary enforcement. It finds (World Bank 2019: 32)<sup>29</sup>:

The space for discretionary behavior is often created by weaknesses in the rule-book. Policies, laws, and regulations, as written, may not be relevant, consistent, or robust. Such deficiencies may leave regulatory gaps and leave huge scope for differing interpretations of laws and regulations. The weaknesses in the rule-book are often accentuated by the fact that regulatory agencies do not provide adequate guidance to the front-line officials on how to interpret and administer the rules...

Inconsistencies in rules and regulations also create the space for discretionary interpretation by regulatory officials. Government agencies often impose their own rules and procedures without considering possible conflicts with rules and procedures imposed by other government agencies...regulatory officials...use this as an excuse to apply their own discretion in interpreting laws and regulations.

Regulatory gaps are also a serious issue. This is particularly so for innovative activities whose legality may be questioned if there are gaps in the legal and regulatory framework, or grey areas subject to discretionary interpretation...

officers may be encouraged to abuse their discretionary powers if they know that businesses have difficulty in accessing rules and regulations...This informational asymmetry reduces the ability and incentive of businesses to challenge regulatory officials.

Many regulatory areas lack effective grievance mechanisms...Even if businesses can voice their grievances, there may be inadequate or no follow-up by the relevant agency, with businesses having no recourse to higher authorities.

---

29 World Bank. 2019. Bangladesh Development Update: Towards Regulatory Predictability. Dhaka: The World Bank.



### 3. WEAK CONTRACT ENFORCEMENT

Contract enforcement in Bangladesh is especially challenging (Table 4). According to the World Bank's 2020 Doing Business Report, it takes about four years and costs about 67 percent of the total claim value to enforce a contract.<sup>30</sup>

TABLE 4: TIME AND COST OF ENFORCING CONTRACTS IN BANGLADESH		
PROCEDURE	TIME (DAYS)	COST (PERCENT OF CLAIM VALUE)
<b>Filing and service</b>	30	40
<b>Trial and judgment</b>	1047	8.3
<b>Enforcement of judgment</b>	365	18.5
<b>Total</b>	<b>1442</b>	<b>66.8</b>

*Source: World Bank Doing Business Index*

The Bangladesh judiciary has a backlog of more than 3.5 million cases. A 2013 report by the Supreme Court of Bangladesh and the United Nations Development Programme (UNDP) claimed the main causes of slow case adjudication were (Supreme Court of Bangladesh and the United Nations Development Programme (UNDP)<sup>31</sup>:

- Inordinate delays involving service of process.
- Excessive adjournments.
- Substantial time between individual hearings.
- Litigants and lawyers usurp judicial authority in courtrooms.
- Witnesses are neither effectively managed nor efficiently coordinated.
- Significant monetary sanctions are not imposed to enforce proper conduct.

According to GAN Integrity's 2018 Bangladesh Corruption Report, weak contract enforcement also is partially a result of corruption<sup>32</sup>:

Companies face a high risk of corruption in the Bangladeshi judicial system...irregular payments and bribes are frequently exchanged in order to obtain favorable court decisions...Sluggish judicial processes and the slow development of alternative dispute resolution mechanisms pose barriers to the resolution of business disputes...Corruption is perceived to be widespread in lower courts ...magistrates, attorneys, and other court officials frequently demand bribes from defendants or rule based on loyalty to patronage networks...

### 4. COMPLEX TRADE PROCEDURES

Formal trade processes and procedures in Bangladesh are complex. Bangladesh ranks 176 out of 190 countries in the Trading Across Borders component on the World Bank's 2020 Doing Business Rankings and 121 out of 160 countries on the Customs component of the World Bank's 2018 Logistics Performance Index.<sup>33</sup> Part of the reason for the length of time needed to import and export in Bangladesh is the large number of stakeholders and the potential for opportunistic ones to take advantage of information asymmetry and/or adverse selection. The key stakeholders are the National Board of Revenue (NBR), regulatory agencies, clearing and forwarding (C&F) firms, the Chittagong Port Authority, and importing/exporting firms. Their main responsibilities are:

- NBR: Collects customs and determines which cargo gets inspected.
- Other agencies (e.g., Bangladesh Food Safety Authority): Determine inspections by-product (if needed).
- C&F Firms: Collect cargo from ship; pay necessary fees and get needed clearances.
- Certified Public Accountant (CPA): Holds cargo.

30 [https://www.doingbusiness.org/en/data/exploreeconomies/bangladesh#DB\\_ec](https://www.doingbusiness.org/en/data/exploreeconomies/bangladesh#DB_ec)

31 Supreme Court of Bangladesh and UNDP. 2015. Timely Justice for All in Bangladesh. Dhaka: UNDP.

32 <https://www.ganintegrity.com/portal/country-profiles/bangladesh/>

33 <https://www.doingbusiness.org/en/rankings>

<https://lpi.worldbank.org/international/global?sort=asc&order=Country#datatable>

- Importer/exporter: Submits needed forms to NBR (and other agencies if needed) and works through C&F firm to pay fees and get clearances.

Trade facilitation policies and procedures lead to incentives for adverse selection and information asymmetries, which further raises trade costs and time. Some of these problems include:

- Firms submit false and/or incomplete documents to avoid fees and/or additional inspections.
- NBR and other agencies with jurisdiction over trade have unclear and arbitrary inspection rules, high staff turnover at lower levels, and junior officials excessively delegating decisions to more senior officials.
- Clearing and Forwarding firms fail to share accurate information with exporter/importer and/or lack professionalism.
- CPA earns fees from holding cargo, so has an incentive to increase cargo dwell time.

Due to the large number of stakeholders and opportunities to gain from adverse selection and information asymmetry, it is difficult to ascertain the most binding bottlenecks. A Port of Chittagong 2014 Time Release Study by the NBR found the main causes of delays for imports were (NBR 2014)<sup>34</sup>:

- Delays in the submission of inbound manifest by the shipping line.
- Delay in the arrival of original copies of invoices, packing list, and bill of lading.
- Wrong description of goods in the manifest.
- Disputes over the applicable tariff rate on the commodity or of its value for duty.
- Assistant Commissioner must approve penalty for amendments to the Import General Manifest.
- Many Bills of Entry are referred to Assistant Commissioner or higher, over valuation disputes, and in the vast majority of the cases, Customs uplifts the values despite the presence of an invoice declaring the price paid.
- Duplication of work as Assistant Revenue Officer's decisions are always referred to the Revenue Officer and the latter's decisions are often referred to the Assistant Commissioner and even higher levels of management.
- No simplified procedures are used by Customs as all Bills of Entry are subject to full documentary checks and examination.
- Delays in the release when importers need to pay duties and/or charges.

## 5. ANTI-EXPORT BIAS

The GOB offers producers for the domestic market substantial protection from foreign competition (Figure 27). Three adverse implications are that the tariff structure discourages firms from exporting, innovating, and becoming more efficient. The Asian Development Bank's (ADB) 2016 Country Diagnostic found (ADB 2016: xvii)<sup>35</sup>:

Effective tariff protection rates on non-RMG final goods have stunted their exports by providing an environment where other sectors can become complacent producing for the domestic market due to the protection of final goods.

The study concludes (ADB 2016: 143)

The resultant anti-export bias of the tariff and incentive regime for producers outside the export processing zones (EPZ) raises the question of why these enterprises export at all when the domestic market is more profitable. Indeed, there are few incentives to be innovative or to connect to export firms as intermediate suppliers.

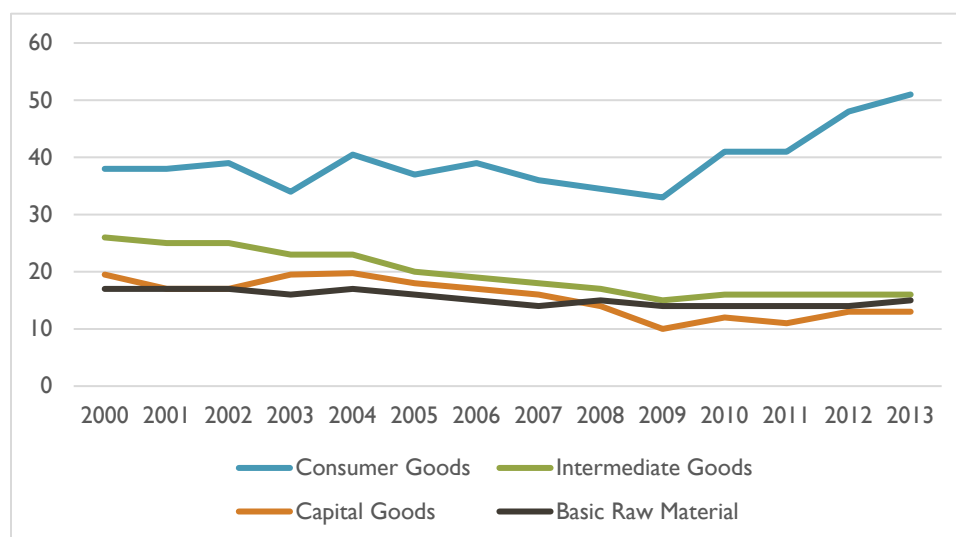
---

34 National Bureau of Revenue. 2014. Bangladesh Time Release Study Custom House Chittagong and Chittagong Port. Dhaka: National Bureau of Revenue.

