

**Bangladesh Economists' Forum**

# **Vision 2030: What Lies Ahead for Bangladesh in a Post-MDGs World?**

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# Bangladesh Economists' Forum (BEF)

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Conference on  
Vision 2030: A Framework for Economic Policy Making  
and Strategy Formulation in a Pluralistic Democracy

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## Vision 2030: What Lies Ahead for Bangladesh in a Post-MDGs World?

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Radisson Hotel, Dhaka

21-22 June 2014

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# Vision 2030: What Lies Ahead for Bangladesh in a Post-MDGs World?

## I. INTRODUCTION

1. Since independence in 1971, the Bangladesh economy has changed a lot, and the changes could be more dramatic till 2030 than those in the past. The world economy will also undergo significant changes along with growth generated by the large developing countries, particularly the BRICs (Brazil, Russia, India and China) becoming a much larger force in the world economy than it is now.

2. Similarly, the architecture of the post-MDGs world is bound to be different in significant ways from the one that is prevailing today. From a global perspective, the development framework of the post-2015 period would probably have to be more universal to ensure its relevance to all countries, not just the developing ones. Moreover, for ensuring relevance and effectiveness, the framework would have to give greater space to the countries to determine their own post-MDGs development targets and identify the indicators with which to measure progress.

3. In addition, the range of issues that should be prioritized in the global framework must be broadened which are likely to be more complex than the issues covered in the MDGs. A key concern for development in the post-MDGs world would be to better understand how progress is distributed within society that would require progress to be measured in a disaggregated manner. For the purpose, a 'data revolution' is necessary to enable the government and policy makers to better track development progress and equip people with the information they need to demand more from their governments.

4. A recent ADB report highlights even economies that would emerge as potential drivers of Asia's rise into the 'powerhouse' over the next 40 years (ADB 2011).<sup>1</sup> The report maintains that Asia could re-emerge as engine of global growth by 2050 accounting for over half of the world GDP, up from 35 percent at present. The report calls for open trading system and peace and security for expediting growth in Asia. Under the best case scenario, Asian nations would account for 52 percent of the global economic output, followed by Europe at 18 percent and North America at 16 percent by 2050.

5. One may add that during the 16<sup>th</sup> and 17<sup>th</sup> centuries, before the industrial revolution in Europe, Asia used to account for about 60 percent of the world economy. Its share, however, dipped to a low of 15 percent between 1950 and 1970. Asia began to re-emerge first with Japan, then the NICs, followed by China and India. The report further indicates that Asia must act and be seen as a responsible and collaborative global citizen. The report emphasizes on

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<sup>1</sup>According to the report, the 'Asian century' will be driven by Asia 7: China, India, Indonesia, Japan, Malaysia, Republic of Korea, and Thailand. These seven economies had a combined GDP of \$14.2 trillion in 2010, 87 percent of Asian GDP, and a population of 3.1 billion, or 78 percent of Asia's total population. The report maintains that, by 2050, Asia 7 could account for 90 percent of Asian GDP comprising 45 percent of global output, even as their share of Asia's population falls to 73 percent. The average per capita income would be \$45,800 in PPP terms, 25 percent higher than the global average of \$36,600. See ADB 2011.

improving regional co-operation to create an Asia-wide free trade agreement and reduce behind the borders barriers. It also underlines the need for stepping up investment in regional transport and communication infrastructure and addressing issues concerning climate change and disaster preparedness.

6. Moreover, the dominant economies need to avoid falling into the middle-income trap responsible for stall in emerging market economies. This would ensure prosperity for some 3 billion people a generation earlier than they otherwise would enjoy. Yawning inequalities must be narrowed and, as home to over half of the world's population, Asia must confront a massive wave of urbanization and changing demographic profiles. The region's urban population would nearly double to 3.1 billion by the mid-century. Necessary reforms including improved governance and strong institutions are an Achilles heel for most economies in the region. Tackling environmental challenges is critical to ensuring food and water supplies and Asia needs to foster people to people contact to build mutual understanding, goodwill and trust.

7. In view of the likely leading role of Asia in the global economy during the post-MDGs period, it is imperative for Bangladesh to exploit the dynamic Asian development climate to its own advantage and move faster to bridge the development gaps that have persisted over decades.

## II. AN OVERVIEW ON BANGLADESH'S DEVELOPMENT

8. The economy of Bangladesh is relatively small and characterized by high population density, low resource base, and recurrent natural disasters. In 2011, total population has been estimated at nearly 150 million which gives a population density of more than 1,000 persons per sq. km which is one of the highest in the world. Most of the country's landscape, being low deltaic plains, is submerged by monsoon floods every year and the country experiences devastating floods including tidal surge and cyclones at regular intervals. Despite such formidable constraints, Bangladesh has performed well, especially in recent years, showing that a country can achieve significant human and social development even at relatively low levels of income (see Mujeri and Sen 2006, Sen et al. 2007).

### 2.1 Overall Growth Performance

9. The overall growth performance of the Bangladesh economy has not been spectacular over the past two decades although there has been a moderate acceleration in growth since the 1990s (Table 1 and Figure 1). The figures indicate that the country has made relatively good progress in increasing the per capita income particularly over the last ten years when its growth rate has accelerated to more than 5 percent per year. Higher growth of per capita Gross Domestic Product (GDP) has come from a combination of increased economic growth and reduced population growth. This, especially the remarkable and early demographic transition at a relatively low level of development, shows the country's transition to a new phase of development. However, while the acceleration in GDP growth attained by Bangladesh has been spectacular, the GDP growth of around 6 percent per annum is not particularly significant from an Asian perspective.

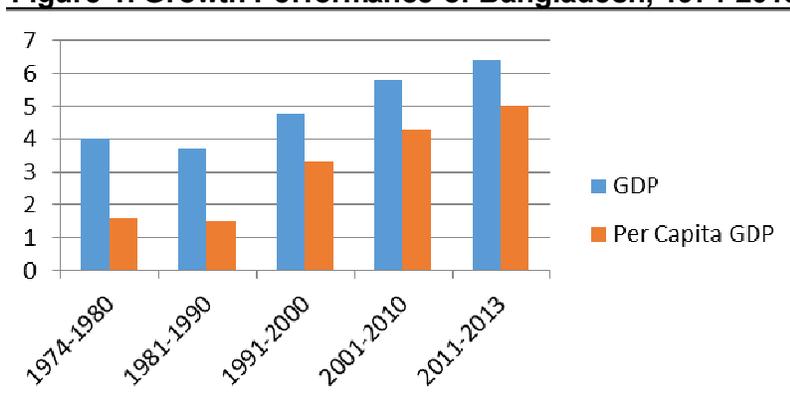
**Table 1: Economic Growth in Bangladesh**

	Annual average growth rate (%)				
	1981-1990	1991-2000	2001-2005	2006-2010	2011-2013
GDP	3.7	4.9	5.5	6.2	6.3
Population	2.2	2.1	1.5	1.4	1.3
Per capita GDP	1.5	2.8	4.0	4.8	5.0

Note: GDP is measured at constant 1995/96 prices.

Source: BBS 2000, 2001, MOF 2013

**Figure 1: Growth Performance of Bangladesh, 1974-2013**



Source: BBS.

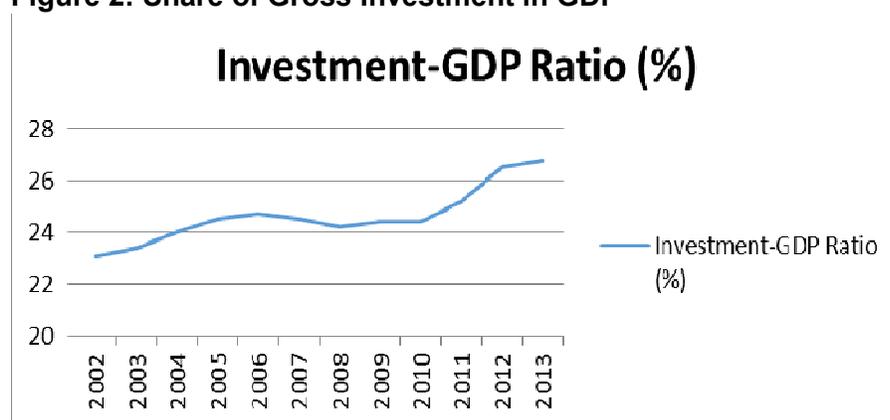
10. The values of the proximate determinants of growth have also changed favorably during the period (Table 2). The growth in GDP was supported by a rising rate of investment (Figure 2). The share of investment in GDP increased by more than 9 percentage points since the 1980s and the expanded investment was increasingly financed through the sources of domestic and national savings. With the adoption of private sector-led development strategy, the relative role of the private sector has also been increasing and private investment now accounts for nearly three-fourths of the total yearly investment in the country. The economy has become more open, with the share of merchandise trade (exports and imports) in GDP increasing from less than 21 percent in the early 1980s to more than 48 percent in 2013.

