BANGLADESH 100526

## Proposed Country Partnership Framework FY2016 – 2020

## **Executive Summary**

### COUNTRY CONTEXT AND DEVELOPMENT AGENDA

- 1. Bangladesh lies along the Ganges-Brahmaputra Delta—Asia's largest and the world's most densely populated delta. The country's 160 million inhabitants live on a land mass of nearly 150,000 km², resulting in a population density of about 1,600 per km². The delta not only marks the country's physiology, but also the culture and livelihoods of its people. Like all delta environments, Bangladesh is a hotspot for natural disasters and climate change. Today, most Bangladeshis live in rural areas, but new employment opportunities in the industrial and service sectors have fueled urban population in recent years.
- 2. Bangladesh has proven to be remarkably resilient despite its challenging circumstances and achieved significant human development gains over the last four decades. Bangladesh's impressive progress on health outcomes, population growth, access and equity to education, and gender equality is well documented. In 1971, Bangladesh ranked well below India in many social indicators, but today, with less than 60 percent of India's income per capita, it ranks higher in most such indicators, as well as above many other low- and lower-middle-income countries with similar or better initial conditions in 1971 (see Table 1).

**Table 1: Social Indicators for Bangladesh and Comparator Countries** 

Indicator		Bangladesh		Inc	India		ncome tries	Lower middle- income countries	
		1971	2013	1971	2013	1971	2013	1971	2013
GDP per capita (constant US\$ 2005)	[1971-2013]	259	621	272	1,165	376	456	410	1,261
Life expectancy (years) at birth	[1971-2012]	47	70	50	66	46	62	52	66
Infant mortality rate	[1971-2013]	149	33	141	41	145	53	124	44
Total fertility rate	[1971-2012]	6.9	2.2	5.4	2.5	6.7	4.1	5.6	2.9
Mean years of schooling of adults	[1985-2013]	2.4	5.1	2.4	4.4	2.3	4.0	3.1	5.4
DPT child immunization rates (%)	[1985-2103]	2	97	18	72	24	80	27	76
Access to improved sanitation (%)	[1991-2012]	35	57	18	36	22	37	30	47
Prevalence of undernourishment (%)	[1991-2012]	34	16	26	17	34	26	25	15

**Source:** WDI. Mean Years of schooling: Barro and Lee (2013) UNESCO (2013b) and HDRO estimates. Low and lower middle income groups comprise countries with per-capita GNI <US\$1,045 and US\$1,046-US\$4,125 respectively in 2015.

- 3. Rapid growth enabled Bangladesh to cross the threshold to lower middle income country (LMIC) status of per capita GNI of \$1,046 in FY14. Per capita income increased further in FY15 to US\$1,220. GDP grew well above the average for developing countries in recent years, averaging 6.2 percent since 2010. While Bangladesh has achieved its ambition to reach middle-income-status by 2021 ahead of time, the challenge will be to further accelerate growth so that it moves well past the threshold and further up the income range of LMICs.
- 4. Several factors are behind the resilience of Bangladesh's economy, against the backdrop of a volatile global economy. Robust macroeconomic fundamentals at the onset of the financial crisis, strong growth of exports and remittances, and relatively insulated financial markets have played an important role. Bangladesh's exports doubled their world market share between 1995 and 2012. The RMG sector has been a key contributor, with its share of total exports accounting for more than 80 percent in FY14. Bangladesh is now the world's second largest

garment exporter, making it unique among low-income countries because of the high share of manufactured goods in its exports.