35 Asian Development Bank. 2016. Bangladesh: Consolidating Export-Led Growth. Manila: Asian Development Bank.

Figure 27

Average Import Nominal Rate of Protection by Stage of Production: 2000-2013<sup>36</sup>



Source: Asian Development Bank (2016)

### C. REGULATORY CAPTURE

A third common theme from recent diagnostics is that the private sector exerts excessive influence over the regulatory system, and they use this pressure to further their interests to the detriment of the BEE and the general welfare of the country overall. This is easiest to see by examining the main profession of Members of Parliament (MP). Over the past thirty years, the main profession of about sixty percent of MPs is business, much higher than any other background, including lawyers and professional politicians (Table 5).

PARLIAMENT	YEARS	BUSINESS	LAWYER	OTHER PROFESSIONAL	POLITICS	OTHER
First	1973-1975	26	26	31	13	4
Fifth	1991-1995	63	19	16	2	0
Seventh	1996-2001	54	15	9	3	19
Eighth	2001-2006	61	9	8	2	20
Ninth	2009-2013	61	13	6	6	14
Tenth	2014-2018	64	13	2		21
Eleventh	2019-	66	10	2		22

Source: Firoj (2013); Liton and Molla (2018)<sup>37</sup>

<sup>36</sup> Raw materials are basic commodities used in the production of other goods, such as oil, steel, and lumber; Intermediate goods are proceeded products used to produce other goods, such as plastic, cement, and flour; Capital goods are machinery used to produce goods, such as industrial vehicles, machinery, and equipment; and consumer goods are final goods sold to consumers, such as cars, clothing, and processed and packaged food.

<sup>37</sup> Firoj, Jalal. 2011. "Forty Years of Bangladesh Parliament: Trends, Achievements and Challenges." Journal of the Asiatic Society of Bangladesh 58.1: 83-128.

<https://www.thedailystar.net/bangladesh-national-election-2018/news/its-businessmens-parliament-again-1672930>

According to BTI (2018: 31), the “domination of industrialists and businessmen in parliament hijacks governance priorities through their quest to seek rent.” Likewise, the World Bank 2015 Systemic Country Diagnostic finds that regulatory capture is especially detrimental to innovators (World Bank 2015: 70):

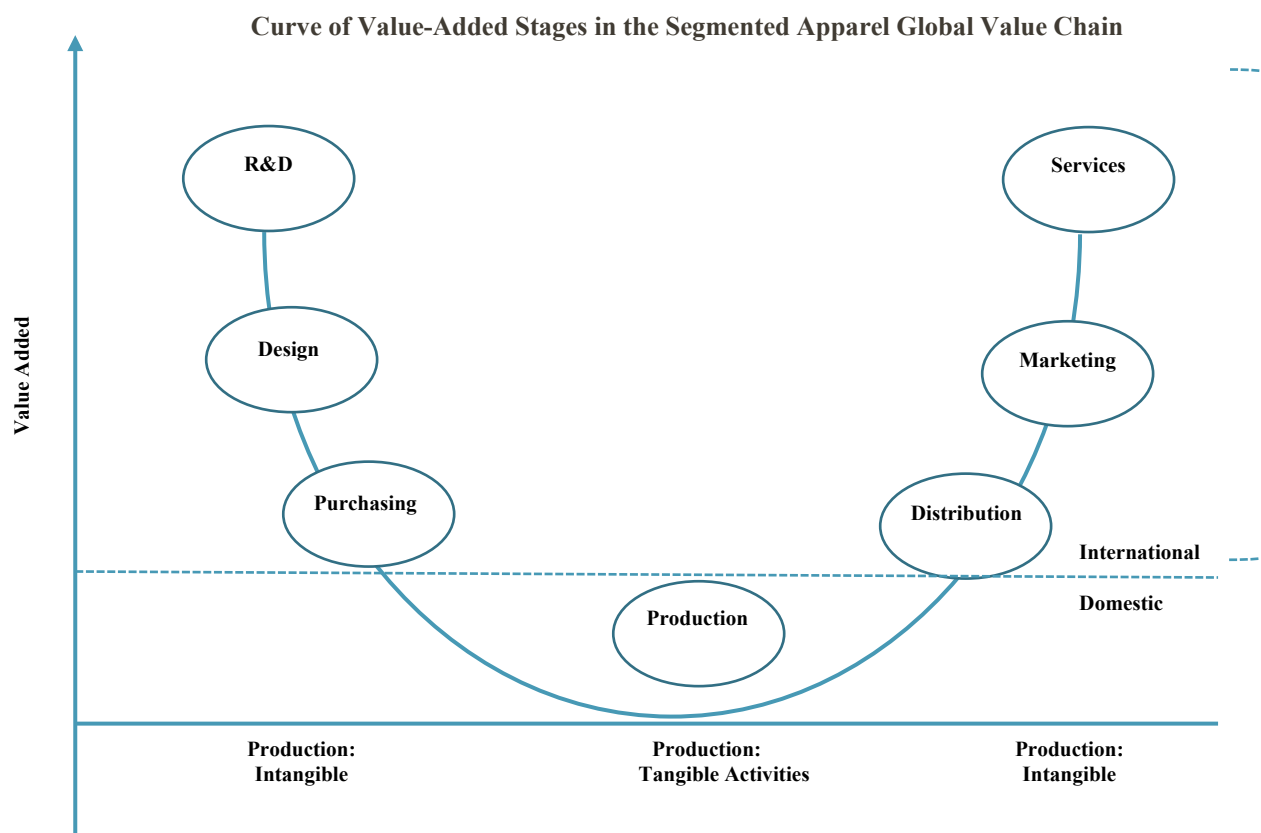
Emerging sectors get the brunt of excessive regulations...Innovative industries first suffer not only from the absence of a clear regulatory framework under which they are governed, but instead are subject to motley of other sectors’ frameworks when they start operations. Once they start demonstrating profit and scaling up, these sectors again come under the microscope of the regulator, who often seek to develop new regulations to guide their operations.

## D. LIMITS OF RMG

RMGs are increasingly an enclave. First, RMG exporters have their own regulatory system, so they do not suffer from the fragmented one described above. As a result, RMG exporters are not a coalition seeking to improve the BEE (Hassan and Raihan 2015)<sup>38</sup>. Second, there is little opportunity to move up the value chain in RMG exports (Figure 28). The Asian Development Bank’s 2016 country diagnostic found that ADB (2016: xvii)

The RMG sector has limited potential to expand the economy in its current state, because it relies solely on the comparative cost advantage that comes from excess labor supply and government incentives such as tax waivers...Moreover, in recent years the demand trends of the “fast fashion” industry have made it more challenging for Bangladesh to move up the fashion industry value chain.

Figure 28



*Source: Asian Development Bank (2016)*

<sup>38</sup> Hassan, Mirza and Selim Raihan. 2015. “Navigating the Deals World: The Politics of Economic Growth in Bangladesh” in Pritchett, et al. (eds.), *Deals and Development: The Political Dynamics of Growth Episodes*. Oxford: Oxford University Press.

Third, because RMG is not connecting to other sectors, there are few opportunities to diversify Bangladesh’s exports. The Asian Development Bank’s 2016 Country Diagnostic claimed (ADB 2016: 143):

Bangladesh has been unable to diversify across productive goods and services...most other manufacturing sectors are not inserted into global production chains. A large part of this has to do with trade policies that create a huge anti-export bias for non-RMG sectors: because of current incentives, and tariff rates, it is much more profitable to import raw materials and intermediate goods and produce for the domestic market than to export either intermediate or final goods.

Other constraints to diversification include (ADB 2016):

- Shortage of skills
- Limited use of new production technologies
- Insufficient infrastructure
- Difficulty meeting international standards and compliances: Bangladesh has far fewer International Organization for Standardization (ISO) 9001 certifications, the international standard specifying requirements for quality management systems, than its peers in South Asia and Southeast Asia (Table 6).