**Table 2: Selected Macroeconomic Indicators of the Bangladesh Economy**

(Percent of GDP)

Indicator	1981-1983	1998-2000	2001-2003	2004-2006
Gross investment	17.5	22.1	23.2	24.5
Gross domestic savings	11.7	17.7	18.3	20.0
Gross national savings	17.6	22.4	23.6	25.9
Exports	5.4	11.8	13.0	15.0
Imports	15.2	17.5	18.8	21.6
Total revenue	6.6	9.0	10.1	10.7
Tax revenue	5.3	7.3	8.0	8.6
Total public expenditure	11.4	13.7	14.8	14.8
Overall budget balance	-6.8	-4.7	-4.6	-4.2
Current account balance	-3.8	-0.5	-0.4	0.1
CPI inflation (percent)	11.0	6.2	3.0	6.5

Source: BBS 2000, 2001, MOF 2013

**Figure 2: Share of Gross Investment in GDP**

Source: BBS.

11. As for the structure of production, all three economic sectors (agriculture, industry and services) contributed to accelerating the GDP growth (Table 3). The annual growth rate of agricultural value added increased from 2.3 percent in the 1980s to 4.4 percent during 2007-2010 whereas a corresponding increase was by 1.2 percentage points for industry and 3.1 percentage points for the services sector. The structure of the economy also witnessed significant changes. The share of agriculture in GDP declined to 20 percent in 2010 from 33 percent in 1980. The share of industry correspondingly increased from 17 percent in 1980 to 30 percent in 2010 due mainly to the impressive performance of manufacturing exports and construction activities. The share of the services sector remained unchanged at around 50 percent.

**Table 3: Changes in Economic Structure, 1981-2010**

<b>A. Growth (%) at constant 1995/96 prices</b>				
	1981-1990	1991-1996	1997-2006	2007-2010
Agriculture	2.3	1.6	3.6	4.4
Industry	5.8	7.5	8.7	7.0
Services	3.7	4.1	6.2	6.8
GDP	3.8	4.4	5.5	6.2
<b>B. Structure: share (%) in GDP at constant 1995/96 prices</b>				
	1980	1990	1997	2010
Agriculture	33.2	29.5	25.9	20.3
Industry	17.1	20.8	25.0	29.9
Services	49.7	49.7	49.1	49.8
GDP	100	100	100	100

Source: BBS 2000, 2001, MOF 2013.

## 2.2 Social and Human Development

12. For Bangladesh, social and human development is both intrinsic to the definition of what constitutes a good standard of living and instrumental to the idea of development. For instance, education is a powerful vehicle for improving awareness on health issues and the uptake of preventive health practices. Effective government policies to mitigate the impact of preventable diseases, to protect the poor from insurmountable costs of health care, and to ensure access to affordable, essential high quality health care and education are key public goods that increase the stock of human capital and facilitate long-term economic growth.

13. The human development index (HDI) closely shadows the targets that all countries have endorsed as the Millennium Development Goals (MDGs) to be achieved by the year 2015. The HDI value of Bangladesh rose to 0.50 in 2011 from 0.30 in 1990 which gives an average annual HDI growth of 1.69 percent (UNDP 2011). Notwithstanding the relatively slow economic growth, Bangladesh's progress in human development has been fast and stands out in the overall context of South Asia. No doubt, the level of social deprivations is still high in Bangladesh but the important point is the fast progress achieved in several areas, such as in reducing fertility, bringing down child mortality and improving life expectancy. In most areas, Bangladesh's progress is higher than the average progress recorded by South Asia (Table 4).

## 2.3 Changes in Poverty and Inequality

14. Although economic growth is the major tool for fighting poverty and 'growth is a powerful ally of the poor, not their enemy', the issue is complex since the impact of economic growth on the rate of poverty reduction depends on the nature, strength, and other characteristics of the links that exist between economic growth and poverty. Moreover, these links are not direct and work at two stages which determine: (a) the relationship between economic growth and the distribution of income; and (b) the relationship between the distribution of income and poverty.

15. One obvious conclusion that follows from the above is that the effectiveness with which economic growth translates into poverty reduction depends on initial conditions (e.g. initial

income distribution), the stage of development, and other socio-economic characteristics of a country. In particular, the degree of inequality determines the strength of the poverty elasticity of growth.<sup>2</sup>

**Table 4: Social Development in Bangladesh: A South Asian Perspective**

	Bangladesh	India	Pakistan	Nepal	Sri Lanka	South Asia
Total fertility rate						
1975	6.8	5.1	7.0	6.3	3.9	5.4
2011	2.2	2.5	3.2	2.6	2.2	2.6
% change	-67.6	-51.0	-54.3	-58.7	-43.6	-51.9
Life expectancy at birth (year)						
1970	44.2	49.1	49.2	42.1	64.5	49.0
2011	68.9	65.4	65.4	68.8	74.9	65.9
% change	55.9	33.2	32.9	63.4	16.1	34.5
Under-five mortality rate (per 1,000 live births)						
1970	239	206	183	234	100	207
2009	52	66	87	48	15	69
% change	-78.2	-68.0	-52.5	-79.5	-85.0	-66.7
Adult literacy rate, ages 15 and above (%)						
1995	38.1	52.0	37.8	27.5	90.3	...
2010	55.9	62.8	55.5	59.1	90.6	62.8
% change	46.7	20.8	46.8	114.9	0.3	...

Source: UNDP, Human Development Report, various years

16. During the 1980s, poverty incidence declined at a very slow rate in Bangladesh, with substantial variation over different sub-periods and between rural and urban areas. The higher per capita real GDP growth had a salutary effect on the poverty situation in the 1990s. Between 1992 and 2010, the national head-count index declined from 59 percent to 32 percent (Table 5). This faster pace has largely been due to higher growth of income (consumption) during the period. The annual Household Income and Expenditure Survey (HIES) based real per capita consumption expenditure growth at the national level was only 0.6 percent during the period 1984 and 1992 which rose to nearly 2 percent between 1992 and 2010. A declining trend can also be observed for other poverty measures, such as the poverty gap index and squared poverty gap index. The changes show that the progress in reducing the head-count index has been better in the urban areas. The rural areas, on the other hand, displayed a better progress in reducing the depth and severity of poverty, as captured by the poverty gap and the squared poverty gap indices respectively.

<sup>2</sup> This brings out the importance of identifying specific policy measures that can improve or at least arrest the deterioration of income inequality without adversely affecting economic growth. The potential impact on economic growth of simultaneous policies to improve income distribution is difficult to predict a priori, in view of the complexity of the relationships. The empirical evidence from East Asian countries shows that countries with less initial inequality were able to realize higher growth but inequality also increased with growth.

17. Among the poor in Bangladesh, around one-third lives in 'extreme poverty' that includes those who belong to specific chronic poverty groups, such as the elderly poor, disabled people, destitute persons, socially marginalized ethnic groups, and those engaged in dying occupations. Multiple and overlapping vulnerabilities including long duration in poverty often spanning generations, adverse interplays between the vulnerable ecology and chronic social disadvantages, high levels of consumption shortfalls and food insecurity characterize the lives of the extreme poor.