- 5. Growth in the near and medium-term is expected to rise modestly. If stability prevails, Bangladesh's strong domestic demand, gradually improving investment climate, and moderate single digit inflation are expected to raise GDP growth to 6.7 percent in FY17 and 6.8 percent in FY18. Political instability and declining export competitiveness in European markets constitute the main risks in the medium-term. Especially the resurgence of prolonged and intense political instability would hamper private sector activities and threaten macroeconomic stability.
- 6. Bangladesh has made good progress to achieve the WBG's twin goals of eliminating extreme poverty by 2030 and boosting shared prosperity. The country is on track to achieve the Millennium Development Goal (MDG) of halving the incidence of extreme poverty by 2015. Projections using 2010 Household Income and Expenditure Survey (HIES) data (the latest available) indicate that the national poverty rate fell to 24.8 percent in 2015, less than half the 58.8 percent rate in 1991-92. Based on the US\$1.25 global poverty measure, the number of the poor fell by 12 million, from around 77 million to 65 million, at a rate that was 60 percent faster than in the rest of the developing world, excluding China. In addition, Bangladesh is also amongst a select group of countries worldwide that experienced a decline in inequality. Between 2000 and 2010, inequality in rural areas, where about 70 percent of the population continues to reside, remained more or less unchanged, while inequality in urban areas trended downwards. With a Gini index of about 0.3 at the national level, inequality is lower than in Nepal, India, Sri Lanka, Indonesia, and most East Asian countries.
- 7. Increases in labor incomes have been a main driver of poverty reduction and declining inequality. The structural shift from agriculture to industry and services has accelerated in recent years and created new and better paid jobs. In the non-agricultural sector, net employment rose by more than 10 million between 2002-03 and 2013, outstripping the 3.3 million increase in agriculture. Labor productivity increased dramatically across the board: the growth in output per worker was especially large in the industrial and agricultural sectors, while services also experienced a significant increase. Notwithstanding the fall in agriculture's share in total employment, increases in farm incomes accounted for more than 90 percent of the poverty reduction between 2005 and 2010.
- 8. Despite Bangladesh's remarkable development achievements, significant challenges remain in its quest to eliminate extreme poverty. Bangladesh continues to be one of the poorest countries in the region, with constrained public services and comparatively weak institutions. Even though it has done fairly well in recent years, many others, e.g. China, Sri Lanka, and Vietnam, have done much better (see Table 2).

Table 2: Income Levels: Bangladesh and Comparator Asian Countries: 1980 – 2013

		GDP per capita (current US\$)			GNI per capita, Atlas method (current US\$)			
	1980	2013	% (annual)	1980	2013	% (annual)		
China	193	6,807	11.4	220	6,560	10.8		
South Korea	1,778	25,977	8.5	1,900	25,920	8.2		
Sri Lanka	273	3,280	7.8	280	3,170	7.6		
Vietnam	$239^{*}$	1,911	7.7	220**	1,740	9.0		
Thailand	683	5,779	6.7	710	5,340	6.3		
Indonesia	536	3,475	5.8	510	3,580	6.1		
India	271	1,499	5.3	270	1,570	5.5		
Philippines	685	2,765	4.3	700	3,270	4.8		
Bangladesh	220	958	4.6	220	1,010	4.7		
Pakistan	296	1,275	4.5	340	1,360	4.3		

Source: World Development Indicators. \*Data for 1985; \*\* 1989.

- 9. Earlier this year the WBG conducted a Systematic Country Diagnostic (SCD) which highlights the creation of more and better jobs as the key challenge for eliminating poverty and boosting shared prosperity in Bangladesh. Jobs remain a critical concern in the country: the labor force is growing by 3.1 percent per annum—1.3 times the South Asian and 1.7 times the global average—and 21 million people are projected to enter the working age population over the next decade. Many young Bangladeshis remain trapped in low-wage, labor intensive, and insecure informal work. Accelerating the employment shift of casual workers and small farmers engaged in agriculture to salaried employment in more dynamic and remunerative sectors of the economy is an important priority. At the same time, growth and employment opportunities associated with diversification of agriculture and value addition in the agricultural supply chains must be captured.
- 10. One major impediment to higher growth rates, private sector development and job creation is the low level of investment in infrastructure. Bangladesh devotes a smaller percentage of GDP to investments than other countries in South Asia. Public investment in hard infrastructure stands at less than 2 percent of GDP, resulting in lower infrastructure quality. China, Thailand, and Vietnam invest more than 7 percent of GDP. Unless Bangladesh's infrastructure bottlenecks are addressed, they risk becoming increasingly important constraints for growth. WBG estimates indicate that reaching sustained growth rates of 7.5-8.0 percent would require an increase in infrastructure investments to around 10 percent of GDP per year.
- 11. The SCD identifies foundational and transformational priorities where concerted efforts by the government and other stakeholders would yield the highest payoffs for promoting sustainable growth and creating jobs. As described in Table 3 below, foundational priorities are areas where Bangladesh has mostly done well in the past, but which continue to be pre-requisites for faster job creation and growth and therefore require sustained policy attention. Transformational priorities represent lagging areas, where concerted actions over the next three to five years could have a profound impact on the pace of progress towards eliminating poverty and boosting shared prosperity.

