

Government of the Peoples' Republic of Bangladesh
Planning Commission
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**A Journey from Lower to Higher Middle Income Country through an
Inclusive Growth Strategy ensuring SDGs¹**

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1. Introduction

1.1 Bangladesh will celebrate its 45th Victory Day on 16th December 2015. If we reminisce its journey as an independent nation, we would find that despite all initial constraints Bangladesh has now reached a development trajectory where the country is regarded as a role model of development, a champion in attaining Millennium Development Goals (MDGs) and forerunner of implementing the new Sustainable Development Goals (SDGs).

1.2 The MDG Progress Report suggests that poverty is now down to 24.8%, which was hovering around 70% in the early years of independence. Food production has more than tripled to 35 million tonnes despite shrinking farm land because the population has doubled. Irrigation, mechanization and modern farming practices have fundamentally altered the agricultural landscape. Population growth rate was 2.6%, which has been brought down to 1.37%. Life expectancy has risen to 70.7 years from the 1971 base figure of 42 years. Average number of children born per women has come down from 6.9 to 2.11. Under-5 mortality rate has been brought down to 41 from the base- year high of 239 per 1000 live births. Literacy rate was only 24.3% with female literacy at an abysmal 14.8%, which has now increased to 57.2% with female literacy of 55.1%. As well, primary enrolment rate was 60% with girl enrolment at 41%, which has risen to 98% with female enrolment at 98.8%. Gender parity has been achieved not only at the primary level but also at the secondary level. Women, in particular poor rural women empowered by microcredit, are transforming the base of the economic pyramid with millions of new stories of self-employment. Work force in the readymade garments sector, the country's biggest export earner, is overwhelmingly female dominated. Major strides have been made on the availability of safe water and improved sanitation for all.

1.3 It took 38 years for Bangladesh to become a member of US\$100 Billion GDP club, but becoming a member of US\$ 200 Billion GDP club will take place in 2015-16. Moreover, earlier it took 20 years to double the per capita income, but now Bangladesh has doubled it within 7 years. The broader economy has undergone deep structural transformation with

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manufacturing power-house RMG turning into a \$25 billion plus export sector from a late 1970s base of a few million dollars. Uniquely, for a country facing an extremely vulnerable ecology, Bangladesh has established a credible record of sustained growth within a stable macroeconomic framework. Growth rates have moved upwards from a low of 2-3% in the 1970s to 3-4% in the 1980s to 4-5% in the 1990s to over 6% in the current decade. Structural transformation has been equally fundamental in other directions. The rural-urban divide has given way to a rural-urban continuum. A visionary system of feeder roads has connected even the remotest village to the national system, in the process enabling all economic actors to participate in an integrated national economy instead of only isolated local economies. Finally, a country that had the image of being at the mercy of disasters is nowadays regarded as a disaster-management role model on the global stage. Owing to the exemplary resilience of its hardworking population, the country continues to make significant strides and, in 2015, Bangladesh was elevated according to the World Bank's classification from a low income to a lower middle income country (LMIC).

2. Achievements against the targets of the 6th Five Year Plan (2011-15)

To transform the Government's Vision 2021 into long-term development targets, the Perspective Plan 2010-2021, first of its kind, was prepared, which was planned to be achieved through the implementation of two successive Five Year Plans. The tenure of the 6th FYP has ended in June 2015 and its score card of performance is described below:

- *Growth performance:* The 6th FYP set a target of 7.3% average GDP growth climaxing at 8% by the terminal year of the plan (FY2015). However, Bangladesh economy grew at an average of 6.3 percent during FY2011-15, ahead of India, Thailand, and Indonesia and the average for all developing countries.
- *Economic Transformation:* The Sixth Plan further pushed the economic transformation. The share of manufacturing sector in GDP increased. The expansion of non-farm rural enterprises and services has opened up new sources of income and employment for the rural poor. Modern services such as banking, other financial services and information communications technology have done well, though progress in expanding export of non-factor services was modest.
- *Employment and labour productivity:* Considerable success was achieved on the employment front. The total number of jobs created (9.2 million) exceeded the total new entrants to the labour market (7.7 million). Average labour productivity increased in all sectors, including agriculture.
- *Poverty reduction:* During the Sixth Plan period the incidences of poverty and extreme poverty have both exhibited considerable reduction. The incidence of poverty has fallen below 25 percent while that of extreme poverty has declined to around 12 percent.
- *Gender empowerment and social inclusion:* Having eliminated the gender disparity in primary and secondary education, solid progress has been made in reducing the large gap between male and female students at the tertiary level. Bangladesh has also advanced well in providing the regulatory framework for protection of women's rights and privileges. Particular progress has been made in the area of child protection. In social protection, the Government has continued to implement ongoing

programmes. Additionally, it has approved a National Social Security Strategy (NSSS) with a view to strengthening the poverty impact of the public spending on social protection and to modernize the social security system to address the social security challenges of a middle income economy.