**Table 5: Recent Changes in Poverty and Inequality**

	per cent		
	1992	2000	2010
<i>Head-count index</i>			
National	58.8	48.9	31.5
Urban	44.9	35.2	21.3
Rural	61.2	52.3	35.2
<i>Poverty gap index</i>			
National	17.2	12.8	6.5
Urban	12.0	9.1	4.3
Rural	18.1	13.7	7.4
<i>Squared poverty gap index</i>			
National	6.8	4.6	2.0
Urban	4.4	3.3	1.3
Rural	7.2	4.9	2.2
Gini index of income inequality			
National	38.8	45.1	45.8
Urban	39.8	49.7	45.2
Rural	36.4	39.3	43.0

Note: The figures are based on the Household Income and Expenditure Surveys (HIES) of the Bangladesh Bureau of Statistics (BBS). The poor are estimated using the cost of basic needs (CBN) method and are taken as those living below the poverty line, corresponding to an intake of 2,122 kcal/person/day plus a non-food allowance corresponding to the non-food expenditure among households whose expenditure equals the food poverty line.

Source: BBS 2011, World Bank 2002.

18. In the case of income inequality, the Gini coefficient rose considerably since the 1990s (Table 5). The rising inequality remains a major factor as to why the full potential of the poverty reducing effects of accelerated growth of the period was not translated into reality. Also inequality increased rather sharply during the 1990s.

19. In view of the complex structural characteristics of the economy, the promotion of equitable growth in Bangladesh depends more on pursuit of 'asset building' policies favoring the poor rather than 'twisting' the growth pattern of the production sectors. The policies, in this respect, need to focus on expanding the asset base of the poor in a broader sense covering physical, financial, human, social, political and other forms of capital that strengthen the bargaining power of the poor and ensure their fair access to resources, public services and decision making. This will enhance their capability to avail the market opportunities of accelerated growth across the entire economy.

20. Though the performance of Bangladesh has been reasonably good in recent years, the country needs to go a long way to catch the Asia 7 economies. For this, Bangladesh must come

out of the 'business-as-usual' development path and move at much faster rates. In recent years, agriculture and manufacturing depict good growth and services growth is improving steadily. Investment growth, however, is still much below the potential because of many factors especially severe bottlenecks in infrastructure and the persistent crisis in power and energy sectors. Private investment is the engine of Bangladesh's growth, but since public investment has a strong crowding-in effect, a speedier and quality implementation of the Annual Development Program (ADP) is needed to accelerate economic growth. Achievements in revenue collection are encouraging but stronger efforts are needed. Overall, Bangladesh needs to ensure strong macroeconomic fundamentals along with investment supportive and human development promoting policies for creating an environment to move faster.

## **2.4 Medium Term Growth Targets**

21. Despite significant bottlenecks, Bangladesh has made tremendous progress over the last three decades and the country aspires to become a middle income country by 2021. The targets set in the country's Perspective Plan (2010-2021), if achieved, will create a country where the citizens will have a higher standard of living, will be better educated, will enjoy better social justice, will have a more equitable socioeconomic environment along with a sustainable, expanding and climate-resilient economy (PC 2012).

22. Bangladesh's development priorities until 2021 have been designed to lead Bangladesh to a state, given its human potentials and resource endowments, in which the country will ensure inclusive and broad-based growth, reduced level of poverty, effective governance and sound institutions, a caring society, food and energy security, sound infrastructure along with innovation in a knowledge-based society.

23. For making the desired transformations, Bangladesh has adopted both long-term planning and short-term resource allocation and policy formulation. The longer term Perspective Plan (2010-2021) provides the foundation for the two five year plans (of which the Sixth Five Year Plan, 2011-2015, is in operation while the Seventh Plan will commence from 2016). Clearly, the challenge is to identify appropriate strategies, reform policies and institutions, and invest required resources in a coordinated manner to build local capacity to implement intended interventions.

## **III. BANGLADESH'S CHANGING POPULATION STRUCTURE AND FUTURE GROWTH SCENARIO**

24. One of the significant resources on which Bangladesh will have to build its future in the post-MDGs world is its population. Bangladesh's total population is projected to grow by 29 percent from 149.8 million in 2011 to 193.4 million in 2030 and further to 247.0 million in 2050 (Table 6). The age structure of the population will also undergo significant transformation. In particular, the share of population in the age group 0-14 years will decline from 33 percent in 2011 to 24 percent in 2030 while the share in the age group 60 and above will rise from around 7 percent to 11 percent over the same period. These demographic changes will have significant implications on growth and development potentials as well as provision of basic services including health, education and social protection.

**Table 6: Bangladesh's Projected Population and Age Structure**

Total population (in millions)				
	Total	Female	Male	
2011(base year)	149.8	74.8	75.0	
2020	170.0	85.2	84.8	
2030	193.4	97.4	96.0	
2040	214.4	108.3	106.1	
2050	247.0	124.9	122.1	
Age structure (in percent)				
Age group in years	0-14	15-34	35-59	60 and above
2011	33.1	35.7	24.6	6.6
2020	26.5	37.2	28.0	8.3
2030	24.3	33.2	31.3	11.2
2040	22.2	28.2	34.5	15.1
2050	20.2	27.0	33.4	19.4

Source:

26. In the case of economic growth, no reliable projection for the future is available for Bangladesh.<sup>3</sup> The projections given in Table 7 uses the available medium term forecast of the country's GDP growth until 2021 and extrapolates the growth scenario using plausible assumptions. The medium term growth scenario adopted by the government in its Perspective Plan covering the period 2010-2021 is given in Table 7. It indicates that the growth in the country's GDP will rise to 8.0 percent in 2015 and then to 10.0 percent in 2021. The above growth projection assumes that factor accumulation, especially capital, will act as the major stimulus to growth for which the gross investment rate will rise to about 38 percent of GDP in 2021 from a level of 24.4 percent in 2010. Moreover, productivity growth will begin to play an increasing role and will contribute about 20 percent of growth by 2021.

27. In our projection, we take GDP growth until 2021 from the growth scenario of the Perspective Plan and extend it to 2050 using simplified assumptions. Some of the key assumptions for the extrapolation are the following:

- (i) The demographic impacts will vary greatly over time with the impact of the decline in working age population to take place progressively higher in later years.

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<sup>3</sup> In South Asia, one projection for India that uses the latest demographic projections and a model of capital accumulation and productivity growth reports that the real average annual GDP growth over the period 2011-2050 would be 5.8 percent per year with decadal growth of 5.8 percent during 2011-2020, 5.9 percent during 2021-2030, 6.1 percent during 2031-2040, and 5.4 percent during 2041-2050. Similar projection reported by the same study for Pakistan is 6.8 percent during 2011-2020 and 6.3 percent during 2021-2031. See, Goldman Sachs 2003. Another study using a simple conditional convergence framework for projecting long run GDP growth rate shows that the average annual growth rate of GDP of India would be 7.6 percent during 2006-2025 and 5.6 percent during 2025-2050. The study uses plausible values of long run drivers of economic growth in which GDP per capita depends on technology, investment in physical capital, investment in human capital, employment rate and conditional growth convergence is assumed to apply. See, Duval and de la Maisonneuve 2009.

- (ii) The growth in capital stock will be faster till about 2025 and is expected to reach about 40 percent of GDP by 2025 after which the growth will slow down.
- (iii) With rising capital stock, total factor productivity growth will become faster and such growth will contribute increasingly more to the growth process.
- (iv) The country will succeed in ensuring sound macroeconomic policies and stable macro environment, strong and well-functioning socio-political institutions, high education and skill levels with adequate supply of the required levels of human resources needed in the economy including openness and effective integration into the world economy.
- (v) Rapid growth and development of the regional neighbors (especially India and China) would have significant positive impact on growth opportunities of Bangladesh especially through trade and other channels.

**Table 7: Bangladesh's GDP Growth Projection until 2021**

	2010	2015	2021
Real GDP growth, %	6.1	8.0	10.0
As % of GDP			
Gross investment, %	24.4	32.5	38.0
Unemployment/underemployment rate, %	30.0	20.0	15.0

Source: PC 2012

28. The five yearly averages of GDP growth until 2050 are given in Table 8. It can be seen that GDP growth rate rises from 6.9 percent during 2010-2015 to 9.4 percent in 2020-2025 and then gradually declines to 6.0 percent during 2045-2050. The contribution of different sectors to GDP will also change; the share of agriculture would decline to around 15 percent and that of industry would rise to 36 percent in 2030. The share of services is likely to remain largely unchanged at around 49 percent.