TABLE 6: ISO CERTIFICATIONS 2013	
COUNTRY	ISO CERTIFICATIONS
Bangladesh	263
India	40848
Indonesia	7890
Malaysia	12002
Pakistan	2369
Sri Lanka	656
Thailand	8901
Vietnam	5694

Source: 2018 ISO Survey of Management System Standard Certifications

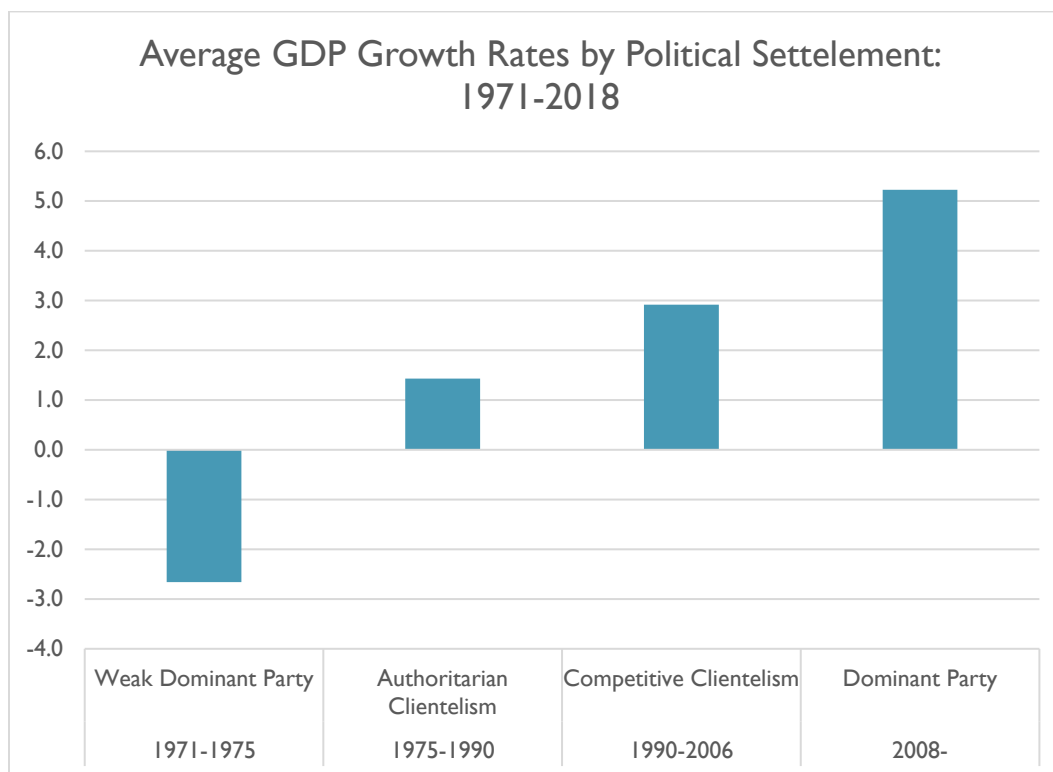
V. POLITICAL SETTLEMENTS IN BANGLADESH AND THE POLITICAL ECONOMY OF THE BEE

Below we describe the political economy of the BEE in Bangladesh, with a focus on explaining the ostensible paradox of high rates of economic growth under weak economic institutions. We first review the evolution of political settlements in Bangladesh since independence. We then explain how political settlements affect the BEE.

## A. POLITICAL SETTLEMENTS IN BANGLADESH

Leaders in Bangladesh have forged four distinct political settlements since independence. The first, from 1971 to 1975, was a Weak Dominant Party, the Awami League (AL), under Sheikh Mujibur (Mujib) Rahman, the leader of Bangladesh's independence movement. The second, from 1975 to 1990, was Authoritarian Clientelism under Major-General Ziaur (Zia) Rahman, founder of the Bangladesh Nationalist Party (BNP) until 1981 and then under General Hussain Muhammad Ershad until 1990. The third political settlement, Competitive Clientelism, lasted from 1990 until 2006. This period saw political power transition from the BNP led by Khaleda Zia, the wife of BNP founder Zia Rahman, to the AL, led by Sheikh Hasina, daughter of AL founder Sheikh Mujib Rahman, and back to Khaleda Zia again through Caretaker Government-Administered elections.<sup>39</sup> The fourth political settlement, since 2008, has been a dominant party under the AL led by Sheikh Hasina. The most notable feature of Bangladesh's political settlements is that per capita GDP growth has been greater in each settlement compared to the previous one (Figure 29).

Figure 29



Source: World Development Indicators

A second notable feature of the country's four settlements is that each has contributed its own elements of poor economic governance that remain today. As a result, a review of them demonstrates that deficient economic governance is not a by-product of Bangladesh's economic and political trajectories since independence but is central to them.

### I. WEAK DOMINANT PARTY: 1971-1975

Following victory from Pakistan in the Bangladesh Liberation War, Sheikh Mujibur Rahman became the country's interim President in 1971 and Prime Minister in 1972. The AL he led was immensely popular and drew wide-ranging support. It was "a classic example of a weak dominant party because it included so many groups that it faced little opposition from

<sup>39</sup> The Caretaker Government (CTG) is an interim government designed to administer elections introduced in 1991 following the adoption of the 13th Amendment to the Constitution. Its purpose is to limit the ruling party's capacity to influence election outcomes through electoral misadministration. Members of the caretaker government do not represent any political party, are not allowed to contest elections, and cannot take any policy decisions, unless absolutely necessary. The President of Bangladesh selects the head of the caretaker government and the latter selects other top members. The Supreme Court abolished the CTG in 2011, arguing that it violated the Constitution. See: Prodip, Mahbub. 2014. "Abolition of Non-Party Caretaker Government System in Bangladesh: Controversy and Reality." *Global Journal of Arts Humanities and Social Sciences* 2: 24-42.

outside, but its very size and complexity meant that the leadership had limited control over the organization” (Khan 2017: 24)<sup>40</sup>. Bangladesh faced numerous challenges in its early years as well including lack of administrative capacity, a weak economic infrastructure badly damaged by the Liberation War and the Bhola cyclone in 1970 (the latter caused an estimated \$450 million in damage in current dollars), and a devastating famine in 1974.

PM Rahman’s leadership style exacerbated the aforementioned challenges. While he was an immensely capable and popular campaigner for independence, he proved less adept at managing factions within the AL and devising coherent economic policies. On the one hand, his broadly Socialist inclination led to a high degree of central planning and wide-ranging nationalization of key industries. On the other hand, Rahman managed political competition within the AL through appointments to key administrative positions in the civil service and top management positions in nationalized industries, regardless of technical capacity. In addition, he tolerated a policy planning process disconnected from the day-to-day operations of government ministries and state-owned industries. Among the results were key weaknesses in economic governance that remain today such as tolerance for use of state office for personal gain and “weak accountability and low levels of responsibility in policy implementation” (Lewis 2011:79)<sup>41</sup>. Poor economic performance, in part due to the shortcomings described above, as well as a devastating famine in 1974, also exacerbated by poor governance, caused Rahman to become increasingly unpopular and prompted him to govern in more autocratic methods. His term in office ended with a coup and his assassination in August 1975. Per capita GDP contracted by about 2.7 percent per year and overall real income per capita fell by 20 percent during his term in office.

## 2. AUTHORITARIAN CLIENTELISM: 1975-1990

Bangladesh’s second political settlement, Authoritarian Clientelism, lasted from about 1975 to 1990. The foremost significant legacies from the second political settlement were the turn toward market-led growth, the development of the RMG sector, accelerations in using public office for private gain, and the development of a fragmented and arbitrarily enforced formal BEE.

Bangladesh’s second political settlement began somewhat chaotically. Coups and martial law followed the assassination of President Rahman and the instability ended when Major-General Ziaur (Zia) Rahman gained power in 1977. In 1978, he founded the BNP. Zia was assassinated in 1981 by members of the military he alienated. Vice-President Abdul Sattar succeeded him. Sattar won the 1981 presidential election but oversaw a government plagued by infighting within the BNP. He also was in poor health due to his age. General Hussain Muhammad Ershad came to power in a coup in 1981 and remained President until the end of Bangladesh’s democratic transition in 1990. Per capita GDP growth in the second political settlement was better than the first, but was still very low, averaging about 1.4 percent per year.

President Zia’s main accomplishments in office were transitioning the economy to market-led development, ushering the development of the RMG sector, and, to a much lesser extent, allowing a limited democratic opening. Zia permitted the latter in the late 1970s by allowing political parties to mobilize and built the BNP through clientelism. Far more consequential, he moved Bangladesh from state-led development to a largely unregulated and state-facilitated market-led development. He also played a central role in developing the partnership between the Korean firm Daewoo and Bangladeshi-owned Dosh to launch the modern RMG sector in Bangladesh. While Zia was generally pro-business, his government was (Hassan and Raihan 2015: 106-107):

dithering in its implementation of pro-business reforms, especially related to privatization and relaxing bureaucratic control over business through regulatory reforms...

