



Oxford Policy Management

## **EPS-PEAKS Helpdesk Query**

Exploring whether a Political Economy Analysis is needed to support the Inclusive Growth Diagnostic in Bangladesh

Mateo Cabello and Machal Karim

28 August 2014

## Table of Contents

Table of Contents	i
List of Abbreviations	ii
1 Introduction: outline of the query and approach	1
2 Evidence provided by the BIDG and other documents	3
2.1 Finance	3
2.2 Macroeconomic Risks	7
2.3 Microeconomic Risks	10
2.4 Market Failures	12
2.5 Human Capital	14
2.6 Infrastructure	15
2.7 Natural Capital	18
2.8 Conclusions	20
3 The Country Wide PEA of Bangladesh – EU	22
3.1 Main purpose of the study	22
3.2 Methodological approach and conclusions of the report	22
3.3 Strengths and weaknesses	27
4 Main elements in the design of a PEA to explore constraints to growth in Bangladesh	28

## List of Abbreviations

BCCSAP	Bangladesh Climate Change Strategy and Action Plan
BIGD	Bangladesh Inclusive Growth Diagnostic
BOP	Balance of Payments
CCMS	Climate Change Management Strategy
DFID	Department for International Development (UK)
EPS-PEAKS	Economics and Private Sector Professional Evidence and Applied Knowledge Services Framework
EU-PEA	Country Wide Political Economy Analysis of Bangladesh
FDI	Foreign Direct Investment
GoB	Government of Bangladesh
HRV	Growth Diagnostic Framework - Hausmann, Rodrik and Velasco
IDS-PEA	Political Economy Analysis on Climate Resilient Development
IP	Intellectual Property
IPP	Independent Power Produces
OPM	Oxford Policy Management
PEA	Political Economy Analysis
PIC	Project Implementation Committee
PPP	Public-Private Partnerships
RPT	Regional Power Trade
USAID	United States Agency for International Development
WRI	World Risk Index

## 1 Introduction: outline of the query and approach

Within the Economics and Private Sector Professional Evidence and Applied Knowledge Services Framework (EPS-PEAKS) Oxford Policy Management (OPM) has been requested by the Department for International Development (DFID) to explore the value of a political economy analysis (PEA) study at the sectoral and cross-cutting levels in order to complement the evidence provided by the Bangladesh Inclusive Growth Diagnostic (BIGD), as well as other existing analyses that explore economic growth and pro-poor development in Bangladesh

The BIGD is a partnership between DFID and the United States Agency for International Development (USAID) to identify the underlying issues that most adversely impact the prospects for sustainable economic growth in Bangladesh. In order to achieve that goal, the BIGD uses the Growth Diagnostic Framework or HRV framework, to explore linkages between private investment and economic growth. According to the theoretical foundation of the HRV, private investment can be constrained by either a lack of supply (or access) to finance or a lack of demand for finance. In the case of the former, in the case of the latter, potential investors are holding back on projects because they perceive the returns to investment to be too low. The HRV approach also explores the linkages between some key factors of production (natural capital, human capital, and infrastructure) and the regulatory environment so to better understand how investors capture their returns – level of appropriability. Appropriability is reduced by either market failures, which are not properly addressed by a regulator, or by a structure of governance that distorts the efficiency of a free market system.

The BIGD, which covers seven topics (finance, macro and microeconomics risks, market failures, human capital, infrastructure and natural capital), will be used as the main reference for this Helpdesk review. However, other documents will be reviewed as well, namely the IMF's *Bangladesh Country Report* (2011), hereafter IMF2011; the World Bank's *Towards accelerated, inclusive and sustainable growth* (2012), hereafter WB2012; and the *Economic Growth in Bangladesh*, by Rahman and Yusuf (2009), hereafter RaY2009. The conclusions as well as the evidence these documents provide will be compared to the evidence offered by the BIGD. The purpose of this approach is to explore whether there is consistency in existing conclusions and evidence across sources; or on the contrary, if there are significant contradictions and/or knowledge gaps that make a political economy analysis necessary to understand the discrepancies and substantiate the recommendations of the BIGD.