- *Environment and disaster management:* The disaster management programmes have generally performed well in the recent years and the progress continued under the Sixth Plan. The ability to sharply reduce the loss of lives and injuries based on a combination of early warning system, construction and availability of shelters and timely provision of relief and support measures are indicative of the good progress here.
- *Macroeconomic management:* Prudent macroeconomic management has been the hallmark of Bangladesh's long-term development. This was underscored in the Sixth Plan and the implementation record shows considerable success. The inflation rate has come down to 6.5 percent in FY15. In the area of fiscal policy, the performance is on track regarding fiscal prudence. The budget deficit has been constantly below 5% of GDP and total debt to GDP ratio has been falling. This is a very strong fiscal performance from the point of view of macroeconomic stability. The performance of the Sixth Plan in the external sector is solid in terms of maintaining external stability. The current account has been in surplus, the reserve level has accumulated at a very fast pace and external debt to GDP ratio has been falling. Remittance inflows have also been very strong. This strong performance in the balance of payments has allowed the maintenance of a stable exchange rate and provided great flexibility in managing foreign borrowing. Bangladesh Bank has progressively liberalized the foreign exchange regime selectively opening up private foreign borrowing for investment. These steps constitute a positive factor for encouraging domestic and foreign direct investment.

3. Thrust of the 7th Five Year Plan (2016-20)

3.1 Without deviating from the main thrust of the 6th FYP, the 7th FYP articulates new strategies, institutions and policies, while strengthening existing ones, to complete the remaining agenda of achieving the social and economic outcomes of the Vision 2021 and the Perspective Plan. The 7th FYP begins with the country having entered the ranks of middle income countries. The first year of the 7th Plan also coincides with the launch of the UN Post-2015 Sustainable Development Goals (SDGs). In the backdrop of these factors, the 7th Plan centres on the following themes:

High Growth and inclusiveness: The 7th FYP seeks to raise the GDP growth rate progressively from 6.5% in FY15 to 8% by FY20. The average growth rate is projected at 7.4% over the Seventh Plan period. Manufacturing sector growth will be pivotal whose contribution grow to 21% of GDP by FY20. In the 7th Plan inclusiveness is emphasized that entails equal opportunities for all to benefit from higher growth, creation of productive employment, and improved access to services for the marginalized and physically challenged people. Reduction of the current income inequality of 0.45 will be pursued while spending on social protection as a share of GDP will be increased to 2.3% of GDP by FY 20.

Growth and poverty reduction: The 7th FYP seeks to reduce poverty rate to 18.6% and extreme poverty to around 8.9% by FY20. Along with growth, the 7th Plan emphasizes human development, social protection and social inclusion as essential elements of a comprehensive poverty reduction strategy.

Growth and employment: It is estimated that some 12.9 million additional jobs will be available during the tenure of the 7th FYP, including some 2 million jobs abroad for migrant workers, as compared with the 9.9 million labours that is expected to join the workforce during the same period. Thus job creation, both domestic and foreign, will exceed the additional labour force that will be looking for work so that the backlog of under-employment will also be reduced significantly.

3.2 Despite a number of notable achievements during the 6th Five Year Plan period, governance remains a key issue. Consequently, it will address with determination in the 7FYP, focusing on three key areas: (i) Justice and Rule of Law, (ii) Public Sector Capacity in terms of Administration and Financial Management, and (iii) Economic Governance. When it comes to justice and rule of law, it is imperative that the government improves judicial effectiveness, a key factor of efficient governance system. The Seventh Plan will attempt to implement a pragmatic set of activities in addition to continuing some unfinished tasks outlined in the SFYP. Together, they include appointing Ombudsman as per the Constitution, setting specific criteria for transparent recruitment of Supreme Court judges, digitization of case recording and tracking system and Scaling-up and strengthening of the village courts.

One of the foremost priorities of the government, in terms of public sector capacity enhancement, is enactment and implementation of The Government Servants Act. The act will highlight on better service delivery to the people, developing a clear terms of reference for civil servants, reforming civil servants' performance evaluation through emphasis on establishing clearer annual work objectives and most importantly introducing performance based recruitment and promotion system. Another key thrust of the 7FYP will be to establish mechanisms for citizens' feedback regarding Government performance. Annual Performance Agreement (APA) will also be institutionalized in the plan period. Local government capacities will be strengthened through training and greater financial resources. E-governance will be emphasized in public administration at all levels including e-procurement, e-payments, and e-services.