The post-1975 regime, in its drive to create new entrepreneurs and to bolster private-sector-led industrial growth, followed a de facto extremely lax form of regulatory governance...based on cronyism to a limited extent...but mainly on open deals...The latter category generated a proactive form of market-led corruption (unsolicited bribing of officials by entrepreneurs), as well as massive rent-seeking...the process...proved to be economically productive.

---

40 Khan, Mushtaq. 2017. Anti-Corruption in Bangladesh: A Political Settlements Analysis. Working Paper Number 3. London: Anti-Corruption Evidence (ACE) Research Consortium.

41 Lewis, David. 2011. Bangladesh Politics, Economy and Civil Society. Cambridge: Cambridge University Press.



General Ershad largely followed Zia’s market-led development model and accelerated blurring the lines between using state office for political gain and private sector development. As Kochanek (2003: 68–9) observed<sup>42</sup>:

It was Ershad who created the culture of private gain as patronage came to dominate the political and economic system. Under Ershad, state power was used to accumulate private wealth, including his own. Ershad centralized power in his own hands, personally reviewed a large number of files, and Ershad’s Presidential Secretariat in the words of one observer ‘sounded like a brokerage house with calls requesting the status of a contract, an import license, or a bank loan’....Ershad attempted to build support by providing important social groups with patronage and benefits...The decision on whether or not to proceed with a project was determined by the number and size of contracts and commissions made possible by the project, favoritism, nepotism, personal gain, and rent-seeking took precedence...A complex web of interlocking exchanges between the political elite and civil society, based on personal interests, motivations, and obligations, came to dominate over public responsibility.

Textile exports quadrupled as a share of total exports, from about 15 percent in 1975 to just under 60 percent in 1990, and exports as a share of GDP doubled. Nevertheless, exports remained very low in 1990 at just over five percent of GDP (Figure 30).

Figure 30



Source: World Development Indicators; Atlas of Economic Complexity

42 Kochanek, S. 2000. “The Growing Commercialization of Power”. In Jahan, ed. Bangladesh: Promise and Performance. Dhaka: University Press Limited.



### 3. COMPETITIVE CLIENTELISM: 1991-2006

President Ershad's corruption and narrow governing coalition, which excluded the AL and BNP, led to growing resistance from the two parties in the latter part of the 1980s and resulted in him stepping down from power in 1990. Bangladesh's third political settlement, Competitive Clientelism, lasted from 1991 to 2006. The third political settlement witnessed the apex of democracy and private sector dynamism in Bangladesh since independence. The period was also notable not for its corruption and tense elections. Largely due to an inability of the AL and BNP to agree to an institutional arrangement that would allow for reasonably free and fair elections, the settlement collapsed in 2006.

Bangladesh's third political settlement saw two peaceful transfers of power from the BNP under Khaleda Zia, widow of Zia Rahman to AL, under the leadership of Sheikh Hasina, daughter of former President Mujibar Rahman, in 1996 and from the AL to BNP in 2001. Claims by the AL that the BNP failed to appoint a neutral CTG for the 2006 election led the settlement to collapse in that year and resulted in January 2007 for President Zia "to declare a state of emergency, and a military-backed CTG was put in place that continued until December 2008" (International Crisis Group 2015: 4)<sup>43</sup>.

There was a major growth acceleration under the third political settlement. This was due, in part, to the development of a more stable informal system for regulating the BEE to compensate, in part to the weak formal BEE. As (Khan 2017: 27) maintains:

The real advantage of democracy was in achieving stability and reducing the conflicts between competing coalitions of factions. Private investments shot up, beyond the levels that could be achieved by the authoritarian Ershad regime, largely because of a more predictable long-term strategy through which the private sector could protect its interests by doing deals with the two main parties. If a government was becoming too extractive, businesses could threaten to switch support to the opposition.

The Third Political Settlement also saw rapid growth in the opportunity for regulatory capture. Under the third political settlement, "the business community has been extremely successful in lobbying for...special treatment...there are close links between political officials and business leaders, with the latter making generous political contributions and often represented directly in politics...Business associations have jealously guarded the significant array of exemptions, special regimes and informal benefits that they currently enjoy" (Hassan and Prichard 2014: 15)<sup>44</sup>.

Growth during the third political settlement was, for the most part, driven by exports and private sector investment (Table 7 and Figure 31). The two had average growth rates of 18 percent and 13.8 percent per year, respectively, from 1990 to 2006. Government consumption and investment grew at about 5.6 percent and 7.1 percent, respectively. Private-sector consumption grew at about 3.7 percent.

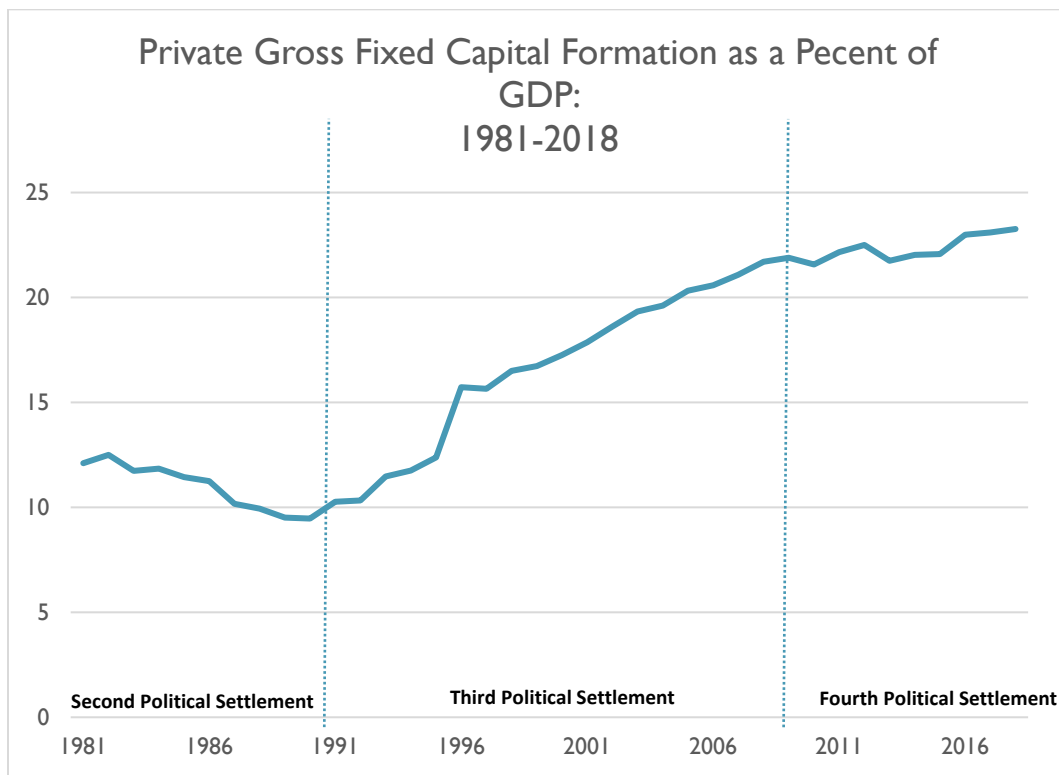
TABLE 7: SOURCES OF GROWTH IN THIRD POLITICAL SETTLEMENT		
	AVERAGE ANNUAL GROWTH 1990-2006	SHARE OF GDP 2006
<b>Exports</b>	18 percent	16 percent
<b>Imports</b>	15.1 percent	22 percent
<b>Government Consumption</b>	5.6 percent	5 percent
<b>Government Investment</b>	7.1 percent	6 percent
<b>Private Sector Consumption</b>	3.7 percent	73 percent
<b>Private Sector Investment</b>	13.8 percent	20.6 percent

*Source: World Development Indicators*

<sup>43</sup> International Crisis Group. 2015. Mapping Bangladesh's Political Crisis. Report Number 264/Asia. Brussels: International Crisis Group.

<sup>44</sup> Hassan, Mirza and Wilson Prichard. 2014. The Political Economy of Tax Reform in Bangladesh. Working Paper Number 21. Dhaka: BRAC Institute of Governance and Development.