This desk study will also review the aggregate PEA study recently undertaken by the EU - *Country Wide Political Economy Analysis of Bangladesh*, hereafter the EU-PEA report. The review will not only focus on the existing/missing evidence on sectoral, thematic/cross cutting constraints to growth mentioned in the report, but also focus on the methodological approach that was used. Therefore, this EPS-PEAKS Helpdesk Report will be able to suggest how a sectoral PEA that includes cross-cutting issues, should be constructed as well as the main elements that it would cover.

Section 2 of this report explores each of the seven topics covered by the BIGD, identifying gaps and listing unanswered questions. It also compares the results provided

with those offered by other similar sources, as mentioned above. Finally, it introduces areas that need further analysis from a political economy perspective. Section 3 analyses the results provided by the EU-PEA report as well as the methodological approach used. Finally, Section 4 provides suggestions on how to design a comprehensive PEA that could fill the existing knowledge gaps, as well as an indicative reference of the scope and value resources that would be required to complete such a PEA.

## 2 Evidence provided by the BIDG and other documents

### 2.1 Finance

This section of the diagnostic assesses whether access to finance is a constraint to growth. It explores whether this is the result of (a) inadequate access to savings (both domestic and foreign) or (b) inefficient financial intermediation. If access to finance is a constraint to growth, the tests carried out should reveal that i) the real rate of interest (the shadow price) is comparatively high; ii) there is a correlation between reductions in real interest rates and investment growth, and vice versa; iii) firms try to bypass the constraint and iv) firms/industries less intensive in the finance constraint to thrive relative to firms more intensive.

#### 2.1.1 Results of the tests and main conclusions

Test 1: the real interest rate has been falling over recent years, which suggests that the supply for money/credit is aligning with the demand for money/credit.

Test 2: the analysis indicates that over the last twelve years, a reduction in the real interest rate has generally been accompanied by an increase in investment. This result supports the idea that access to finance could be a constraint to growth, although the BIGD suggests that further investigation is needed.

Test 3: Data collected shows that only 7% of large firms and 12% of medium firms identified access to finance as the main obstacle, compared to 20% of small firms. This represents a vast improvement since the 2007 survey in which access to finance was the main obstacle for 23% of large firms, 24% of medium firms and 52% of small firms.

Test 4: Lack of comprehensive data makes the results of this test inconclusive.

Overall, the analysis in this area shows an improvement in the access to financial services, with falling real interest rates and a growing, more competitive banking sector. As a result, **access to finance is not rated as a binding constraint**, although further improvements in the system are needed, particularly capital market deepening and SME financing.

#### 2.1.2 Evidence provided by other documents in the area of finance

**IMF2011:** Despite substantial progress made by microfinance sector, agricultural development is still constrained by the lack of access to financial services. Pricing is mentioned as the main factor, although is also recognized that the demand for microcredit still much exceeds the present supply and coverage of microcredit schemes. The service sector suffers similar problems of affordability and not enough supply. Despite the adoption by the GoB of an inclusive strategy of credit for the poor and under-privileged, problems with project design and implementation have hindered cost effectiveness and intended reach. Lack of adequate data on the sector also makes it difficult to know where the money is going and what the impact of this program is.

**WB2012:** The report indicates that financial development indicators such as M2-to-GDP, private credit-to-GDP, and total deposits-to-GDP have risen significantly, which in turn has had a positive effect on accumulation of savings and investment rates. Despite this, the document also recognizes that long-term lending and lending to small firms in the rural non-farm sector is inadequate - financial depth is quite low and the range of financial services quite inappropriate. It also highlights the importance of identifying alternative ways of financing investments, especially relatively long term and lumpy investments required in areas such as electricity, gas, and other infrastructure facilities. The development of PPPs is suggested as an alternative for this.

**RaY2009:** The report recognizes that the finance industry experienced rapid growth in the past decade. It also mentions that lending interest rates in Bangladesh have not been particularly high compared with the benchmark countries during recent years, which comes to support the findings provided by the BIGD.