**Table 8: Projection of Real GDP Growth in Bangladesh: 5-Year Period Averages**

Period	Yearly growth (%)
2010-2015	6.9
2015-2020	8.7
2020-2025	9.4
2025-2030	9.3
2030-2035	8.4
2035-2040	7.7
2040-2045	6.5
2045-2050	6.0

Source: Author's calculations

#### IV. DEVELOPMENT PERSPECTIVES IN THE POST-MDGS WORLD

29. With the emerging imperatives of globalization and changing pattern of global economic relations in the post-MDGS era, Bangladesh needs to act quickly to take advantage of the emerging economic scenario to build a sustainable future. It is clear that the desire to achieve the middle income country status by 2021 and move beyond afterwards will be a significant undertaking for which much more would be required compared with the past to ensure that every citizen has the opportunity to participate fully and positively in the economy and society. Levels of poverty would have to be brought down significantly not only in terms of low income and inadequate food, but also in all aspects of human wellbeing including undernutrition, lack of access to education and basic health services, social discrimination, gender inequality, physical insecurity and vulnerability, and degraded citizenship. In this context, Bangladesh is well poised for development and there is the need, desire, and the means to achieve the aspirations.

30. For achieving the development goals, the envisioned policy and institutional environment should constitute a set of structural, social, human, and physical conditions for which the thrust for action would have to be on promoting innovative people and creating the environment in which all people will have the skill and capacity to contribute to the nation's development through a sense of ownership and patriotism. The efforts need to strive for advancing inclusive and holistic development ensuring right balance between basic non-economic pre-requisites of development and economic considerations for building a secular, tolerant, liberal, progressive, and democratic Bangladesh deeply inspired by the spirit of liberation.

31. The current state of Bangladesh's development shows that a good progress in major economic and social indicators has been made by the country despite challenges from a number of domestic and external factors including the adverse impacts of the world recession, difficulties in food security, and adapting to the impacts of climate change. Although Bangladesh has come a long way especially in terms of social development, development challenges are still daunting. A number of social indicators are weak, especially maternal mortality and child malnutrition. Past experience, however, shows that it is possible to achieve much faster progress in these areas. The key to tap the high potentiality lies in building on the demonstrated strengths and addressing the persisting weaknesses. Increased globalization of markets, capital, knowledge, and technology are opening up new opportunities for development for Bangladesh in the post-MDGS era. Bangladesh can achieve its development goals by creating the requisite conditions for development and effectively utilizing its most valuable resource, a pool of hard working, capable, and dexterous people.

32. For the post-MDGS era, the development pursuit needs to envisage that every member of Bangladesh society will enjoy a standard of living comparable with citizens of middle income countries with access to quality education and healthcare regardless of their socioeconomic standings, religion, and gender. The rate of poverty should be minimized and people will live in communities where benefits will go beyond basic necessities of food, clothing, and shelter to ensure creative and fulfilling lives.

33. The public sector will provide basic public goods and create enabling environment for the private sector to act as the main engine of economic growth. The government functions will be service-driven through ensuring cost-effective, efficient and equitable delivery of public and social services enabled by adoption of modern and cutting-edge technology. The governance will be guided by effective political and legislative institutions, protection of human rights, transparency and accountability in establishing and enforcing the rule of law, ethical conduct,

value-focused decision making, and timely and efficient resource allocation. High governance standards will provide the context for operation of public and private sector institutions.

34. The private sector enterprises will become globally competitive delivering goods and services to meet domestic demands in an efficient manner and capture a rising share of exports in the global market. The private sector will nurture a strong spirit of entrepreneurship which will be supported by risk-tolerant financial institutions and legal systems that actively encourage businesses and the development of micro, small, and medium enterprises especially by women entrepreneurs. The private sector will also actively practice the norms of corporate social responsibility to play a positive role in social and national development.

#### 4.1 Building Equitable Society

35. The country's development priorities for the post-MDGs period should be set for achieving an equitable and inclusive society where all people would enjoy human rights and equal opportunities which are important for social and political stability and achieving national unity. For the purpose, a number of priorities should be set including generating more inclusive and rapid growth; promoting innovative people through education, training and skill development; creating a caring society; providing food and energy security for development and welfare; building sound infrastructure and mitigating climate change effects; ensuring effective governance; and addressing globalization and regional integration challenges. These priorities should form the foundation for developing strategies for setting the vision, guiding policies, and placing the strategies and policies in relational contexts.

36. In this context, important policy concerns are to substantially reduce poverty, promote gender equality and balanced regional development, and move toward creating an inclusive society with workers' rights and responsibilities firmly established. The path to poverty reduction will be to promote broad based and inclusive growth and actions in the area of distributive justice to reduce inequality in the distribution of income and wealth. The provision of social protection including effective safety nets and targeted programs will be a part of the government policy to ensure an equitable society. Equal rights of women and men and measures to bring advancement of backwards groups in society must also form parts of the equity agenda. The policies should explicitly recognize that women's poverty and deprivations have different dimensions and are generated through complex processes that need specific actions.

#### 4.2 Revamping the Resource Framework

37. Within the overall framework, the assessment of the required financial resources is a critical first step in formulating, implementing, and monitoring progress of strategies to achieve the development goals.

38. In the post-MDGs world, a realistic development agenda for Bangladesh must confront the issue of gaps in resources in a more transparent manner. The current financing framework does not include financial resource flows towards the priority sectors explicitly although there exists some weak monitoring (e.g. in official development assistance, ODA). Also, there are no targets for domestic spending in priority areas like health, education and social protection. Although some norms have been laid down by UN agencies (particularly on health and education), these do not get any serious consideration in relevant policies. For meeting the challenges in the post-MDGs world, rethinking on several issues is important for Bangladesh.

- What are the major lessons for the government and other stakeholders in the light of the past experience regarding resource flows that need to be reflected in the future agenda?
- How should the lack of serious specific domestic commitments towards priority spending towards basic services be addressed in the future development framework?

- What are the indicators that the future development framework should aim to cover for monitoring purposes?
- How should the commitments made by the development partners be interpreted in the light of global experience as being nebulously crafted and weakly implemented? Should there be a greater role of South-South cooperation for enhancing the resource envelope for Bangladesh?
- What are the concrete ways in which the development framework can be integrated with a resource framework along with firm commitments in the post-MDGs world?
- Apart from financial resources, Bangladesh faces major problems relating to constraints in human resources, skills, capacities and other critical areas. Should these be specifically addressed also? How?

39. In the above context, it must be acknowledged that the issue of mobilizing finance for development has always been a central concern for Bangladesh. For example, the MDGs framework did recognize that target achievements would require enhanced international cooperation and partnerships including a significant scaling up of resources for development, but the framework did not include financial resource flows explicitly except in the context of ODA.

40. Along with a substantial rise in aid inflows, the Paris Declaration (2005) emphasizes several principles to enhance aid effectiveness, such as national ownership and aid alignment, aid harmonization, and aid predictability. Although the 2005 Paris Declaration on Aid Effectiveness represents the most comprehensive effort to date to improve aid coordination and alignment with national priorities, in view of the slow progress in meeting the Paris targets for 2010, the Accra High Level Forum on Aid Effectiveness in 2008 urged to accelerate efforts to improve the predictability of aid, and reduce aid fragmentation and high transaction costs in the administration of aid resources.

41. The later years, however, did not witness any commensurate rise in aid inflows to match the requirement reflecting the weak nature of monitoring of aid inflows.<sup>4</sup> In addition, there has been no explicit target for allocating domestic resources by the countries to critical sectors such as health, education, social protection and other priority activities.

42. The experience of Bangladesh also shows that mere availability of resources is not sufficient; many other conditions are necessary for accelerating development including high quality inclusive growth, improved policies, and performing institutions. There exists some evidence that increase in ODA in specific areas does not necessarily mean availability of more resources in that particular area. Sometimes increased ODA may lead the recipient country to substitute away domestic resources to other purposes.<sup>5</sup> In a country like Bangladesh, such diversion, however, may not necessarily be problematic if these resources are used in investments which themselves can provide basic services and benefits, such as water supply and sanitation, food security, rural roads, electrification and other priority areas. In addition, there seems to be a bias among both the donors and the recipient countries alike to achieve

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<sup>4</sup>The absolute amount of ODA received by the Asia-Pacific least developed countries (LDCs), for example, declined for almost all countries; and the aggregate volume received by the 13 Asia-Pacific LDCs declined from US\$ 2,924 million in 2000 to US\$ 2,174 million in 2009. See UNESCAP 2011.