### Table 3: Summary of Key Priorities for Action Identified by the SCD

#### PRIORITY AREAS WITH POTENTIALLY TRANSFORMATIVE IMPACT ON TWIN GOALS

**Energy sector:** key priorities include increasing the supply of electricity and natural gas, diversifying sources of power supply, retiring polluting and expensive emergency diesel generators, eliminating energy subsidies (and the resulting significant fiscal burden), and eliminating distorted market signals.

Impact on twin goals: Increased availability of electricity helps increase economic activities, which in turn generate jobs and income opportunities, thus reducing poverty.

**Inland connectivity and logistics:** key priorities include upgrading and integrating key transport corridors (in particular the Dhaka-Chittagong highway), improving management of the port in Chittagong, reviving inland water transportation, and improving the maintenance of existing assets.

Impact on twin goals: Improved connectivity will help reduce transport time and costs and boost productivity, which will help promote enterprise, generate jobs and increase incomes of workers.

Regional and global integration: the key priorities are to tap considerable potential to capture a higher share of the manufacturing jobs moving out of higher-income countries by reviving the stalled trade reform agenda; moving up to higher value added manufacturing; and to make migration more remunerative, affordable, inclusive, and safe.

Impact on twin goals: Increased export-led growth will help accelerate and diversify the source of GDP growth and create new jobs that will help improve incomes and living standards.

**Urbanization:** key priorities are to improve urban competiveness and livability, especially for the poor (e.g. connectivity, efficient land use, public services and amenities) and to reduce environmental externalities (air and water pollution).

Impact on twin goals: Improving the livability and quality of urban amenities will make growth more environmentally and socially sustainable and ensure that the poor also benefit from urbanization

**Adaptive delta management:** key priorities are to promote agricultural productivity and diversification; to enhance long-term planning for better land and water use and natural resource management; and to revitalize and strengthen key infrastructure to protect the population, reduce vulnerability, and secure growth.

Impact on twin goals: A holistic long-term approach to managing economic development of the delta will ensure that growth is sustainable, inclusive and reduces the vulnerability of the poor to natural disasters.

#### FOUNDATIONAL PRIORITIES

**Macroeconomic stability and related cross-cutting challenges:** Key priorities include achieving higher revenue mobilization through tax policy and tax administration reforms; better implementation of the Annual Development Program; and improved health of the financial sector and enhanced financial intermediation.

Impact on twin goals: A strong macroeconomic framework is essential to promote growth, financial sector stability and private sector competitiveness needed to create jobs and boost the incomes of the poor.

**Human development:** Key next-generation priorities are related to reducing malnutrition, improving the quality of public service delivery (including workforce skills); increasing public funding for health and moving towards universal health coverage; and extending coverage of social protection to the urban poor.

Impact on twin goals: Investing in skills and education will help generate jobs in the formal sector and foster income opportunities; access to quality healthcare and improved social protection coverage will reduce the vulnerability of the poor and enhance their ability to participate in the labor market.

**Institutions and business environment:** Stronger institutions are needed to manage a larger and more complex economy, to meet the aspirations of a more diverse and heterogeneous population, and to ensure that the prevailing business environment is conducive to higher investment and growth.

Impact on twin goals: Stronger institutions can help foster a business-friendly environment for growth, which in turn will increase economic opportunities to grow incomes.

## II. PROPOSED WORLD BANK GROUP COUNTRY PARTNERSHIP FRAMEWORK

12. The creation of more and better jobs that contribute significantly to growth and poverty reduction will require several complementary transitions to be achieved simultaneously. First, given that the majority of the poor continue to live in rural areas and remain largely dependent on subsistence agriculture, it will be important for agriculture to continue to perform well, with improvements over time both in agricultural productivity and diversification, as well as increased agri-business. Second, to enable higher value-addition in the economy as a whole, Bangladesh needs to help people move out of agriculture and into manufacturing—

particularly manufacturing for exports. Third, Bangladeshi businesses will need to diversify both their products and markets, building on a nascent competitive advantage in areas such as pharmaceuticals, shipbuilding, leather goods, jute-based goods (including particularly footwear), ICT (including business process outsourcing), and varieties of light engineering. To do so, Bangladesh will first have to remove the binding constraints to growth posed by low access to reliable and affordable power, poor transportation infrastructure, limited availability of serviced land, rapid urbanization and vulnerability to climate change and natural disasters, among others. In addition to these bottlenecks, some industries may also face specific constraints in taxation, labor laws, access to finance, and sector-specific infrastructure, which the Government of Bangladesh will need to help the business community address. There is also still room to grow the RMG sector: although Bangladesh is already the second-largest exporter of ready-made garments after China, it is still only about one-quarter of its size in China.