### **2.1.3 Main gaps identified**

The analysis carried out by the BIGD is based on a correlation between the level of access to financial services and the real interest rate. IMF2011 and RaY2009 also use the same approach. This is an oversimplification that ignores the multi-faceted nature of financial exclusion. Table 1 provides a summary of all the constraints affecting access to and use of financial services. Affordability is only one of many factors and therefore, to conclude whether finance is a constraint to growth, other factors in addition to cost need to be explored. In this regard, WB2012 provides a very interesting approach when it focuses on how long-term lending and lending to small firms in the rural non-farm sector fails to satisfy the needs of the country. The problem therefore, would be not just price but also the lack existence of adequate products which in turn has to do with issues like (a) the mind-set/motivation/perception of financial service providers; (b) capability/capacity issues to meet the existing demand.

**Table 1 Constraints to the expansion of access to financial services**

<b>Contextual Constraints</b>	
<ul style="list-style-type: none"> <li>- Demographic and poverty pressures</li> <li>- Poor level of infrastructure</li> <li>- Financial sector incentives</li> <li>- Public interventionism</li> <li>- Lack of policy coordination</li> </ul>	
<b>Regulatory constraints</b> <ul style="list-style-type: none"> <li>- Mobile payment regulation</li> <li>- KYC</li> <li>- Interests rate caps</li> <li>- Secured transaction law</li> <li>- Bankruptcy laws</li> <li>- MFB regulation</li> </ul>	<b>Systemic constraints</b> <ul style="list-style-type: none"> <li>- Skewed delivery infrastructure</li> <li>- Lack of financial sector data</li> <li>- Lack of credit information</li> <li>- Absence of an integrated ID system</li> <li>- Skills shortage</li> </ul>
<b>Organizational and Product based constraints</b> <ul style="list-style-type: none"> <li>- Physical accessibility</li> <li>- Appropriateness</li> <li>- Affordability</li> </ul>	<b>Demand constraints</b> <ul style="list-style-type: none"> <li>- Gender-related constraints</li> <li>- Income-related constraints</li> <li>- Ethnicity</li> <li>- Financial capability</li> </ul>

#### 2.1.4 Areas that need further analysis from a PEA perspective

While some of the areas listed above are merely “technical” and therefore need to be explored by using in-depth supply and demand studies, other may be approached employing a political economic approach. Among the most pressing questions that need to be answered, it is possible to highlight the following:

At a contextual level:

- How financial agents perceive the real sector in the Bangladeshi economy and how this perception affects their willingness to lend money for productive activities.
- How is it possible and what is required to develop a new set of incentives to increase the supply of financial services
- How public interventions (if any) to promote and develop better access to and use of financial services have been shaped? How were the main actors involved in these decision-making processes? What was their motivation? Was there any visible “champion of the process”? Was any resistance encountered? What is the bargaining power of those public actors in favour and against actions/policies to promote a more inclusive financial sector? In term of the implementation of these actions/policies, what were the main factors contributing to the creation of a more enabling framework for the financial system? And the barriers?



- What are the incentives of MFIs to operate in poorer areas? This is a problem not only affecting Bangladesh but most countries with a high level of development of the microfinance sector – the more MFIs grow, the more tempted they are to focused their services on lower-middle classes and upper, less vulnerable segments of poor population. The IMF2011 mentions that MFIs will be encouraged to operate in poverty prone areas by providing special incentives, e.g. providing funding to MFIs at low rate of interest if they disburse this funding in poor regions. While international experience shows that this may be a solution in the short-term it usually fails to guarantee sustainability. Therefore, it is necessary to explore how MFIs will react to other types of incentives to operate in the poorest regions.
- What is the lobbying capacity of the actors that form the financial system?
- The lack of policy coordination, is it just a governance issue affecting the totality of the Bangladesh public sector or does it affect the financial sector in particular?

In terms of regulatory constraints and power brokering:

- Who have been the main actors participating in the elaboration of regulation and norms affecting the supply and demand of financial services?
- Were financial consumers or associations of financial consumers allowed to participate in these processes? If not, why?
- What are the main overarching strategies (if any) that justify the adoption of such set of regulations?