<sup>5</sup>For example, according to IHME data, for every \$1 of development assistance for health (DAH) channeled through the government, governments on average divert \$0.43 to \$1.14 away from the health sector. See Lu et. al. 2010.

easily monitored and visible results rather than priority outcomes requiring system wide approaches whose impact may be more difficult to measure and achieve.

43. Obviously, there should be a re-thinking in Bangladesh about the adequacy and appropriateness of the current strategies for development especially with respect to resource considerations. For instance, the focus on economic growth and investment in social sectors with little thinking on how economic growth or social sectors could be made more inclusive and pro-poor has produced somewhat biased outcomes in the past decades in Bangladesh. On the other hand, investments in infrastructure, agriculture or productive activities were inadequate. For Bangladesh, probably a broader approach to poverty reduction is required in future with a right balance between investments in social sectors with development strategies that seek to combine economic growth with employment creation and participatory development. This is not only about reformulating policies, but also about rethinking of the country's development paradigm.

44. Further, relative to earlier years, the development outcomes in Bangladesh would be increasingly shaped by international contexts during the post-2015 period as a consequence of increasing globalization and economic integration. This will encroach more on the country's domestic policy space. There are also rules under the WTO regime and conditionalities imposed by international organizations and donor countries. The policy space problem would be further compounded by rapid integration of the country into international financial markets. In this context, Bangladesh needs to advocate for making existing rules less unfair and introduce new and more equitable rules. The goal should be to enlarge, as much as possible, the policy space available for pursuing national development objectives by Bangladesh.

45. Obviously, a key challenge for Bangladesh would be to further reduce poverty in the post-2015 era. The main strategy for this would be to promote growth that leads to fast increases in household consumption. Empirically, it is seen that as countries become richer, the poverty reducing effect of economic growth declines. As such, Bangladesh will have to increasingly depend on redistributive policies for poverty reduction which would become both more affordable and more effective as the country grows fast.

46. For Bangladesh, closing the development gaps in the post-2015 era will require substantial rise of expenditures on education, health, sanitation, and other basic infrastructure facilities and services. This means greater resource mobilization from domestic and external sources. While funding the additional investment does not seem daunting, these costs can be steep for Bangladesh in terms of share of GDP. This indicates continued relevance and case for stepping up ODA to meet the challenges.

47. Over the years, remittances have emerged as a much larger and more stable source of external financing than aid inflows for Bangladesh. Thus, it might be worth examining the policies and mechanisms which could make more effectively use of remittances for development. Moreover, access to other than financial options such as markets in the form of trade and access to knowledge in the form of technology is important for Bangladesh to achieve the desired goals.

#### 4.3 Expanding Fiscal Space

48. For Bangladesh, a prudent financing strategy in the post-2015 world would increasingly depend on enhancing the fiscal space to scale up expenditure in relevant areas. On principle, four different mechanisms are available for the purpose: (i) enhancing domestic revenues from tax and non-tax sources; (ii) increasing ODA including grants, concessional loans and debt

relief; (iii) reprioritizing expenditures, including enhancing their allocative and technical efficiency, and (iv) financing public expenditures by borrowing from domestic and international sources.

49. The extent to which Bangladesh could expand the fiscal space would depend critically on two elements: (i) scope of generating fiscal savings from improved allocative and technical efficiency of existing spending; and (ii) capacity to raise additional fiscal resources from new revenue measures, additional aid or new borrowing.

50. To the extent that a country already raises significant revenue, it has a high initial stock of debt, or receives relatively high aid inflows, the scope to raise additional revenue from any of the above sources would be limited. On the other hand, the lower the allocative and technical efficiency of the existing budget and the larger the volume of such spending, the greater would be the scope for efficiency gains as a source of expanding the fiscal space. In all these counts, Bangladesh has advantages to significantly enhance the availability of development resources.

51. Moreover, it is important for Bangladesh not to assign the role of fiscal policy as a tool for reducing government deficits or restoring macroeconomic balances alone. Its role as a powerful instrument for promoting employment and economic growth should also be recognized. Similarly, monetary policy is not only a means of controlling inflation rather it should be treated as a versatile instrument through which both the price and volume of credit can be effectively used in the pursuit of development objectives. In Bangladesh, the policy framework needs to adopt a developmental approach based on an integration of short-term counter-cyclical fiscal and monetary policies with long-term development objectives.

52. In the context of Bangladesh, the term 'resource' should be interpreted having a wider connotation covering not only financial but also human, institutional, social, technical and other forms of capital that play important roles in the process of development. Along with financial resources, Bangladesh should emphasize on measures for facing the constraints related to human resources and institutional capacities adequately and effectively.

53. For Bangladesh, the pre-2015 era has seen significant gaps in delivering on the commitments in the areas of aid, trade, debt relief, and access to new technologies. A number of crucial commitments including increased aid volume, improved aid effectiveness, and the conclusion of the Doha Round of trade negotiations are not likely to be met by 2015. Moreover, there has been significant adverse impact of the global crisis on meeting many targets. The post-2015 agenda needs to pay more attention to policy coherence covering not only the issues of coherence across various dimensions of the global partnerships, but also the extent to which those partnerships are aligned behind national development strategies of countries like Bangladesh.

#### 4.4 Promoting Development with Equity

54. For Bangladesh, equity and development are two desirable goals and the post-MDGs era must aim to achieve both. It is often suggested that there is no conflict between the two and achieving one helps to attain the other. In the context of Bangladesh, one important concern is to clearly establish the empirical links between the two dimensions and identify which are the 'good inequalities' and which are the 'bad inequalities'.

55. Despite experiencing major economic and social transformations, Bangladesh is experiencing persistently high earnings and income inequalities along with growing disparities in employment and other opportunities. As a result, there is an increasing concern that growth in not eliminating inequalities in all relevant dimensions including income, consumption, assets, social hierarchies, power, and opportunities. As a consequence, the inequality debate is becoming increasingly louder in Bangladesh. It has also called into question the very role of the

state: Is the state doing enough to redistribute wealth and promote social equality? Probably the majority answer is 'No' and the citizens' demand is that the state must do more to ensure an egalitarian society based on equal opportunities for all.

56. At the conceptual level, the analysis of inequality in Bangladesh needs to focus on two dimensions. One is the inequality of outcomes (e.g. income, wealth etc.); the other is the inequality of opportunity (e.g. access to education, health, and basic services). In many respects, the first affects the households or individuals while the second concerns mostly children and future generation. The issue is: Should we give more importance to inequality of opportunity or to inequality of outcomes in the policy agenda?

57. Similarly, we need to come to some kind of agreement regarding what is desirable from the point of view of Bangladesh's society: is it about equality (equal rewards for all) or about equity (equal opportunity or chances for all)? Is it more desirable to ensure equal opportunity to all people early in their lives irrespective of their socioeconomic or other differences? Should we give priority to systematically reduce and ultimately eliminate inequality of opportunity and create a level playing field for all citizens?

58. Obviously, the answers to these and related questions require methodological tools to systematically measure inequality of opportunity in order to design, implement, and evaluate public policies that target human opportunity.<sup>6</sup> For example, the construction of Human Opportunity Index can make it possible to shed new lights into the traditional development insights in Bangladesh. This would enable the policy makers to identify how important are the exogenous factors, on which one does not have any control at the outset of one's life (e.g. mother's education or father's income), contribute to observed income inequality in Bangladesh.

59. No doubt, there are many social policies and programs in Bangladesh that are opportunity enhancing. Appropriate analysis of these policies/programs will help in reprioritizing, if necessary, many of these policies on the basis of their contribution toward creating equality of opportunity, such as early life interventions, child nutrition, pre-primary school access, and in similar areas. More importantly, one significant potential contribution of the approach could be its ability to define country-specific threshold of basic social service needed to bring equity as a central concern of the development agenda in Bangladesh.