To strengthen the Public Investment Management, the Government during the 7FYP, will introduce a multi-year Public Investment Programme (PIP) to ensure a close match between approved projects and the availability of financial resources. It will also scale up project design, appraisal and approval system to increase the quality of the investment portfolio. The Financial Management activities that will take place include introducing a modern Integrated Financial Management Information System (IFMIS) capable of producing timely, comprehensive and reliable financial statements. Also, a new Budget and Accounting Classification System (BACS) will be adopted and audit system will be strengthened.

To strengthen Economic Governance, the government will ensure better supervision of banks with a view to keeping gross nonperforming loans below 10%. Stock market supervision will

be strengthened. To ensure governance in the stock market, Government will upgrade the accounting and auditing standards as per of international standard.

3.3 The 7th Plan will continue the 6th Plan's emphasis on prudent macroeconomic management. Thus, the objective of higher growth will be balanced with efforts to further reduce inflation to 5.5% by FY20. Total revenue will be raised from 12.1% of GDP to 16.1% by FY20 while maintaining the current fiscal deficit of 5% of GDP. Side by side, Government spending will be increased to 21.1% of GDP in the same period. The strong performance in the balance of payments will be preserved by promoting a strong and diversified export base. “*Exports worth US\$ 50 billion in the 50th anniversary of Bangladesh*” is selected as a boosting slogan in the RMG sector. Exports in the 7th FYP are estimated to cross US \$54 billion and trade-GDP ratio would be 50% by FY20.

To secure the GDP growth rates projected for the Seventh Plan, the investment rate will need to expand from 28.9% in FY2015 to around 34.4% by FY 2020. As in the past, much of the investment in the economy could be financed through national savings, although foreign direct investment (FDI) is expected to play a bigger role under the Seventh Plan. Out of the planned 7.5% of GDP increase in gross investment, about one-fourth would need to come in the form of FDI. Increased levels of FDI would also be desirable from the point of view of improved management, new technology, and greater market access for Bangladeshi exports. To boost domestic and foreign private investment, regulatory reforms will be made to reduce cost of doing business. Land will be made available through Special economic Zones. Availability of infrastructure will be emphasized.

For the public sector, much of the investment will need to go to enhance infrastructure and improve labour skills. Emphasis will be given to major infrastructure projects including the 9 transformational projects identified by the Government and in realizing the Power Sector Master Plan. The efficiency of domestic investment, particularly in the public sector, will be important for realizing the maximum benefits out of the limited public sector investments. Attention will be given to better use the foreign aid pipeline, better implementation of ongoing projects and better selection of new projects in line with priorities defined under the 7th Plan.

4. Sectoral Challenges of the 7th FYP

4.1 Agriculture: The major issues and challenges facing Bangladesh agriculture during 7th Five Year Plan and beyond will be promoting the use of agricultural technology with supportive policies, reforms, regulations and incentives in place for raising productivity and profitability. Specific challenges of this sector are:

- Sustaining growth and increasing productivity
- Increasing total factor productivity
- Investment in research and incentives to agricultural scientists
- Minimizing yield gap
- Technology transfer/dissemination

- Commercialization of agriculture
- Diversification into high value crops
- Agro-processing and more value addition activities
- Farm mechanization saving labour
- Increasing soil fertility
- Improving farmer incentives for diversification and productivity improvements.

4.2 Water Resources

Bangladesh, being the largest delta in the world, faces enormous challenges in the water sector mainly due to its geographic location in the lower riparian region. Agricultural practices in Bangladesh are controlled by the hydrological-cycle. Besides the natural water related disasters, the man-made interventions both within this country and outside the country are adding challenges in the water sector development and management. Given the complexity of issues and the critical importance of the Bangladesh delta development, the Planning Commission has undertaken the formulation of “Bangladesh Delta Plan 2100 (BDP 2100)” with assistance from the Dutch Government. The overall ambition of this long term BDP 2100 is to achieve a sustainable, integrated and adaptive delta, improved water management and governance, promoting regional cooperation and managing risks of climate change towards a prosperous Bangladesh delta. Specific challenges of this sector are:

- Tackling the consequences of frequently occurring natural disasters.
- Maintaining the coastal polders
- Management of saltwater intrusion, flood risk mitigation, climate proofing, dry season flow augmentation, erosion protection and river navigability and connectivity restoration, removal of drainage congestion and water logging, restoring surface and groundwater quality in the sensitive areas, revitalizing regulated freshwater flow and reclamation of land etc.
- Ensuring sustainable water utilization, especially in the north-west and north-central regions

Materialization of the proposition of establishing organization like Delta Commission and a block provision (e.g. 2% of GDP as hinted in the 7FYP) as Delta Fund to facilitate the implementation of the BDP 2100 would be challenge in the coming years.