In terms of demand and supply of financial services:

- What are the main non-financially specific factors (for example, cultural elements) preventing the access to financial services?
- How can trust in financial institutions be improved among poorest segments of population?
- What actions have been taken to improve trust in the provision of financial services along value chains? What incentives would be necessary to do it? What is the perception that financial actors like MFIs or commercial banks have of tools like value chain finance or chain liquidity?
- Are other financial services rather than loans and savings (for example, microinsurance), being promoted to reduce the level of financial vulnerability of the poorest segments of population? If not, why?
- Are there any specific financial/non-financial factors constraining women's access to and use of financial services?

## 2.2 Macroeconomic Risks

This section reviews the macroeconomic conditions in Bangladesh in recent years to determine whether these conditions represent binding constraints to the country's economic growth that may thus require a change in national policy. Macroeconomic risks arise when government policies lead to an increased likelihood that the economy will suffer a macroeconomic crisis in the future. If future risks are considered significant, they will discourage current private investment, as the investors are concerned with potential rapid inflation, large increases in interest rates, and sudden devaluations of currency, leading to a financial crisis.

### 2.2.1 Main conclusions of the BIGD

Fiscal Policies and Public Debt: the analysis carried out indicates that the low levels of fiscal deficit and public debt will have a minimal impact on domestic interest rates, with little current risk of crowding out and therefore reducing private investment.

Inflation: While inflation in Bangladesh is lower than in the comparator countries used in the study, and therefore the risk posed is not very high, the expected rise in domestic fuel and power prices as well as other factors may put pressure on prices in the near future. For that reason, the BIGD recommends to monitor the evolution of inflation in the country.

Exchange rate: As a result of the stability of the average of nominal exchange over the last years and the increase in the levels of foreign exchange reserves at the Central Bank, the BIGD concludes that Bangladesh's exchange rate and foreign exchange reserves are not a cause for concern.

Balance of Payments: With a positive current account balance during the period 2005-2012 (with only the exceptions of 2005 and 2011), and a low current account deficit as a percentage of GDP, it is not expected that the balance of payments (BOP) may negatively influence either Bangladesh debt stock or its level of inflation.

Remittances: According to the World Bank, Bangladesh is one of the top 10 remittance countries in the world. Despite a likely slowdown in remittance inflows, it is expected that the flow of remittances will still make an important contribution to the GDP.

Summing up, according to the BIGD, **the macroeconomic environment in Bangladesh does not pose a binding constraint to private investment**, its overall economic growth, or efforts at poverty reduction.

### 2.2.2 Evidence provided by other documents

**IMF2011:** the document recognises the good situation of the BoP, which in turns ensures a comfortable external reserve position and buoyant growth in import payments and export receipts. Sound macroeconomic management and policies are identified as the main factor behind the strengthening of the BOP. In terms of the exchange rate, the

flexible market-based exchange rate policy is seen as key to minimizing the exchange market volatility, while at the same time enabling it to build up foreign exchange reserves to a very comfortable level. There are concerns about the rise in the level of inflation, although the measures implemented by the GoB to tackle the inflation from both the supply and the demand side are expected to lower inflationary pressures. In terms of remittances, IMF2011 approaches them in an interesting way when it defines them as the most important informal safety net program in the country. This is a huge contrast, for example, with the BIGD, which mainly focuses on the contribution that remittances make to GDP. Interestingly, it also mentions that a large part of the financing for growth comes from the domestic public resource mobilization, including remittances.

**WB2012:** According to the WB2012, the macroeconomic stability is one of the key elements that explains growth in Bangladesh. Inflation has been contained well below double digits, which has helped avoid friction in the growth process. Macro stability was also underpinned by sound fiscal policy, shown by the fact that Bangladesh is the only country in South Asia with positive public savings. The WB2012 provides exactly the same arguments as IMF2011 in terms of the importance of the 2003 reform to minimize the exchange market volatility. In terms of remittances, while the document highlights the importance of the contribution of remittances to GDP, it also emphasizes two further issues (a) the risk of becoming too dependent of remittances; and (b) the fact that the growth in remittances has been driven largely by the number of migrants abroad rather than remittances per capita. This is an element with very serious implications from a PEA perspective, as it will be explained in the following sections.