Figure 31

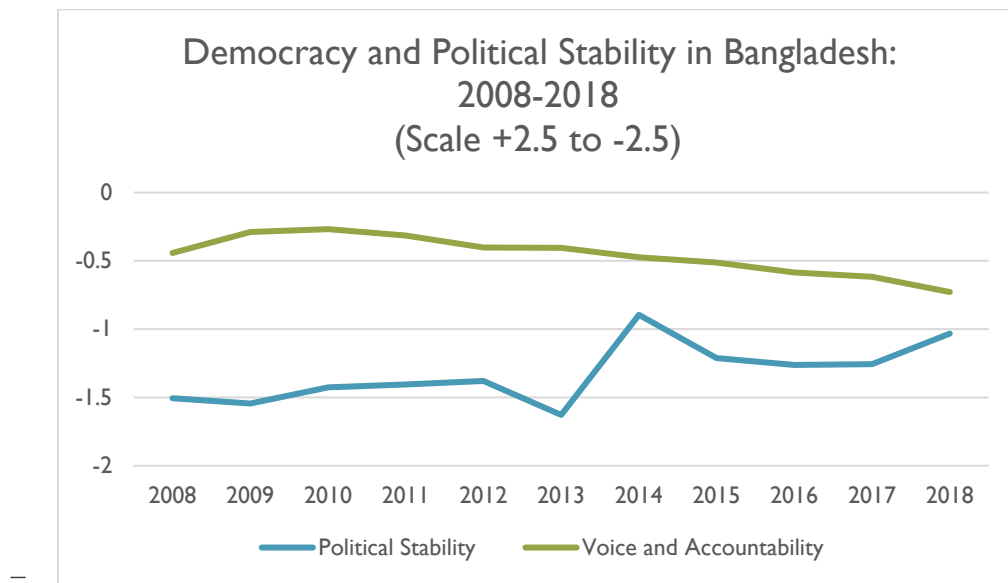


Source: World Development Indicators

#### 4. DOMINANT PARTY: 2008-

Bangladesh's fourth political settlement has been a Dominant Party under the AL since 2008. After two years of living under a state of emergency following the flawed 2006 election, the AL and BNP agreed to conditions that would allow for a reasonably free and fair election. The AL and its Grand Alliance Coalition partners won a landslide victory, securing 230 out of 300 seats in Parliament. Nearly all opposition parties, including the BNP, boycotted the 2014 and 2018 elections due to state-led violence, suppression of opposition parties, and electoral mismanagement. As a result, the fourth political settlement has been a period of fragmented opposition and deterioration in the quality of Bangladesh's democracy. Yet it has also seen rising political stability and rapid economic development (Figure 32). Perhaps the most notable example of the former is that Bangladesh's score on the Fragile States Index (FSI) has improved 13 points and its rank has fallen from 12<sup>th</sup> to 36<sup>th</sup>, mainly due to major improvements in its measures of inequality, economic conditions, group grievances, and demographic pressures, from 2008 to 2018.

Figure 32



*Source: Worldwide Governance Indicators*

Part of the reason why the AL has been able to become entrenched in power over the past decade is because of the collapse of the BNP. While the AL has used its power to silence the BNP, the latter has also contributed to its increasing marginalization (Hasan and Ruud 2019)<sup>45</sup>:

- The BNP's leadership has been decimated. Chairperson Khaleda Zia went to jail for corruption in 2018. Her son and BNP Acting Chairman, Tarique Rahman, has been living in exile in London for more than 10 years. In October 2018, Tarique was sentenced to life in prison due to his role in a 2004 assassination attempt on Sheikh Hasina. Other BNP leaders either are in prison, exile, or hiding.
- In part due to lack of visible party leadership, the BNP has failed to remain relevant. For example, the party had no visible presence in major public demonstrations in recent years on issues such as jobs, access to education, and the role of religion in public life in Bangladesh.
- The party, in general, lacks a coherent ideology and concrete policy agenda. The BNP has struggled to move past its clientelistic roots and internally divided factions to develop a clear set of issues it would address if it were in power. In addition, the BNP lacks credibility in the one area where it has offered a clear demand for change, reforms to improve the electoral system, due to its mismanagement of the CTG in the 2006 elections and inability to make progress on the issue since then.

Jamaat-e-Islami, Bangladesh's largest Islamic political party, has also lost substantial influence. The government has jailed a number of its top leaders due to their involvement in war crimes during the War of Independence. There exists some debate over whether these trials are mainly legitimate efforts to administer justice or whether the main goal is part of a broader AL effort to weaken opposition parties.<sup>46</sup>

The collapse of opposition parties has also led to the end of rent sharing and increasing alignment of business with the AL. According to Raihan and Bourguignon (2020: 9-10)<sup>47</sup>:

The political regime in place over the last 10 years or so can clearly be termed a 'dominant party regime'. Over time, it has evolved to become a nexus of five main actors: the ruling political elites, powerful economic elites, the military bureaucracy, the civil bureaucracy, and law-enforcement agencies. The 'shaping' and 'sustaining' of this regime is the result of Sheikh Hasina's firm and shrewd governing strategy. There is an apparently stable political settlement among these five actors as regards the generation,

<sup>45</sup> <https://www.aljazeera.com/indepth/opinion/wrong-bnp-bangladesh-main-opposition-party-190309114329851.html>

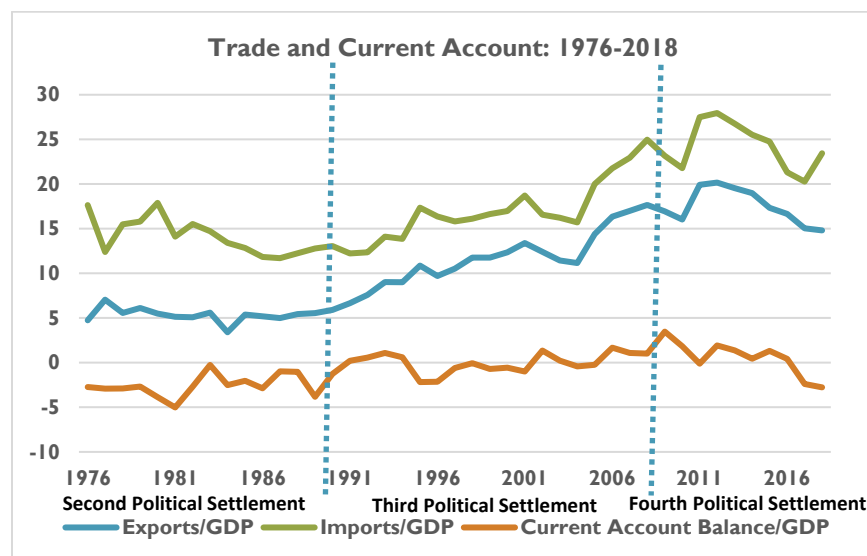
<sup>46</sup> <https://www.aljazeera.com/humanrights/2014/11/bangladesh-war-trials-justice-politics-2014112575656287496.html>

<sup>47</sup> Raihan, Selim and Francois Bourguignon. 2020. "An Institutional Diagnostic of Bangladesh: Introduction" in Raihan Bourguignon, (eds). Bangladesh Institutional Diagnostic. Oxford: Oxford Policy Management.

distribution, and management of rents from critical economic domains, such as the RMG sector, the power sector, and big infrastructure projects...the present dominant party regime has over the last 15 years or so provided a stability in the political system in Bangladesh never seen since independence.

Exports and import growth have both slowed during the fourth political settlement, and export concentration has risen substantially within RMG (Figures 33 and 34). In 2017, for example, four products alone, knit t-shirts, knit sweaters, and non-knit suits accounted for about 55 percent of Bangladesh's total exports (not shown).

Figure 33



Source: World Development Indicators

Figure 34



Source: Atlas of Economic Complexity

The average per capita GDP growth rate under the fourth political settlement has been 5.2 percent per year, the most rapid rate of sustained growth in the history of the country. In contrast to the third political settlement, which was largely driven by exports and private investment, government expenditure has been a key source of growth in the fourth political settlement (Table 8). Government consumption and government investment grew at an average rate of 7.3 percent and 13.7 percent per year from 2008 to 2018. By contrast, private sector investment growth has slowed from an average of 13.8 percent between 1990 and 2006 to 9.9 percent between 2008 and 2018, and export growth has slowed even further, from 18 percent during the third political settlement to 5.5 percent in the fourth. Nevertheless, the level of private investment remains far higher than public investment, at about 21 percent of GDP versus six percent of GDP, respectively.