4.3 Environment & Climate Change: While green growth is necessary, efficient and affordable, The Government believes that there are a number of challenges impeding proper implementation of a green growth strategy. These are:

- Forging coordination between all players including government, donor community, private sector and NGOs.
- Increasing capacity of all institutions dealing with environment and climate change
- Improving regulations and incentives for private sector to comply with environmental protection
- Reinforcing actions across local and national levels of government
- Adequate financing of projects for environmental protection, water management and climate change management projects
- Green accounting
- Formulation and implementation of the Delta Plan

4.4 Urbanization, Housing and Communities Amenities: As the economy modernizes, urbanization is inevitable. The main challenge is to ensure an orderly transition with emphasis on institutions, financing, regulatory policies and private sector incentives. The city corporations and municipal entities will be strengthened through better staffing and training and better allocation of resources. Traffic congestion will be reduced through new investments in urban transport and better traffic management. Public investment will emphasize urban water, sanitation and drainage improvements. Private investment in housing will be emphasized through reduction of land transaction costs, better zoning laws and better availability of housing finance. Smart, resilient, networked and sustainable urbanization will be promoted through planned development.

4.5 Health: Bangladesh has a large public health service network covering field-based domiciliary services and facilities at different levels like villages, unions, upazilas, districts, divisions, and several specialized hospitals. To fully utilize the potential of such a vast network is a big challenge.

- Improvement in institutional coordination between various sub-sectors in health, population and nutrition to avoid duplication, wastage and missed opportunities.
- Functional collaboration among all the public sector facilities belonging to MOHFW (DGHS and DGFP) and other ministries.
- Strong and effective regulatory structure to address quality issues
- Providing health services in hard to reach areas
- At least four antenatal care (ANC) sessions conducted by skilled health personnel
- Allocating 1.2% of GDP for the health sector

4.6 Education & Technology: Despite the impressive progress made in the education sector, there are still issues and challenges that impede human capital formation. Challenges in the education sector include:

- Exploiting the opportunity of demographic dividend
- Access, dropout and quality
- Gender Parity at the tertiary level
- Address the Technical and Vocational Education Training (TVET) and apprenticeships.
- Allocating 3% of GDP for education sector.

4.7 Social Protection: Reducing poverty and inequality would be prime thrusts of proposed streamlined Social Security System. The main challenges for Social Welfare and Security would be the following:

- Full implementation of the newly adopted National Social Security Strategy (NSSS) of Bangladesh following the life cycle approach.
- Allocating 2.3% of GDP for the Social Security Programmes of the Government.
- Internal coordination among the Ministries/Divisions of that implement the various social security programmes.
- To address the inclusion and exclusion errors, preparation of Bangladesh Household Database.

4.8 Transportation & Communication: A major challenge has been capacity constraint in the transport sector that has delayed the completion of many projects. Regarding maintenance, a major challenge is road damage from vehicle over loading, monsoon weather, climate change impacts and natural calamities. The 7th plan will address these challenges with determination. Completion of the Padma Bridge will receive top priority. Creation of road maintenance and lagged region funds is emphasized in 7FYP. Development budget will continue to give priority to investment in transport with focus on improving the inter-modal linkages and coordination. Transport investments to facilitate imports of coal and LNG and strengthen regional connectivity will be emphasized.

5. Experience of MDGs and Inclusive Growth Strategy ensuring SDGs

5.1 As a result of the solid implementation of the 6th Plan, Bangladesh has made outstanding progress in MDGs achievement. Most MDG targets have been achieved. In recognition of this, the international organizations have bestowed Awards to the Hon'ble Prime Minister of Bangladesh. Apart from strong political commitment to reducing poverty, backed by strong implementation and human capacity, other contributing factors for success of achieving MDGs include: well-tuning MDGs into the development strategies and plans, sound macro-economic policies, open trade with tapping of global market, and recognition and active management of the complementary roles of market and state; and long-term institutional reform aimed at making the public sector accountable to citizens, and devolution of responsibility and accountability to local levels; and determined social policy and innovation.