**RaY2009:** Macroeconomic stability together with successive governments' commitment to the continued liberalisation of the economy is the key factor identified by RaY2009 that explains economic growth in Bangladesh. Moderate inflation over the past three decades, the absence of recent BoP crisis, and sound fiscal policies are some of the factors that help explain this situation. Surprisingly, RaY2009 barely mentions the economic and social role of remittances.

### **2.2.3 Main gaps identified**

Although the BIGD carries out a thorough analysis of different individual macroeconomic elements, a basic systemic review of them is missing. This is also the case for both the IMF2011 and WB2012. The goal of this systemic review would be to better understand how macroeconomic elements operate as a whole, the synergies (both positive and negative) that exist between them, and the likely impact, from a systemic perspective, that variations in one or several of them, may have on the whole economy and on the country's pro-poor growth strategies.

### **2.2.4 Areas that need further analysis from a PEA perspective**

In order to have an accurate picture of the macroeconomic situation in Bangladesh it would be necessary to carry analysis of the relationship between the macroeconomic elements and the institutional and regulatory framework in the country. The main purpose of this analysis is to explore whether the institutional and regulatory foundations that

sustain macroeconomic figures are solid enough for sustained results or, on the contrary, they need further work. Experience shows that sometimes positive macroeconomic figures, even over an extended period of time, are triggered by external factors (i.e. increased price of natural resources), rather than being the outcome of an adequate process of institutional and regulatory reforms.

Exploring the linkages between the macroeconomic situation in Bangladesh and the institutional and regulatory reform processes that have taken place in the country may provide useful information not only about the strength of the national economy, but more importantly, identify potential areas where more attention is needed. From a PEA perspective, some of the questions in this area would include:

- What are the key institutional elements (regulations, bills, laws, etc.) underpinning the successful macroeconomic results? How were these elements designed, approved and implemented? Who were the main actors in promoting them? What opposition did they encounter? Were these key institutional elements the result of coordinated policy to economic growth or isolated initiatives?
- What other institutional reforms are still necessary to create a more pro-growth enabling macroeconomic environment in Bangladesh?
- Considering the importance of remittances both as a safety net (social side) and as a key component to financing growth in the country (investment side), it is necessary to explore what institutional measures have been taken to create incentives that may lead to enhance their social and economic use. Is there any coordinated action between the GoB and financial actors to maximize this role?
- Studies carried out in Central American countries highly dependent on remittances show that decision-makers have few incentives to invest in human capital. By not promoting policies aimed to improve education or health, or even access to financial services for the very poor they guarantee that the flow of immigrants will be steadily maintained in the short-term, which in turn is a guarantee that remittances, which are vital for the economy, will keep coming. This may look like a perverse situation but from a political perspective it has a powerful logic: by reducing the incentives for national workers to migrate you can be damaging one of the current pillars of the economy (remittances). The transaction cost of this approach is very uncertain. In contrast, by not investing enough in education, health or productive activities, a positive pay-off is guaranteed in form of remittances. In other words, migration and remittances, rather than the negative consequence of a failed economic system, maybe the desired outcome of a model which needs remittances to keep operating. In the case of Bangladesh there is a critical element to consider: unlike countries like El Salvador, Guatemala or Honduras, migrants from Bangladesh do not belong the bottom of the social and economic pyramid. Still, from a PEA it would be extremely useful to explore the dynamics and trade-offs between exportation of human capital, remittances, investment in education and the existing economic model.
-

## 2.3 Microeconomic Risks

Once the macroeconomic structure of the country is explored, the aim of this section is to analyse the impact that different issues at micro level have on the private appropriability of return to investment, and hence to growth and development. In particular, this section explores four areas which are considered to be the potentially most important binding constraints to private investment growth in Bangladesh. These are (1) corruption, which tends to pose a major obstacle to economic growth by increasing the cost of doing business; (2) lack of contract enforcement; (3) taxation; and (4) access to land, demonstrated by widespread, insecure land tenure and exacerbated by a corrupt, costly and ambiguous land titling and registration system.