- 13. The proposed CPF's overarching goal is to create more and better jobs. This will refocus the WBG's strategic directions on policy areas which could help remove stubborn impediments to job creation and poverty reduction. The CPF is aligned with the Government's 7<sup>th</sup> Five Year Plan and the proposed program is anchored in the five transformational priorities identified in the SCD (see Table 1), with the clear objective of increasing engagement in these areas to make a dent in poverty reduction. In particular, the Bank will shift more financing toward energy and transportation infrastructure—areas where progress has been limited, where the WBG has a comparative advantage and where it must play an active role to remain relevant. The program also takes into account the legacy portfolio and will continue to support the foundational priorities through engagements which have already been initiated, specifically in health, education, social protection, revenue mobilization, financial sector, and the business environment—areas where the Bank enjoys a comparative advantage, or has played a leadership role in leveraging donor support.
- 14. Bangladesh's weak governance and institutions have undermined the sustainability of reforms, and the CPF will support institutional capacity-building through activities embedded in operations across the portfolio. This is a critical long-term agenda that needs to be tackled on a sustained basis across multiple fronts. At the national level, the Bank will continue ongoing efforts to improve public financial management, public procurement, civil service reform, service delivery (through, for example, linking the use of personal IDs with service delivery), access to information, and transparency in state-owned enterprises.
- 15. In defining the program for the outer years, the CPF will consider three selectivity criteria: i) consistency with the Government's 7<sup>th</sup> Five Year Plan to ensure strong country ownership; ii) alignment with policy priorities identified in the SCD; and iii) the WBG comparative advantage, taking into account the knowledge and financing support provided by other development partners. As in the past, this CPF will also maintain a degree of flexibility such that the WBG can respond rapidly to changing country priorities, evolving country context or unforeseen events such as natural disasters.
- 16. The activities in the CPF are structured around three focus areas consistent with the South Asia Regional Strategy—growth, social inclusion and climate and environmental management. The combined outcomes of these activities are expected to contribute to a series of

CPF objectives and will contribute to the achievement of Bangladesh's national goals as articulated in the 7<sup>th</sup> Five Year Plan (see Results Framework below).

- Focus Area 1: Growth and Competitiveness: Bangladesh has sustained impressive growth rates over the last decade, fueled by a young population, jobs in manufacturing, increased agricultural productivity and remittances from overseas workers. But it will need to grow even faster in order to create enough jobs for the 2 million new workers—male and female—stepping into the labor force each year. Increasing investments and jobs in the private sector will require Bangladesh to undertake a broad set of reforms to further enhance competitiveness. Bangladesh also shares a 4,100 km border with India, making regional cooperation an imperative to attract investments and boost growth. To support these objectives, WBG activities will seek to remove barriers to growth such as increasing electricity supply, improving transport connectivity, expanding financial intermediation and creating an environment conducive to doing business, among others.
- Focus Area 2: Social Inclusion: Bangladesh achieved remarkable progress in expanding health and education services to the poor, with special attention to girls, and in creating work opportunities for women, particularly in the RMG sector. Even so, pockets of poverty persist across the country, malnutrition afflicts children from both low and higher income households, and access to public services remains constrained. Most workers are trapped in informal employment, with little opportunity to upgrade their skills and find better jobs. The WBG activities under this area will aim to consolidate the equity and access gains in health and education, and address the next generation of challenges related to quality, higher education and skills development, with continued due regard to gender. In addition, the WBG will seek to expand coverage of social protection, access to clean water and sanitation, and bring the rural poor into the folds of the country's progress with support to their livelihoods.
- Focus Area 3: Climate and Environment Management: With two-thirds of its landmass less than five meters above sea level, Bangladesh is highly susceptible to sea-level rise and storm-induced tidal flooding which climate change is raising to an existential threat. The future is likely to threaten food security and freshwater supplies (especially because of saline intrusion into shallow groundwater), and increase prevalent water-related diseases, and repeated damage to poorly-sited or poorly-constructed infrastructure. To manage the complex Bangladesh delta effectively, the Government is preparing an integrated and holistic long-term plan—the Delta Plan 2100—to promote safe living through greater resilience and sound economic development. The Plan is based on an adaptive delta management (ADM) approach, which ensures that all sectoral investments take into account the long term uncertainties related to climate change and growth. WBG support will be aligned with the ADM principle, with activities focused on boosting Bangladesh's resilience to natural disasters, improving the management of water and natural resources and modernizing agriculture by promoting productivity with climate-smart technology, diversification and accelerating the move up the value chain.