60. At the policy level, one of the keys to understanding inequality in Bangladesh is to understand the dynamics of the labor market, and identify policy options needed toward creating more and better jobs. In this context, it is important to recognize that labor market segmentation and its manifestation cover several dimensions in the country:

- Regional rigidities: rising inequality, poverty decline with spatial concentration
- Inequality across social, ethnic and other groups
- Gender inequality and differential levels of poverty
- Rural urban disparity

61. Some of the key issues that need to be taken into account in the post-MDGs era include:

- To what extent are inequality trends determined by developments in the labor market? In particular, do changes in the amount of formal/informal work drive changes in market incomes?
- Is becoming 'informal' a normal trend in the labor market?

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<sup>6</sup>Recently there has been some new tool available to construct the Human Opportunity Index. This Index has been constructed for 19 countries in Latin America and the Caribbean. See Giugale2010.

- What explains the persistence of informal employment and, in particular, what is the role of labor regulation as well as tax and social policies? What are the multiple social costs of informality on inequality consequences such as shortfalls in pension, labor and health safety coverage, high vulnerability to idiosyncratic and aggregate shocks leading to crisis and downward mobility.
- The gender dimension of informal employment is important in analyzing inequality. Working women are overrepresented in worst forms of informal employment and earn substantially less.
- How have the links between economic growth, employment and the quality/productivity of jobs evolved over the past decades?
- To what extent have these links been influenced by greater integration of Bangladesh into the world economy and technological change?
- To what extent have labor market and social policies contributed to reducing (or increasing) inequalities?
- Are there lessons to be learned from the experiences in similar other countries regarding labor and social policies?
- What policies are important in reducing inequality?

62. In the context of the labor market, Bangladesh needs to follow a few core objectives during the post-MDGs era:

- Increase the number of good, formal jobs
- Protect and promote workers in the lower tier of informal employment
- Provide incentives for more jobs to become formal.
- The policies should focus also on improving the quality of informal jobs such as inclusive education and training, social protection.

63. In addition, Bangladesh needs to face several policy issues such as ways to relate labor market dynamics to structural changes in the economy, measures to protect informal workers while not providing disincentives for formalization, and specific measures to promote employment intensive growth that leads to more and better jobs.

#### 4.5 Building Interface between Fiscal and Monetary Policy

64. Fiscal and monetary policies are regarded as the two most important macro instruments available to the policymakers in a market economy like Bangladesh. Fiscal policy works through the level of the budget including the extent of budget deficit (or surplus) and mode of its financing. Monetary policy, on the other hand, works via its effects on money supply, credit availability, and interest rates. Both policies affect the level of economic activity principally through influencing aggregate demand. The two policies, however, have 'side effects' that differ significantly, with respect to, for instance, economic growth and the balance of payments. It is mainly because of these differing 'side effects' that the two policies are regarded as separate instruments and are employed to attain distinct goals.

65. During the initial years, Bangladesh's macroeconomic policy framework was characterized by 'fiscal activism' rather than 'fiscal neutrality' which culminated in large borrowing programs and increasing monetization of fiscal deficits. Within the public sector dominant development strategies of the period, rather than creating a virtuous cycle of development, this led to widening gap between the returns and cost of borrowing as asset creation out of such borrowings failed to deliver expected results. There was inadequate incentive for the government to ensure fiscal prudence. As a consequence, monetary policy was constrained by large and persistent fiscal deficits.

66. During the post-reform period since the 1990s, there are signs that the fiscal-monetary interface has been improving in Bangladesh, which is reflected in better resilience of the economy to withstand external shocks while maintaining impressive growth and macro stability. Despite these positive developments, the post-MDGs period needs to see more efforts towards enabling the Bangladesh Bank to primarily focus on its role as monetary authority and enhance the chances of exercising a meaningful autonomy.

67. Under the present circumstances, fiscal empowerment appears to be essential for obvious reasons. Although the present level of fiscal deficit is manageable, the space available for meeting unforeseen circumstances appears rather limited. More specifically, the nature of fiscal dominance does constrain the effectiveness of monetary policy to meet unforeseen contingencies, maintain price stability, and contain inflation expectations.

68. Similarly, with respect to poverty reduction, it would be useful to make a clear distinction between the ability of fiscal and monetary policy in the future. For ensuring efficiency and stability of the financial sector, it might be desirable to distribute social obligations among banks and other financial institutions within the framework of multi-institutional financial intermediation rather than adopting a wholly bank-centered approach. In addition, a more efficient discharge of the objectives of monetary policy including price stability would help poverty reduction, albeit indirectly, while more direct attack on poverty could remain within the domain of fiscal policy. Thus, monetary policy in Bangladesh should perhaps increasingly focus on what Dréze and Sen call 'growth mediated security' while 'support led security', mainly consisting of direct anti-poverty interventions, could be better addressed by fiscal policy and other government programs.

69. For enhancing the effectiveness of monetary policy, Bangladesh Bank needs to work more intensively on increasing the competitiveness of the banking sector, developing various segments of financial markets, and supporting moves to improve the functioning of the state owned enterprises and the real economy. It should also be recognized that there is no ideal level of fiscal deficit, and the critical factors are: How is it financed and what is it used for? The fact is that fiscal policy determines the size of the debt and government debt provides the most critical link with monetary policy. On the other hand, the composition of debt is determined by the debt management policy. The monetary impact depends on who holds the debt and how the holding changes with policy and the consequent impact on aggregate demand.

70. While both fiscal and monetary policy needs to support each other, it is also important to maintain their relative independence, especially to strengthen their regulatory effect. In general, monetary policy adjustment takes longer period and the adjustment process of fiscal policy is relatively short. The aim of policy adjustment should be to take full advantage of both sets of policies taking into account the health of the economy and the characteristics of the specific macroeconomic situation.

#### 4.6 Ensuring Financial Inclusion

71. An inclusive financial system offers access to financial products and services, especially to the poor, including obtaining credit and insurance on favorable terms and conditions and accessing payments services for undertaking transactions and remittances in a secure and cost effective manner. Despite significant advantages, a significant share of the population especially the poor households still remain typically excluded from accessing financial services offered by the formal financial sector.

72. The barriers to financial inclusiveness exist on both demand and supply sides in the country. The demand side factors primarily include the capacity of potential clients to deal with the banks and the appropriateness of the products and services offered by the banks. On the

supply side, the barriers cover the perception of the banks about the profitability and risks involved in dealing with poor customers and the costs of dealing with a large number of clients involved in small transactions.

73. In general, development finance and microfinance institutions have emerged as more successful in reaching out to the poor and small and microenterprises. In addition, public and technology-enabled networks such as post offices, telecommunications companies, and the Internet hold significant potential for bringing financial inclusiveness in the country. In addition, a new range of products and services can be provided to the poor through developing innovative partnerships with NGOs, microfinance institutions, and other entities including mobile banking services.

#### 4.7 Creating Better Opportunities in Education

74. In Bangladesh, even after 43 years of independence, a large number of children do not graduate from the secondary school and many don't even complete primary schooling. In 2011, only 80 percent of the children who started grade one could reach grade five, and of those, less than half could comprehend a simple paragraph. The Education for All Program adopted by UNESCO worldwide aims to provide free, universal access to primary schooling. The educational programs in Bangladesh have been successful in dramatically increasing enrollment with the net enrollment in primary education rising to nearly 99 percent in 2011. But, according to available reports, many kids drop out before completing school. The critical question is: Why don't they stay?

75. There are many reasons for the high dropout rates, including the difficulty of getting to school and the cost of schooling. Even when tuition is free, there are often expenses for lunch, uniforms, examination fees, private tutor costs and many other services. Since the quality of education is often very poor, parents are forced to pay for additional tutoring to enable their children to pass tests. Opportunity costs may be even larger—while they are in school, children forgo opportunities to produce income through working in household production activities or selling in the marketplace. It is not therefore surprising that when education investments do not result in adequate learning or even basic literacy and numeracy, parents do not keep their children in school.

76. Even when learning outcomes are adequate at the primary level, many students do not continue on to secondary school. Job prospects for most people in the country are poor, and staying in school past grade five or even through grade ten does not improve the chances to any significant extent. For the poor households and in the rural areas, the vast majority of those aspiring to join the work force do not have the opportunity to secure formal employment and they are most likely to be supported by agriculture and petty trading. Health outcomes of children of these poor households are also dire. Thousands of children die every year from controllable diseases such as diarrhea, respiratory infections, and similar diseases.