### 2.3.1 Main conclusions of the BIGD

Corruption: while a large number of firms in the country appear to pay “gifts” in order to secure contract, the value of these gifts (shadow price) is relatively lower than in other comparator countries. The most worrying element in the BIGD reports is that smaller firms, which by definition are the most fragile ones, seems to be more affected by corruption than medium and large ones. However, this average shadow price of corruption is seen to be significantly below Cambodia and the Philippines, and slightly below the average in Nepal. Although the lack of data has prevented carrying out Tests 3 and 4, the report concludes that corruption is not a binding constraint as Bangladesh’s economy (both private and public) has always been able to find a way around the problems caused by corruption. Instead, corruption is defined as a risk multiplier.

Contract Enforcement and Property Rights: the analysis carried out by the team in charge of the elaboration of the BIGD shows that contracts and property rights are both uncertain and costly to enforce in Bangladesh. Also, the opportunity cost of contract enforcement, in terms of litigation time, is high relative to comparators. However, the lack of more detailed information prevents BIGD to provide a definite conclusion on whether contract enforcement and property rights are constraining growth.

Taxation: Information provided shows that tax rates and tax administration appear to be a low concern for firms in Bangladesh in carrying out their business operations. As a result the study concludes that it is unlikely that Bangladesh is restricting investment through excessive taxation.

Access to land: Land inequality is an overriding issue in Bangladesh, which is exacerbated by increasing demographic pressure, the lack of a well-functioning land market, a very poor land record system, and rampant corruption in the public sector. As a result, the study concludes that access to land is a binding constraint to growth in Bangladesh, especially for the poorest segments of population.

Although three out of the four issues elements studied above are not seen to present an elevated level of risk, the report concludes that **the lack of improvement in the business environment poses a threat for private investment and economic growth.**

### 2.3.2 Evidence provided by other documents

**IMF2011:** According to the document, capacity constraints in public administration and corruption lie at the heart of the overall shortcoming in national governance in Bangladesh. In addition to preventive efforts, the GoB believes that a credible threat of prosecution for corruption is a must. The areas most affected by corruption would be tax administration, land administration, and basic service delivery institutions such as health, education, population and nutrition. While the GoB recognizes the importance of intellectual property rights for attracting foreign direct investment (FDI), the difficulty to implement and enforce measures to guarantee intellectual property rights is an important constraint for growth. Particularly in terms of access to land, the IMF2011 puts the emphasis on two points: (i) how the lack of access to land for the lower income groups increases their vulnerability; and (ii) how land management problems, i.e. corruption, is a very limiting factor for new or expanding entrepreneurs. Unlike the BIGD, IMF2011 states that taxation in Bangladesh is deterrent to growth due to complex rules, administrative hassle, poor compliance and low collections, which results in minimum tax payment with frequent underreporting of profit.

**WB2012:** The document identifies corruption as the second most important bottleneck to competitiveness and productivity growth, only behind infrastructure. Poor property rights protection magnifies risk perceptions and limits on user rights discourage private initiative and slow down the process of economic diversification. Access to land is seen as a major impediment to new investments, particularly in manufacturing. This situation affects mostly smaller firms. The document offers a revealing data: property registration typically takes 245 days in Bangladesh, compared with 44 days in India, 57 days in Vietnam, 22 days in Indonesia, and only 2 days in Thailand. Interestingly, WB2012 does not make any mention of the problem of corruption associated to the scarcity of land. The lack of transparency in tax administration processes is perceived to open up spaces for rent seeking.

**RaY2009:** While acknowledging the damage that corruption inflicts on economic growth, RaY2009 states that current anti-corruption efforts could do more harm than good to the national economy. As a result it is suggested that more research is required to design and implement an appropriate anti-corruption strategy for Bangladesh. Similarly to the BIGD, the document concludes by saying that it is far from self-evident that corruption is a binding constraint on investment in the light of the growth the country has experienced. Property rights are mentioned as a factor to reduce the level of appropriability, but other information is provided about the measures taken to improve it. While no mention is made of the access to land problem, RaY2009 highlights the relation between low levels of taxation and low levels of expenditure on education or health.