5.2 The 7th FYP (2016-20) is the first development instrument and flagship document for Bangladesh to address the global Sustainable Development Goals (SDGs) approved by the United Nations. While formulating the plan document, the proposed goals by the Open Working Group (OWG) were taken into consideration so that the goals of the SDGs can be illustrated in the national plan and budgetary allocations. It is quite comforting to note that Bangladesh's proposals to UN converge with the global development agenda. The issues of SDGs like Poverty, inequality, Gender, Food security & nutrition, Healthy lives, Quality education, Productive employment, Good governance, Environmental sustainability, Global partnership, Water & sanitation, Sustainable energy, climate change, resilient infrastructure, conservation of natural resources are addressed adequately in the 7th FYP of Bangladesh.

5.3 A Development Result Framework (DRF) has been incorporated in the 7th FYP. The DRF was prepared in a consultative and inclusive process in order to address the views of different actors and develop a robust and rigorous result based monitoring and evaluation framework. As the goals, targets and indicators of the SDGs are well taken care of in the formulation process of the 7th FYP of Bangladesh, it can be said that the country will be an 'early starter' in the implementation process of the SDGs.

6. Resource Requirements for the 7th FYP

Total investment requirements for the 7th FYP is projected to amount to US\$ 409.01 billion in constant FY16 prices (the first year of the Plan). Private sector investment will continue to

play its dominant role under the Plan, accounting to US\$ 316.03 billion or 77.27% of the total investment in the economy under the Plan. Although domestic private investment would still play a major role, the role of FDI/PPP in the domestic economy would need to increase significantly as part of the Plan financing strategy. The domestic resources in the form of domestic savings will continue to play a dominant role in financing of the Seventh Plan. Bangladesh’s respectable national savings rates of 29% of GDP provide a solid starting point in this respect. The Seventh Plan will build on the gains made so far with a view to allocating US\$ 92.98 billion in constant FY16 prices, accounting for 22.73% public investment of total investment in the economy over the 5-year period. Of the total investment, 90.43% will be financed through domestic resources and the remaining 9.56% will be financed through external resources.

Table: Financing of Seventh Five Year Plan Investment (FY 2015-2016 prices)

Item (in US \$ Billions)	Total	Public	Private
Total Investment	409.01	92.98 (22.73%)	316.03 (77.27%)
Domestic Resources	369.88 (90.43%)	81.85 (22.13%)	288.03 (77.87%)
External Resources	39.12 (9.56%)	11.12 (28.43%)	28.00 (71.57%)

*1US\$ =BDT 78

7. Development Partners Support in the 7th FYP

7.1 Bangladesh’s target of becoming a Higher Middle Income Country with zero hunger calls for huge investments from both internal and external sources. It is estimated that Bangladesh needs about US\$ 9 billion in additional investment in major infrastructure projects per year to sustain growth at a higher level. The Government currently spends about 5% of GDP on ADP, one third of which (\$ 3-3.5 billion) is allocated for communications and power. The Seventh Plan aims to increase the size of the Government spending by about 5 percentage points to 21% of GDP by FY20. More than 20% of the increase will be on account of the larger ADP. However, much of the expanded spending will be directed to expanded coverage and better quality of public service delivery. So, it would not be possible for the government to undertake such a major investment plan in infrastructure based entirely on budgetary resources. The government would need to start its PPP initiative in full force to leverage public resources with private investment. With proper blending, public sector investment resource use could be limited to about 6% to 7% of GDP and still contribute to significantly improving the quality of infrastructure of Bangladesh. Moreover, the interdependent mix of domestic and external mobilization of financial resources, technology development and transfer, capacity-building, equitable globalization and trade, regional integration, as well as, the creation of a national enabling environment required to implement the Sustainable Development Goals would be crucial for Bangladesh.

7.2 Assistance from different development partners in the form of loan and grant is one of the major sources of the country’s resource base. Though foreign assistance as percentage of

GDP is declining, the volume is on steady rise in absolute terms. ODA accounted for 33% of Annual Development Programme (ADP) expenditure in 2013-14. Thus, one of the key strategies of the Seventh Five Year Plan will be to ensure effective partnership with development partners to ensure better use and results of foreign assistance. A national Policy on Development Cooperation is being prepared to guide development cooperation in Bangladesh from a wider, strategic perspective. A particular focus will be to harmonized donor policies with national policies to enable better and faster use of the growing aid pipeline. Another priority would be to align donor funding for new projects to the priorities of the 7th Plan.

8. Conclusion

For the implementation of the 7th FYP, it requires focus on making growth and development both sustained and sustainable. It will require not just ensuring that economic growth is entrenched into the fabric of developmental policy, but also by ensuring that economic growth takes place within the rubric of sustainability and without environmental damage. The developing countries, like Bangladesh without forging strong effective global partnership, would really face huge challenges for implementing the new Sustainable Development Goals.

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