**TABLE 8: SOURCES OF GROWTH IN FOURTH POLITICAL SETTLEMENT**

	AVERAGE ANNUAL GROWTH 2008-2018	SHARE OF GDP 2018
<b>Exports</b>	5.5 percent	15 percent
<b>Imports</b>	5.8 percent	23 percent
<b>Government Consumption</b>	7.3 percent	6 percent
<b>Government Investment</b>	13.7 percent	8 percent
<b>Private Sector Consumption</b>	5.3 percent	71 percent
<b>Private Sector Investment</b>	9.9 percent	23 percent

*Source: World Development Indicators*

The slowdown in the export growth rate of RMGs reflects rising challenges for one of the main growth engines of the economy. Growing competition from other low-wage countries, rising mechanization, stricter labor codes, and loss of preferential trade agreements as the country transitions to a middle-income status erode many of the comparative advantages the country has hitherto enjoyed. Absent reforms to diversify, exports continued slowing in their rates of growth is likely to persist (Bourguignon and Raihan 2020).

Despite rapid rates of growth under the AL since 2008, there have been no changes in Bangladesh's rank on the GCI or in its scores on the WGI measures of Control of Corruption and Rule of Law. Likewise, the World Bank Country Policy and Institutional Assessment measure of Business Regulatory Environment has slightly declined under the current dominant political settlement.

COVID-19 does not appear to be a critical juncture that will fundamentally alter the current political settlement. This is not because the government has addressed the crisis competently and/or because COVID-19 will only have a small impact in Bangladesh. Neither is true. Bangladesh's public health care system is not able to address the pandemic effectively. For example, Bangladesh has one of the lowest rates of COVID-19 testing in the world, about two tests per thousand people.<sup>48</sup> The economic impact has also been severe as two major growth engines The World Bank projects GDP growth to slow from 8.2 percent in 2019 to 1.8 percent in 2020 and 2021.<sup>49</sup> RMG exports and remittances may suffer extended negative shocks as well. Buyers of the former may switch their orders to competitor countries that have addressed COVID-19 more competently, such as Vietnam. In addition, when or whether repatriated migrant workers will be able to return to their jobs is unclear.<sup>50</sup>

The GOB's less than competent health response to COVID-19 and the economic damage from it might appear to be a major threat to the AL's dominant party control. At the moment this does not appear likely for two main reasons. First, RMG firm owners that have suffered from the closure of their factories and declines in future orders have received subsidized loans from the government and whether they will repay them is unclear given the AL's tolerance for this practice among firms with strong political connections (BTI 2018). As a result, business elites largely continue to support the party. Second, while COVID-19 has led to serious income insecurity for large parts of the population, these citizens need an effective opposition to channel their disparate frustrations into a coherent critique of the AL's response to the crisis and offer a set of policy demands. Thus far, such opposition has failed to materialize. As long opposition parties remain fragmented and ineffective, the AL's position seems secure, its poor handling of the economic and public health crises notwithstanding.

## **A. POLITICAL ECONOMY OF THE BEE**

On the surface, rapid growth in Bangladesh over the past two decades appears to be a paradox of strong growth with weak formal economic institutions. Some of the key features of the BEE in Bangladesh are:

- Weak economic governance
- Poor policy design and execution
- Fragmented and arbitrarily enforced regulations

<sup>48</sup> <https://www.statista.com/statistics/1104645/covid19-testing-rate-select-countries-worldwide/>

<sup>49</sup> World Bank. 2020. South Asia Economic Focus Fall 2020. Washington, DC: The World Bank.

<sup>50</sup> <https://thefinancialexpress.com.bd/views/covid-19-deals-a-blow-to-overseas-jobs-remittances-1588001134>

- Regulatory capture

Each of Bangladesh's four political settlements have contributed to this situation:

- First Political Settlement: Ineffective systems for policy design and implementation and tolerance for using public office for private gain.
- Second Political Settlement: Support for market-led development, but lax in design and implementation of policies to create an effective BEE; even greater tolerance for using public office for private gain; and business owners offer side payments to help them circumvent the complex formal BEE.
- Third Political Settlement: Business owners gain substantial representation in Parliament and government; regulatory capture; and creation of a more efficient informal BEE for firms with strong political ties.
- Fourth Political Settlement: Strong alignment of economic elites and the ruling party.

Strong growth in Bangladesh under weak institutions is less paradoxical than it appears. Formal economic institutions in Bangladesh are about average for countries at its level of income. In addition, the quality of formal economic governance in some of the fastest-growing countries over the past two decades, such as Cambodia, Ethiopia, Laos, Myanmar, and Turkmenistan, is similar to and even inferior to Bangladesh. Most important, even with weak *de jure* institutions, *de facto* governance can be quite stable and predictable for those who understand how to work within the system. According to Hassan and Prichard (2013 13-14):

while corruption is extremely widespread, it has also been generally predictable, kept within manageable bounds, and free of the effects of partisan political competition...corruption and negotiation are subject to relatively centralized oversight...thus serving to discipline and regularize front line practices...

the explanation lies in understanding the motivation of the political leadership...political parties have informally agreed that the search for political rents should not impinge on the primacy of supporting continued economic growth, and the creation of economic rents for key actors in the private sector...there is a strong commitment to rent sharing in the economic sphere, with continued economic growth serving to expand the size of the economic pie...

The informality of the system allows it to serve an important political function as a conduit for distributing patronage, as a source of funding for the political leadership, and as a means to preserve and support continued economic growth. On balance, this combination of political constraints and political benefits has outweighed the desire for reform, as leaders have opted for the certainty of the current system rather than the uncertainty of change.

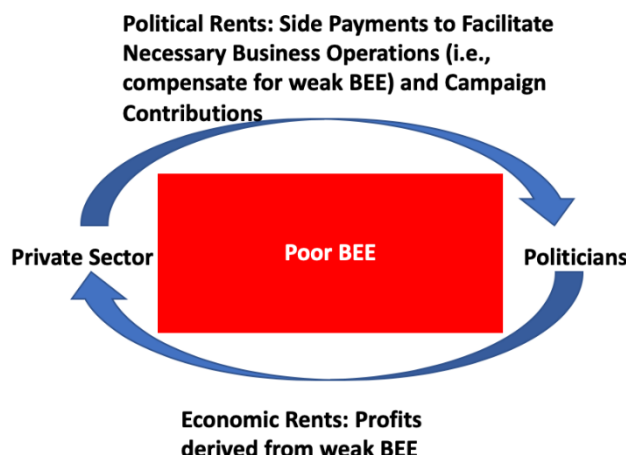
The GOB, in general, does not have coherent and effective processes and procedures for designing and implementing policies to encourage private sector development. Rather, "key investment or resource allocation decisions often result from agreements, i.e., 'deals', made between the political elite in government and the economic elite. These deals concern particular operations or programs that are chosen on an ad hoc basis, that is, without reference to some well-defined overall strategy" (Bourguignon and Raihan 2020: 21). As a result, the informal BEE described above is not occurring outside of a more general set of private sector development policies, but, in effect, constitutes them.

Firms that benefit from the *de facto* BEE in Bangladesh, in general, are not advocates for reform. Their knowledge of how to operate within the current environment is a source of profitable private information that would be eroded under a simpler and more transparent BEE. In particular, a more transparent and less cumbersome *de jure* and *de facto* BEE would likely lead to a more competitive private sector and reduced profits for those who thrive in the current environment. The result is a rough elite consensus to maintain economic and political control of the country through recycling rents from the private sector and politicians, as we show in figure 35 below.



Figure 35

# Political Economy of the Business Enabling Environment in Bangladesh



*Sources: Authors' compilations from Hasan and Prichard (2013); Hasan and Raihan (2015); and Khan (2017)*

A cumbersome formal BEE facilitates the operationalization of parts of Bangladesh's political settlement for two key reasons. First, it creates political rents, such as side payments to civil servants and donations to political campaigns, as these are the entry costs into the relatively predictable informal BEE. Second, firms that engage in the informal BEE earn economic rents, such as privileged access to state contracts and reduced economic competition, they might lose under a more effective formal BEE. As a result, the *status quo* is stable, absent strong challenges from those the system excludes. For example, concerning tax administration, Hassan, and Prichard (2013: 3) observe:

despite appearing highly dysfunctional on the surface, this system serves the core interests of powerful political, economic, and administrative actors. Underpinned by robust informal institutions, the current system delivers low and predictable tax rates to businesses, provides extensive discretion and opportunities for corruption to the tax administration, and acts as an important vehicle for political elites to raise funds and distribute patronage and economic rents.

RMG is an extreme example of the distinction between formal and informal BEE in Bangladesh (Hasan and Raihan: 2015):

- Firm owners are politically powerful and include many sitting MPs as well as retired government and military officials.
- Firm owners use their power to gain favorable exemptions and the sector is a net drain on revenue as it receives more in subsidies than it pays in taxes. While the GOB collects revenue from firms that serve the sector and income taxes from those who. Work in the sector, RMG firm owners externalize tax payments to beneficiaries of their activities.
- The RMG sector self regulates: (1) the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) control regulatory processes in the areas of operations and (2) firms wishing to produce garments must be a member of the association that regulates their activity. According to Hassan and Raihan (2015: 118) the sector:

enjoys privileges that are quite extraordinary. For instance, the state has delegated authority for rule enactments...and enforcement...to...BGMEA, as well as...BKMEA...the RMG sector's ability to generate and preserve a closed deal environment...allowed it to accrue substantial rent for decades...The embeddedness of the RMG sector with the state enabled the former to ring-fence the potential deleterious effects of the state's weak capacity and bureaucratic malfeasance...The success of such embedded policymaking also indicated that the RMG sector had been able to capture, to a large degree, the relevant policy process of the state.