### 2.3.3 Gaps identified

Reading the different documents it is possible to agree that economic growth in Bangladesh has not been matched in progress of building the institutions of economic governance. And yet, the fact that economic growth happened despite the corruption and governance failures is seen as evidence that they are not a binding constraints for

growth. By all means this is a controversial proposition. What the reports lack are a scenario analysis of macroeconomic risks. The purpose of this work would be to find out, for example, how more the economy would have grown over a period of time if corruption had been reduced, let's say, by 10% or a 25%. If availability of land were increased by 20%, how would private investment react? Exploring variations of economic scenarios using different hypothesis may constitute a useful tool to understand the real impact of these microeconomic factors, or the lost benefits.

### **2.3.4 Areas that need further analysis from a PEA perspective**

Corruption is a two-way street. People and companies face the obligation to give “gifts” to get things done because there are actors in a position of relative power asking for these gifts. So, in an attempt to understand more clearly how corruption works, the following questions are necessary from a political economy perspective:

- Who are the main actors benefiting from corruption? What is the source of their leverage or bargaining power? How did they reach that position?
- Although the prevalence of corruption in Bangladesh may have a strong cultural element, are there any institutional/regulatory elements that can be implemented to reduce its negative impact?
- In addition to the cultural factors, what are the main factors contributing to create an enabling environment for corruption? Lack of checks and counterbalances? Lack of transparency and accountability?
- In term of the measures aimed to reduce corruption, is it a problem of the existing regulatory framework or the capacity/capability/willingness of actors to implement it?

In this regard, a similar set of questions can be proposed for the problem of access to land.

Unlike corruption, it is unlikely to find strong cultural elements to explain the prevalence of the high cost of contract enforcement and property rights in Bangladesh. Although the first task to complete is identifying who benefits from this situation, it is even more important to explore how it has been perpetuated over time. In this regard, it is important to introduce the idea of negative dependence path - the way a set of decisions for any given circumstance is limited by the decisions one has made in the past.

## **2.4 Market Failures**

The BIGD focuses on two types of market failures, namely information externalities and coordination externalities. The former occur when firms or entrepreneurs are unable to capture returns on innovation or the costly “self-discovery” process of what activities, products, or sectors are worth further investment and development. This market failure is closely linked to a weak legal framework for intellectual property (IP). The latter occur when entry into a particular activity or sector is impeded because of a lack of necessary, coordinated action by the government or other private sector actors. Both factors

produce a similar outcome: the lack of expansion into potentially lucrative economic activities.

### **2.4.1 Main conclusions of the BIGD**

Despite the progress made to updating existing IP legislation in Bangladesh, the lack of enforcement capacity of different actors prevents this legislation from being effective. The document also mentions the lack of awareness of both the public and law enforcement agencies regarding intellectual property laws, as one of the key issues that perpetuate this market failure. However, using some proxy indicators the authors of the document show that actors in the economy continue to innovate, contributing to economic growth.

In terms of coordination failures, the BIGD seems to suggest that there is a strong dependence on the textile and ready-made garment sectors and an important lack of diversification of the export basket. Diversification is likely hampered by negative path dependence, which precludes expansion into new production areas due to a lack of complementary inputs and processes. The report concludes neither information nor coordination externalities are primary binding constraints to economic growth in Bangladesh. Interestingly, the report concludes by saying that the best way to improve economic diversification is by focusing on the provision of complementary public goods useful to all industries, such as infrastructure and the enforcement of contracts.

### **2.4.2 Evidence provided by other documents**

**IMF2011:** No significant reference is made in this document to market failures.

**WB2012:** No significant reference is made in this document to market failures

**RaY2009:** According to RaY2009, market failures hampering investment and growth arise out of information asymmetries or co-ordination failures. The former abound in the SME sector, which result in in lack of access to both short-term and long-term financing, end markets, and supply networks.