# Bangladesh CPF (FY16-20) Proposed Results Matrix

The CPF objectives and indicators shown below are for discussion purposes and subject to change

## Focus Area 1: Growth and Competitiveness

**Description:** In order for Bangladesh to create enough jobs for the 2 million new workers stepping into the work force every year the country will need to grow faster. This focus area concentrates on removing barriers to growth by supporting increasing access to electricity supply, improving transport connectivity, strengthening service delivery in local government, strengthening financial sector efficiency and streamlining business environment.

Link with twin goals: SCD identifies that in addressing bottlenecks in key areas such as (i) increasing availability of energy will increase economic opportunities in urban/rural areas; (ii) improving connectivity will help reduce transport time and cost and boost productivity, which will help promote enterprise, generate jobs and increase incomes of workers; (iii) improving livability of cities, strengthening business environment and enhancing financial intermediation can result in transformational growth, create more and better jobs and lifting greater numbers out of poverty.

Country development goals: The government plans to accelerate growth by prioritizing attention on infrastructure development. The key elements will concentrate on ensuring efficient and cost effective supply of primary energy, strengthening the use of river transport to provide a low cost alternative to road transport and coordinating the roads and strengthening the performance of the port. The government goal also identifies several drivers of growth such as improving the investment climate, enhancing the efficiency of the financial sector and improving urban governance through the provision of affordable basic infrastructures and services.

and services.	CDE OL: -4 L. P4	WDC December 1
CPF Objectives	CPF Objectives Indicators	WBG Program
1.1 Increased power generation capacity & supply of electricity	1.1.1 Generation capacity increased (MW) Grid:  1.1.2 Electricity output increased (GWh)  1.1.3 Number of households, businesses and farmers have access to clean energy services	Ongoing:  Sidhirganj Power  Rural Electricity Transmission & Distribution  Rural Electrification and Renewable Energy Development II  Pipeline: Ghorashal 4 Power Generation Sidhirganj Power –AF Gas Sector Efficiency Improvement Sirajganj II (MIGA) Sirajganj IV (MIGA) Ghosrashal 3 (MIGA)
1.2: Improved transport connectivity	1.2.1 Percentage of population living within 2 km of all season road in the selected rural areas	Ongoing:
1.3: Improved delivery of basic services by local government	1.3.1 Number of people in selected urban areas provided with improved basic services  1.3.2 Number of municipalities demonstrating improvement in the annual performance assessment	Ongoing:  Local Governance Support II  Municipal Governance and Services Pipeline:  Pro-Poor Slums Integration
1.4: Enhanced business environment for regional and global integration	1.4.1 Reduce border crossing time at existing land ports  1.4.2 Development of new economic zones	Ongoing:  Private Sector Development Support Bangladesh Investment Climate Fund (BICF) (Advisory)  Pipeline: Regional Connectivity 1 Dhaka-Chittagong Inland Waterways Private Sector Development Support II Competitiveness Advisory (BICF 2)

		Trade and Investment (DTIS and Institution Support)
1.5: Increased financial intermediation	1.5.1 Outstanding foreign exchange (FX) long term loans of participating financial institutions (PFI) (US\$mil)      1.5.2 Number of insurance and voluntary pensions account holders	Ongoing:  • Financial Sector Support  • Investment Promotion Financing Facility  Pipeline:  • Modernization of State Owned Banks  • Insurance and Private Pensions Development  • Investment Promotion and Financing Facility II

### **Focus Area 2: Social Inclusion**

**Description:** The aim of this focus area is to consolidate the equity and access gains in health and education, address next generation of challenges in related to quality, higher education and skills development, expanding social protection coverage, access to clean water and sanitation and improving opportunities rural livelihood opportunities.