77. In Bangladesh, like in most developing countries, educational programs typically adopt traditional models of education with an emphasis on language, mathematics, science, social studies, religion and other subjects. These programs allocate scarce resources to topics like learning literature, prime numbers, or tectonic plate movement—topics that provide intellectual stimulation, but have little relevance in the lives of the impoverished children from the poor households. Even the better performing students in the rural areas face a much different future than their counterparts in the urban areas and well off households. No higher levels of schooling or professional job opportunities await most of these children; they are more likely to end up working on family farms or starting their own small businesses.

78. The present schooling provides neither the financial, managerial, and technical literacy these children need to effectively manage the meager resources under their control nor the guidance needed to create opportunities for securing a better livelihood or accessing resources and productive knowledge and skills. In addition, schooling provides little assistance to promote the physical and mental health needed for ensuring economic stability and improving the quality of life. In effect, the priority of these students is to access more life skills rather than academic skills that would enable them to improve their financial prospects and wellbeing. These include financial literacy and entrepreneurial skills, health maintenance and management skills, and real world administrative capabilities such as teamwork, problem solving, and project management.

79. For adequately exploiting the benefits of education, Bangladesh needs to explore new educational models in the post-MDGs era that can bring about a judicious blend of the traditional academic contents with critically important financial, health, and management skills delivered through the country's existing school system. A broader goal for education is needed which combines the achievement of standard learning outcomes with the target of creating positive impact on the economic and social well-being of students and their communities. The model would require significant changes in both content and pedagogy of the existing system. For example, entrepreneurship and health and life skills could be made mandatory curriculum components for all primary/secondary grade students. Similarly, student-centered learning methods could be used that would enable the students to work in groups to solve practical problems and manage income and life supporting activities on their own.

80. In effect, the approach should ensure a right blend of mainstream learning pedagogies used in traditional curricula in schools with positive livelihood, health and life-skills seeking behaviors. The health and entrepreneurship curricula may draw, for instance, on practical and productive knowledge and opportunities available at appropriate levels. Similarly, priority should be placed on putting conceptual knowledge into practice through activities that would empower the children to use what they have learned. The students should be encouraged to develop higher order skills in prospective productive activities especially through identifying and exploiting market opportunities in terms of business ideas that create real value. The students should be encouraged to learn and practice workplace skills and attitudes, learning opportunities which are rarely available to them.

81. However, including information in basic lectures should not be considered enough. This should be supplemented by action-oriented pedagogical approaches that develop critical thinking skills and enable students to identify problems, seek out information and resources, and design and carry out plans for solving these problems. Through such new models which provide a unique combination of relevant content, practical implementation and student empowerment, the students could develop a body of knowledge, skills, and attitudes that will help them to succeed and thrive when they leave school, whether for higher education or for the job market. The key to success would be to transform educational interventions that can make the greatest social and economic impact on the students from the poor households.

#### 4.8 Transforming Agriculture as Active Partner in Development

82. Despite significant structural transformation, the policy framework should continue to view agriculture as an active and co-equal partner with industry and other sectors during the post-MDGs period. This is mainly due to two considerations: first, agriculture produces goods that directly satisfy basic human needs, and second, agriculture production combines human effort with natural resources. As such agricultural growth must match population growth at the least to avoid Malthusian trap and stagnant development. Moreover, the later generation dual economy models make it apparent that functions that agriculture and industry sectors must

perform are totally interdependent. Agriculture sector must release resources for industry which in turn must have the absorbing capacity. Growth can occur only if release-cum-absorption of labor and capital are efficient. This conceptual framework no longer identifies either sector as leading or lagging.

83. The active role of agriculture in growth and development is evidenced by the dynamics of green revolution in many parts of the world including Bangladesh. The transformation of agriculture into a modern sector reveals the potential of agriculture as a growth sector where the application of science based technology is fundamental to agricultural growth. Fostering productivity growth requires linkages between agriculture and non-agriculture sectors producing both backward-forward and production-consumption linkages within agriculture and between agriculture and non-agriculture sectors. In many instances, agro-processing and processed food marketing emerge as new engines of growth.

84. However, it is likely that consumption linkages generated by increased rural incomes would provide the strongest linkage of agriculture during the post-MDGs period. Agricultural productivity growth would stimulate the rural economy through production and consumption linkages at the local level. The policies must also harness the critical role of infrastructure in improving responsiveness of nonfarm economy to increases in demand from agriculture including the formation of social capital through increased interactions between farmers, input suppliers, processors and banks which would help generate confidence and trust needed to initiate nonagricultural business and commercial agriculture.

85. For Bangladesh, the linkage effect emanating from agricultural growth is important especially due to the overwhelming dominance of small farms. The small farms often contain poverty by providing an affordable platform from which poor households can improve livelihoods and help prevent premature urban migration. Small/marginal farmers have expenditure patterns that favor growth of local nonfarm economy having higher share of expenditure on rural non-traded goods which provide a boost to locally produced labor intensive goods and services.

86. The strong linkage effects of agriculture suggest that agricultural growth could lead to broader economic growth in Bangladesh in the coming decade since the country is in its early stages of industrialization. Agricultural demand led industrialization and increasing agricultural productivity expands internal demand for intermediate and consumer goods produced by domestic industries and helps support the drive towards industrialization. The future agricultural policies should therefore shift from surplus extraction to surplus creation and to the generation of demand linkages with the rest of the economy.

87. In addition to production linkages, agriculture in the post-MDGs period has at least four additional roles to perform in Bangladesh. First, strengthen the positive link between nutrition and economic growth. Second, enhance economic growth through its potential to stabilize domestic food production and enhance food security. In the longer term, food (e.g. rice) import is not a viable solution for Bangladesh. Third, existing urban bias in public policies distorts investment incentives and creates strikingly different marginal productivities of capital in urban and rural areas in Bangladesh. In such a situation, higher investment in agriculture contributes to shifts in the overall rate of return of capital and improves efficiency of resource allocation that would lead to broader and more inclusive economic growth. Finally, unique decision making processes associated with small holder agriculture in Bangladesh can stimulate broader growth by fostering processes of learning and innovation enhancing the social capability in adopting new technologies and management skills. For the post-MDGs period, it would be important to harness the farmers' entrepreneurial potential and management capabilities to help drive non-agricultural growth in both rural and urban areas.

#### 4.9 Addressing Poverty and Inequality

88. In terms of poverty and inequality, it is well known that the structure of growth is important. Agricultural growth is typically found to be the primary source of poverty reduction in a country like Bangladesh. As noted earlier, one reason for this is the generation of both agricultural and non-agricultural employment. Agricultural growth directly generates demand for rural labor since agricultural intensification, modern technologies and shift from low to high value crops are generally more labor intensive.

89. In the above context, one may argue that the rural areas in Bangladesh are highly heterogeneous and agriculture is becoming a relatively small productive sector in the country. In view of these changes, the critical question for the post-MDGs period is: Can agriculture become the engine of rural growth? It is important therefore to pursue poverty reduction more vigorously within the rural livelihoods framework where changes like migration provide opportunity for growth benefits to trickle down to rural households. As such migration, rural nonfarm activities and diversification options may appear as relevant engines of growth for the rural areas (e.g. 'rural development school'). The following issues deserve consideration during the post-2015 period:

90. Although diversification may reflect a successful structural transformation, for sustainability it is necessary that that rural nonfarm growth must go hand in hand with broad based agricultural growth. Agricultural production provides an important safety net for the poor farmers by offering both food security and social support for an agrarian based community.

91. Re-focusing agricultural development on high value commodities and value added processing in response to increasing commercialization and urbanization and for exploiting export opportunities.

92. Rebalancing the role of public and private sectors in agricultural development. The government's role should mostly be limited to creating enabling environment such as setting and regulating grades and standards, ensuring food safety, and registering and enforcing contracts. The public sector role must change to support the new paradigm of growth.

93. The present developments indicate that despite new challenges, there is an important role for agriculture in addressing poverty and inequality. A better understanding is needed of the aspects of public intervention where lessons are there to indicate where it does work and why.