According to Affan Mahmud Chowdhury, Chief Executive Officer (CEO) of Boomerang Digital, the BEE is especially hostile to entrepreneurs. Some of the more severe challenges they encounter are<sup>51</sup>:

- *Lack of access to capital.* Loans are very expensive in Bangladesh and new businesses face high barriers to taking a loan.
- *Opaque legal and regulatory systems.* Starting a new business can be traumatizing due to excessive asymmetric information and corruption. It is very difficult to get accurate information for procedures for starting a business without making side payments and the implementation of laws is idiosyncratic. The legal system is also generally adverse for small companies fighting larger ones.
- *Weak protection of intellectual property.* Copying ideas is common, which discourages innovation.

## VI. SUGGESTIONS FOR FEED THE FUTURE BANGLADESH TRADE ACTIVITY ACTIVITIES

It seems highly likely that Feed the Future Bangladesh Trade Activity will be implemented under the current dominant party political settlement. COVID-19 does not appear to be a critical juncture, although if the country endures permanent damage to the economy, especially for RMG exports, it could damage the AL's political control. As we do not yet have evidence to sustain this conjecture, the most sensible assumption is to consider Feed the Future Bangladesh Trade Activity activities that could be effective under the existing political settlement. Fortunately, there are a number of initiatives that could be effective by building off of previous development partner interventions, and by working through existing structures and initiatives. The subsections below explicate feasible Feed the Future Bangladesh Trade Activity activities by the three program areas in more detail. We first review recent donor efforts in these areas and then suggest useful activities to build on them.

### A. BUSINESS ENABLING ENVIRONMENT

There are a number of activities Feed the Future Bangladesh Trade Activity could undertake to improve the BEE in Bangladesh. The most effective activities it could potentially implement would target SMEs and especially cottage industries. There are three main reasons to target smaller firms. First, many of the larger firms in Bangladesh support their current informal BEE because they benefit from it. Second, SMEs account for the overwhelming number of firms in Bangladesh. Third, a more conducive BEE for cottage industries and micro-enterprises, for the most part, does not threaten the interests of larger firms. As a result, they would likely not oppose efforts to improve the BEE for small firms and could conceivably even support them as it would be a low-cost endorsement for broadening access to economic opportunity. The Asian Development Bank, Bangladesh Bank, the Japan International Cooperation Agency, and the World Bank have implemented SME development programs over the past few years. Their main efforts have been improving access to finance by directly providing it. These were effective in channeling more funds for SMEs but were not sustainable as they did not address broader regulatory issues that impede the development of SMEs, including institutional barriers in access to finance:

- Asian Development Bank Small and Medium Enterprise Sector Development Project (I and II): Two projects totaling \$125 million (with \$19 million coming from the GOB)
- Bangladesh Bank (BB): BB has undertaken three separate projects, (1) \$24 million for SME agro-processing; (2) \$12 million for new entrepreneurs in the cottage, micro, and small firms; and (3) a Sharia-based refinance facility for Islamic banks to expand the role of Islamic banks in SME finance.
- Japan International Cooperation Agency (JICA) Financial Sector Project for the Development of Small and Medium-Sized Enterprises (FSPDSME): A \$44 million project to create sustainable access to finance for SMEs, especially for productive investments.
- World Bank: Enterprise Growth and Bank Modernization Project (EGBMP): A \$72 million project aimed at offsetting employment losses from closed state-owned enterprises (SOE) through SME development.

A World Bank review of programs to improve the BEE for SMEs in Bangladesh had three main recommendations for more comprehensive efforts in this area (World Bank 2019A):

- Establishing a central coordinating multi-party body to promote MSME development and financing.
- Undertake an evaluation of past SME development programs.

---

51 <https://www.lightcastlebd.com/insights/2018/05/01/entrepreneurship-challenges-in-bangladesh>



- Clarify goals, mandates, and objectives of ministries and agencies with jurisdiction over SME development.

## B. TRADE FACILITATION

There have been two major initiatives to improve operations of the Port of Chittagong over the past few years that Feed the Future Bangladesh Trade Activity can use to structure its support for trade facilitation. The first is the Asian Development Bank's Chittagong Port Trade Facilitation Project. The second was a Time Release Study (TRS) of Chittagong Port NBR conducted in 2013-2014. We describe the main results and recommendations below.

From 2004 to 2013, the Asian Development Bank supported a program to improve trade facilitation in Bangladesh by improving the physical infrastructure inside and surrounding the Port of Chittagong and installing modern container tracking and management information systems. The program supported seven specific changes:

- Manifest automation at Custom House of Chittagong (CHC)
- Digitizing a container terminal management system (CTMS) at the Chittagong Port Authority (CPA)
- Installing a container scanning system at CHC,
- Improved road access to Chittagong Port
- Better terminal traffic circulation within the port
- Establishing an oil-waste reception and treatment facility and a spill management system
- Creating a port service improvement committee

The project was successful at modernizing port operations, reducing container dwell time, and creating a port service improvement committee. At the same time, the project had some shortcomings and was unable to address a number of pertinent issues to improve the efficiency of Chittagong port. First, while container dwell time fell during the project, vessel port dwell time rose due to increasing port traffic. Second, although the project was able to move port operations to electronic platforms, the systems are not compatible across relevant agencies. Third, it is not clear whether the port service improvement committee remains active and effective.

The project evaluation made three main recommendations:

- Explore further complementarities between the CPA and the private sector in port operations and related services, including development activities.
- Increasing the number and capacity of off-dock facilities (e.g., Internal Cargo Depots).
- Periodic reviews of a port's information technology (IT) systems are imperative.

In 2013 and 2014, the NBR undertook a TRS in Chittagong port. The report made five main sets of recommendations:

- Eliminate Redundant Procedures
  - a. Eliminate the Out Pass section and its function
  - b. Amend Section 45 of the Customs Act to eliminate automatic referrals to the Assistant Commissioner for penalty assessment
  - c. Consolidate Custom House and Off Dock facility procedures to eliminate manual transporting of hard copy documents
  - d. Eliminate the release order process
  - e. Revise internal workflows to simplify the clearance process by delegating authority and consequently eliminating duplication of work
- Conduct yearly comprehensive TRS
- Arrange specialized valuation trainings for Customs and C&F agent
- Implement a trusted trader program as outlined in the Revised Kyoto Convention
  - a. Create Authorized Economic Operators
  - b. Implement green and yellow lanes
- Automation/ICT
  - a. Fully implement electronic payment systems for both import and export declarations
  - b. Fully implement the selectivity model Automated System for Customs Data (ASYCUDA) World for risk management of all cargo declarations
  - c. Establish connectivity between Customs and Port Authority for the hold and release of cargo
  - d. Establish a fully paperless Customs system to eliminate the use of Support hard copies of documents

Progress in addressing these recommendations has been slow. For example, NBR has not undertaken additional TRS studies. Likewise, regulations remain fragmented, the port service improvement committee is not active, and ICT systems are not yet integrated. While there have been some improvements in the efficiency of port operations, such as expanding use of ASYCUDA World, conducting more inspections off-site, and greater use of IT, vessel turnaround time nevertheless has been increasing since 2013. There are a number of reasons for the lack of progress in key trade facilitation areas, including complacency among firms that are frequent traders and high levels of turnover of key officials due to the GOB's rotation policy. The former are content with the *status quo* as they have learned how to operate with tolerable levels of efficiency due to the knowledge of trade procedures. The latter is less a cause of sluggish implementation of key trade facilitation reforms than a symptom that they may not be a high priority. For example, ministries and agencies critical for the economy and national security, such as Bangladesh Bank, the Ministry of Defense, and the Ministry of Finance do not experience high levels of turnover of key officials.

### C. FOOD SAFETY

There have been two recent projects implemented by the United Nations (UN) Food and Agricultural Organization's (FAO) to improve food safety and SPS in Bangladesh over the past few years that Feed the Future Bangladesh Trade Activity can use to structure its activities in this area. We describe their main results and provide recommendations for Feed the Future Bangladesh Trade Activity below.