*Link with twin goals:* SCD identified that investing in skills and education will help generate jobs in the formal sector and foster income opportunities; access to quality healthcare and improved social protection coverage will reduce the vulnerability of the poor and enhance their ability to participate in the labor market.

**Country Development Goals:** The government strategy emphasizes for inclusive growth which include creating productive employment opportunities, access to services for the marginalized people, supporting skills development in response to market demand and fostering greater labor market participation particularly for women. The government plan also seeks to significantly reduce poverty and extreme poverty rate. The plan also focuses human development, social protection and social inclusion as essential elements of a comprehensive poverty reduction strategy.

essential elements of a comprehensive poverty reduction strategy.							
CPF Objectives	CPF Objective Indicators	WBG Program					
2.1 Improved access and quality of	2.1.1 Number of out of school children	Ongoing:					
education (primary, secondary,	enrolled in primary schools	Primary Education Development					
tertiary)		Program III					
	2.1.2 Increased completion rates for	Reaching Out of School Children III					
	primary and secondary education for the	Secondary Education Quality and					
	poor (lowest 20% income quintile)	Access Enhancement					
	2.1.2 System of more learning	Higher Education Quality					
	2.1.3 System of regular learning assessment for primary and secondary	Enhancement					
	level is institutionalized	Skills and Training Enhancement					
	level is institutionalized	Pipeline:					
		Skills and Training Enhancement –  AF					
		College Education Development					
		Global Program for Education grant					
2.2: Improved access to quality	2.2.1 Increased percentage of deliveries	Ongoing:					
health services	by skilled birth attendant	<ul> <li>Health Sector Development</li> </ul>					
		Program					
		Rural Water Supply and Sanitation					
		Pipeline:					
		Health Sector Development – AF					
		Health Sector Development					
		Program II					
2.3: Improved social protection	2.3.1 Number of targeted poorest	Ongoing:					
coverage for the poor	beneficiaries receiving social protection	Safety Net Program for the Poorest					
	benefits	Income Support for the Poorest					
		Program					
		Pipeline:					
		ID Management System Project					
		Safe Overseas Migration for the					
		Poor					
2.4 Enhanced income opportunities	2.4.1 Percentage of beneficiary	Ongoing:					
for the poor	households with an incremental income	Nutun Jibon Livelihood					
	increase of at least 30%	Improvement Project					
	2.4.2 Number of youth applicated the second	Social Investment Program Project					
	2.4.2 Number of youth employed through	II					
	program facilitation and sustained for at least one year						
	least one year						

# Focus Area 3: Climate and Environment Management

**Description:** This area is aligned with government's Adaptive Delta Management (ADM) principle and focused on boosting country's resilience to natural disasters, management of water and natural resources and modernizing agriculture by promoting productivity with climate smart technology, diversification and accelerating the move up the value chain.

*Link with twin goals:* A holistic long term approach to managing economic development of the delta will ensure that growth is sustainable, inclusive and reduces the vulnerability of the poor to natural disasters.

*Country development goals:* The government's goal is to adequately address climate change, reduce risks for disasters and significantly improve environmental performance. The government is preparing an integrated and holistic long term plan – the Delta Plan 2100 to promote safe living through greater resilience and sound economic development.

CPF Objectives	CPF Objective Indicators	WBG Program		
3.1: Increased resilience to natural disasters (urban/coastal)	3.1.1 Number of Wards with decentralized emergency response services in Dhaka and Sylhet  3.1.2 Number of people with access to multipurpose shelters in select coastal districts  3.1.3 Number of people able to understand and respond to early warning information	Ongoing:		
3.2: Improved water resource management for climate resilience	3.2.1 People under reduced risk of erosion and flooding (number)  3.2.2 Area protected against frequent erosion and flooding (ha)	Ongoing:  Water Management Improvement Pipeline:  River Management Improvement I  Water Management Improvement – AF		
3: Increased adoption of a stainable agricultural practice agricultural commodities		Ongoing:  National Agriculture Technology Program Phase 2  Modern Food Storage Facilities  Coastal Embankment Improvement Project		