#### 4.10 Managing Urbanization

94. In Bangladesh, cities are moving to the forefront of socioeconomic change with a rapidly rising share of population living in urban areas. The rest of the population is also becoming increasingly dependent upon cities for economic, social and political progress. Factors such as globalization and democratization are increasing the importance of cities for sustainable development in the country. Such transformations are likely to receive further boost in the post-MDGs era. Accordingly, it is viewed that urbanization not only poses threats to sustainable development but also holds promising opportunities for social and economic advancement and environmental improvement at local and national levels in Bangladesh.

95. A more rapid urbanization is inevitable in the post-MDGs era as a part of the present high growth process in Bangladesh. Urbanization supports growth as well as the outcomes of growth in the country. As elsewhere, empirical studies in Bangladesh show a strong positive relationship between per capita income growth and growth of urban cities as well as urban ills. Rapid urbanization has generated unsustainable pressure on urban infrastructure, governance, finance, inclusiveness leading to rapid urbanization of poverty. As such, addressing a comprehensive urban agenda is crucial for the post-MDGs period.

96. One reason for special concern on urbanization in Bangladesh is that it is now happening, and is likely to continue occurring, at a scale and speed probably never seen before in human history partly because of the country's vast population and partly due to the unprecedented speed of economic and social change taking place in Bangladesh. With the present trends, millions of rural people will have to be urbanized within the next decade requiring the planning and building of numerous cities and/or expanding existing cities. If urbanization follows current models, the unsustainability of present practices will become vivid too soon. The time has come to take a close look at the phenomenon of rapid urbanization especially in view of the rapidly increasing urgency of the issues of urban poverty and environmental degradation with a large number of people living in slums. This brings out the need for initiatives to achieve urban development in a sustainable manner in Bangladesh. Thus, sustainable urbanization can emerge as an important means of overcoming the fundamental problems of environmental degradation and poverty in the country.

97. Historically, urbanization has been mostly unplanned in the country. However, as population grows, overcrowding, congestion, environmental destruction, uncontrolled growth, unsustainable pressure on provision of basic services and infrastructure capacity, unplanned transformation of agricultural lands into urban uses, air pollution, water pollution from urban runoff, and many others including the increasingly negative impact of unplanned urbanization on the quality of life of the citizens have brought the issues of sustainable urbanization into the forefront of policy debates in the country. The policy makers and planners have expressed their increasing concern for unsustainable urbanization. The major issue is: Is there such a thing as sustainable urbanization and, if so, what are its principles?

98. For ensuring sustainable urbanization, several basic principles are important to consider, such as compactness, completeness, conservation, comfort, coordination, and collaboration. It is argued that unless the principles of sustainability are incorporated into urban planning, Bangladesh will face a future of increasingly difficult urban problems. It is more likely that the past and current patterns of urban growth will not sustain the quality of life that is associated with the development vision of the country.

99. One important characteristic of the present urban development scenario is the marginalization of cities in urban governance. For transforming Bangladesh, a major shift in the structure of the economy is necessary which calls for a massive leap forward in the productivity and competitiveness of the country's cities in the post-MDGs period. The cities will have to emerge as the primary engines of growth, development, and innovations in Bangladesh. The need would be to develop a systematic network of cities and towns that would be engines of economic growth while providing high quality living environment to the people. The realization of the vision requires the creation of urban centers that could compete globally with other knowledge economies. The role of cities in the country's future development has to be multidimensional: the cities will have to act as hubs of knowledge, innovations, creativity, and institutions thus promoting learning and developing innovative ideas. The cities will have to generate more jobs, attract more investments especially for boosting the construction industry.

100. To move forward in the post-MDGs world, a wide array of issues surrounding sustainable urbanization under specific contexts of Bangladesh need to be analyzed to draw relevant policies. The analysis should cover, for example, current trends and patterns of urbanization and their status from the perspective of sustainability based on analytical and empirical determinants. The efforts should also identify the factors contributing to unsustainability of urbanization taking specific contexts in view, assess the impact of unsustainable urbanization on the economies and societies, and recommend policy responses.

101. The management of cities needs to address new and emerging concerns especially related to addressing the issues of the capacity of cities to manage economic and social changes that are taking place nationally as well as globally. While urbanization has been a distinct aspect of the national development process, urban development has hitherto been addressed primarily as a public sector service delivery concern with marginal involvement of cities and towns leading to their marginalization in urban governance.

102. A piecemeal approach to urbanization is not likely to bring benefit to Bangladesh under the emerging development prospects and broader social concerns. Under the emerging scenarios, the challenge of managing urbanization will have to be addressed within a comprehensive framework that combines increased investment, measures for strengthening the framework for governance and financing, and a comprehensive capacity building programme at all levels of urban governance. This should lead to the adoption of various measures for urban renewal, redevelopment of urban areas including slums, ensuring access to services for all including the poor, and reforming and improving service delivery mechanism.

103. For materializing the development vision, the present need is to put in place an action plan as part of the broader development agenda that aims to reform the land markets, introduce zoning laws in urban areas, and improve public service delivery through better urban planning and putting into place a system of urban governance that is responsive to the citizens' needs.

#### 4.11 Creating Effective Institutions

104. During the post-MDGs era, success in rapid transition to sustain and inclusive economic growth will be the key factor in ensuring reduction in poverty and inequality. It is recognized that the present economic growth in Bangladesh, like in most developing countries, is not sufficiently inclusive of the poor (see Ali and Zhuang 2007, Klasen 2004, 2010). While factor accumulation and technological change are widely regarded as key determinants of economic growth, the role of well-functioning institutions in ensuring inclusive growth is least understood.<sup>7</sup>

105. It is now argued that long-term growth averages within countries mask distinct periods of success and failure and it is important to differentiate different phases of growth in a country (see Rodrik 2005). In terms of understanding the causes of inclusive growth, it has been argued that early-stage growth acceleration may not be inclusive as formal institutions are either non-existent or ineffectively functioning in a country. The informal institutions by their very nature are not inclusive and favour certain groups. Hence growth acceleration is unlikely to be inclusive (see Sen 2014).

106. On the other hand, inclusive growth is more likely to take place when a country experiences a growth maintenance phase especially if inclusive formal rule-based institutions emerge during the intervening period (see Acemoglu and Robinson 2012, Sen 2014). Based on empirical evidence using a panel of 42 countries with data on poverty, inequality and institutional quality for the period 1984-2010, Sen (2014) argues that inclusive growth is more likely to occur when economic growth in a country has accelerated, the country is in growth-maintenance phase and inclusive institutions have emerged.

107. From the policy perspective, the post-MDGs period is important for Bangladesh since growth would have accelerated by then and the country would reach growth maintenance phase by the period such that the priority would be to facilitate the emergence of inclusive institutions.

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<sup>7</sup> One study, however, finds that improvements in the quality of institutions can lead to higher pro-poor growth while another study shows that stronger property rights can exacerbate inequality. See Kraay 2006, Amendola, Easaw and Savoia 2013.

It must be realized that the more formal and rule-based the institutions can be made, the more inclusive the growth process will become.

## V. CONCLUSIONS

108. Obviously, what will come for Bangladesh in the post-MDGs world will not look like normal from the recent perspectives. Bangladesh must therefore take preparation to position itself to this 'post-MDGs normal' and draw lessons from the current developments and reassess policy reforms to put itself at the best position to take advantage of the restructuring of the global economic order.

109. For the purpose, an urgent priority for Bangladesh is to establish the basis for the future through pursuing prudent policies such as create fiscal space to improve macroeconomic stability, avoid crowding out effects of public investments, ensure financing of infrastructure and social protection, effectively manage inflation particularly food inflation, put emphasis on agricultural productivity growth, and revisit trade and investment integration strategy to take advantage of global restructuring. The key concern of these policies would be to achieve faster and inclusive growth along with creating more and better jobs.

110. For the purpose, three areas of transformational change would be critical to manage for Bangladesh: quality of governance, demographic transition, and urbanization and spatial transformation. The future of Bangladesh would depend on the quality with which the country could harness and manage the positive outcomes of these changes.

111. Global development cooperation that attracts aid from diverse sources, emphasizes domestic resource mobilization, and capitalizes on the potential of the private sector which is critical for Bangladesh in the post-MDGs world. So are good policies, the capacity to implement them, and credible institutions which increase the impact of scarce resources and leverage additional resources from domestic and foreign, and from both public and private sources.

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