The UN FAO undertook two programs to improve Sanitary and Phytosanitary (SPS) in Bangladesh between 2012 and 2016. One program, Institutionalization of Food Safety in Bangladesh for Safer Food, focused on the institutionalization of food safety. The goal of this was to institutionalize food safety by helping to build a more efficient and effective national food safety control system through improving BFSA's ability to undertake effective interagency coordination. It had seven specific components.

- Food safety analysis capacity
- Standards formulation capacity based on risk
- Strengthened institutionalization of food safety
- Public awareness and education on food safety and consumer health
- Enhanced foodborne illness surveillance
- Preventive risk-based controls across the chain
- Capacity in identified sub-sectors for improved food safety and market access

The second project, Improving Food Safety, focused on enhancing food safety. The overall goal was to support the establishment of an efficient and well-functioning food safety control system. The specific components were:

- Coherent and effective national food safety and quality governance
- Effective integrated control of food chain threats. by coordinating food safety, animal health and environmental surveillance demonstrated in the poultry supply chain
- Coherent and effective national food safety and quality governance
- Enabling environment for improved third party inspection/verification and certification to national food control

An external evaluation of the programs found that they strengthened technical and functional capacities in relevant government ministries; increased public awareness of food safety issues; and created "irreversible initiatives and actions to strengthen systems and processes for field-level food control in the key agencies" (FAO 2017: 39). The evaluation observed that it could not accurately assess the impact of strengthening the BFSA to coordinates SPS regulatory systems as the changes needed to secure this objective were not yet complete at the time of the assessment. Nevertheless, the evaluators found "evidence of strengthening the institutional coordination, standards, and regulation setting mechanisms; technical capacities in analysis, surveillance and inspection; consumer awareness; and grassroots adoption of good practices resulting in food safety (FAO 2017: 2). They attributed these outcomes to:

- Multiple capacity development programs for different stakeholders
- Use of best practices
- Building trust among stakeholders
- Ownership and commitment from the Ministry of Health and Family Welfare (MoHFW)
- Participation of technical agencies
- inter-project coordination

Nevertheless, the evaluation was circumspect about the sustainability of the results, noting that it rested on six critical factors:

- Strong political support
- Continued appreciation of food safety as a public good
- Demonstrated commitment to good regulatory systems
- Appointing appropriate officials
- Sufficient budgets to achieve food control standards

USAID is funding a number of food safety programs in Bangladesh as well. Kansas State University is implementing Capacity Building and Development for Food Safety. The United States Department of Agriculture (USDA) is also funding this. USAID is also implementing Farmer-to-Farmer Food Safety and Quality project through Land-O'Lakes. Finally, USDA, through Land-O'Lakes, is also starting an agriculture trade facilitation project. The goals of the project are to modernize, harmonize, and simplify processes for imports and exports as well as expand the trade of agricultural products.

The UK Department for International Development through the British Council implemented Food Safety Governance in Poultry Sector. The project aimed to “improve the governance of poultry feed production and distribution systems and the regulation of poultry feed industries through national-level advocacy/lobby and strengthening local-level market monitoring” in Bangladesh.<sup>52</sup>

The EU funded Improving Consumer Awareness and Access to Certified Safe Tomato and Mango Products in Bangladesh from 2016 to December 2019. SNV Netherlands implemented the project. The project aimed to strengthen safety standards in the supply chain for tomato and mango processing.<sup>53</sup>

BFSA undertook a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis in 2019 (see table 9). It found that BFSA's most binding constraints were inter-agency coordination, lack of resources, and low staff capacity. In addition, BFSA needs to develop its capacity as a regulator within an existing inspections regime that functions in a stable, albeit well below optimal, equilibrium. At a minimum, this will require BFSA to advocate more forcefully for itself. Yet there is an array of actors in the private sector and the government that is opposed to BFSA becoming a more effective food safety regulatory agency. Those most opposed in the government are the Department of Agricultural Extension (DAE) in the Ministry of Agriculture and the Bangladesh Standards and Testing Institution (BSTI). The former is the regulator and standards enforcement office for agricultural goods and the latter performs the same functions for processed goods. The conflict of interest between serving simultaneously as developers and enforcers of standards presents opportunities for selective enforcement that might be threatened if these operations are split into two agencies, with BFSA serving as the former. Large food producers do not support the development of an effective BFSA for the same reason and firms that are committed to producing high-quality food, such as exporters (e.g., ACI Limited, PRAN Foods Limited, Square Food and Beverage) can get needed certifications from BSTI that allow them to sell their products abroad.

---

52 <https://www.britishcouncil.org.bd/en/food-safety-governance>

53 <https://snv.org/project/certified-safe-improving-consumer-awareness-and-access-certified-safe-tomato-and-mango>

**TABLE 9: BFSA SWOT ANALYSIS**

STRENGTHS	WEAKNESSES
<p><b>Food safety regulations are in place:</b></p> <ul style="list-style-type: none"> <li>Food Safety Act of 2013</li> <li>The Prime Minister of Bangladesh has prioritized Food Safety</li> </ul> <p><b>There is a vision about what food safety should look like:</b></p> <ul style="list-style-type: none"> <li>BFSA has a 5-year plan in place</li> <li>Government and non-technical members believe in food safety culture</li> <li>BFSA has dedicated members that are technically trained and knowledgeable</li> <li>BFSA believes in training and there is a training strategy in place</li> </ul> <p><b>There is a Food Safety Culture that is supported by BFSA and other authorities:</b></p> <ul style="list-style-type: none"> <li>Food safety is a priority for BFSA</li> <li>BFSA has strong leadership in place</li> <li>BFSA has a strong collaboration with USAID, USDA, and FAO</li> </ul>	<p><b>Currently, there is a lack of:</b></p> <ul style="list-style-type: none"> <li>Technical knowledge by the inspectors</li> <li>Staff, however, BFSA is actively recruiting and has a plan for strengthening staff numbers in the near future</li> <li>Supplies and equipment for testing by inspectors</li> <li>Training infrastructure, budgets, and capacity are low</li> <li>BFSA's training strategy is not yet fully adopted</li> </ul> <p><b>Inter-agency coordination is complex and often difficult:</b></p> <ul style="list-style-type: none"> <li>Challenges in agreement on which agencies need to report to BFSA</li> <li>How the regulations and authority apply to each agency</li> </ul> <p><b>Manpower is low.</b></p> <p><b>The disconnect between what inspectors learn during training sessions and what they can actually do.</b></p>
OPPORTUNITIES	THREATS
<p><b>Bangladesh consumers are concerned about food safety</b></p> <p><b>The food industry is investing in implementing food safety</b></p> <p><b>Political support for food safety by the Government</b></p> <p><b>Increasing Public-Private engagement</b></p> <p><b>Bangladesh Agriculture University has developed an undergraduate program for Food Safety Management</b></p> <p><b>Collaboration and capacity development with FAO, USAID, and USDA</b></p> <p><b>Recruitment is actively occurring</b></p>	<p><b>Multi-agency complexity</b></p> <ul style="list-style-type: none"> <li>Lack of coordination and collaboration between agencies</li> <li>Lack of regulatory control systems</li> <li>Food safety enforcement and post-training interests</li> </ul> <p><b>Changes in the political environment</b></p> <p><b>Training programs do not reach the correct stakeholders</b></p> <p><b>Scarce funding sources</b></p>

For the aforementioned reasons, BFSA is struggling to develop the capacity and influence within the GOB to effectively execute its mandate. The clearest example is its funding structure. While the Food Safety Act of 2013 envisions BFSA as an autonomous entity, in practice it functions as an office within the Ministry of Food. The latter does not appear to view developing a functional BFSA as a high priority due to the low budgets and limited staff it provides the organization. The Ministry also subjects BFSA to high levels of turnover of key officials. In addition, BFSA also faces institutional constraints in enforcing its mandate to serve as the lead food regulatory agency. For example, the Chair of BTSI is a higher grade within the GOB civil service than the Chair of BFSA.

The core issue is that BFSA, in its current form, lacks the resources to advocate effectively for its interests and the political support it needs to develop these capacities. For these reasons, BFSA faces a range of challenges to implementing its mandate. For example, while the agency has developed Memorandums of Understanding (MOUs) between the BFSA and relevant counterpart agencies, such as the DAE to facilitate the former's coordination role, they are not being implemented. Where Feed the Future Bangladesh Trade Activity could be effective is in assisting the agency in developing and beginning to enact a realistic action plan for meeting its stated mission to "protect consumers' lives and health by monitoring the safety of the food supply chain." The two key prongs of the action plan would be developing strategies (1) to secure greater resources, staff capacity, and leadership stability from the Ministry of Food and (2) for improving its outreach activities with key counterparts to bolster its capacity to better advocate on its own behalf.