### **2.4.3 Gaps identified**

No have been identified in the analysis of the market failures made by the documents analysed.

### **2.4.4 Areas that need further analysis from a PEA perspective**

- What are the main factors preventing the provision of public goods in Bangladesh?
- Could public-private partnerships (PPPs) be an adequate instrument to improve the provision of public goods? What are the main obstacles, from a stakeholder and regulatory point of view, preventing the development of more efficient PPPs?



## 2.5 Human Capital

Although the BIGD mentions that education and health will be explored, the latter is analysed in a very superficial way, the result being that the health of adults (and therefore the labour force) does not seem to be a binding constraint for growth in Bangladesh in the next five years.

### 2.5.1 Results of the tests in education and main conclusions

Test 1: By measuring returns to education, the report makes clear that education is not a binding constraint to economic growth. Additionally, at lower levels of education, it is unclear that the boost in female education will by itself result in better employment for women.

Test 2: This test explores whether there is a correlation in movements of education results and economic growth. Although the scarce information available makes this test inconclusive, some data suggests that the lack of skilled workers may be a binding constraint to investment and growth.

Test 3: This test analyses how employers circumvent the lack of skill workers. Unfortunately, the report does not provide a conclusive answer.

Test 4: Following the suggested results of Test 2, companies less intensive in the use of education should be thriving relative to firms that consider them essential to their production processes. However, the analysis carried out shows no clear pattern or relationship between the two, and the more labour-intensive sectors do not perform better relative to those that are less labour-intensive.

The analysis carried out shows that education is not a binding constraint to economic growth. However, in the long-term Bangladesh will need to focus on improving the quality and relevance of education to increase the supply of skilled workers, and thus productivity and economic diversification.

### 2.5.2 Evidence provided by other documents

**IMF2011:** Available evidence suggests that Bangladesh has made impressive progress in improving its human development indicators including life expectancy, infant and child mortality, adult literacy, and primary and secondary school enrolments. And yet, there is a large unfinished agenda regarding the quality of education and availability of skills, which are particularly essential for increasing the rate of growth and creating high income jobs. This is seen as an important constraint for growth, although more in the long-term than currently.

**WB2012:** Shortage of skills is becoming increasingly important for economic growth according to this document. Evidence suggests that one-quarter of small metropolitan firms reported an acute shortage of skills. Also, the skills scarcity has driven up real wages by 30 percent. Inadequate access to professional and technical training, and poor

quality education at all levels limit the ability of Bangladeshis to enhance their employability and income potential, and the ability of firms to improve productivity and the technological content of their products and services. In this regard, the conclusions provided by the WB2012 are similar to those highlighted by the BIGD.

**RaY2009:** With a poorly educated workforce, Bangladesh is unable to take full advantage of globalisation and firms are less able to adopt technologies from more advanced economies. That has a negative impact on investment levels as entrepreneurs are less likely to try ventures that require specialist skills. Unlike the rest of the studies, RaY2009 clearly identifies low human capital as one of the binding constraints on economic growth in Bangladesh.

### **2.5.3 Gaps identified**

The BIGD makes a brief reference to the objectives of Bangladesh's Sixth Five-Year education plan as part of Bangladesh Vision 2021. However, it is not specified how public policies to improve education are coordinated with those to stimulate economic growth.

### **2.5.4 Areas that need further analysis from a PEA perspective**

As described at the end of sub-section 2.2.4, more work is required to explore the relationship between the exportation of human capital, remittances, investment in education and the current economic model.

## **2.6 Infrastructure**

This section provides an analysis of electricity infrastructure, transport infrastructure (including roads, rail, inland waterways, and air), ports, and information and communication technology (ICT) infrastructure. However, most of the section is dedicated to electricity. The conclusions for the four other elements show that none of them is a significant binding constraint to economic growth in Bangladesh

### **2.6.1 Results of the tests in electricity and main conclusions**

Test 1: Although electricity is not particularly expensive in Bangladesh, its shadow price is much higher than what is being paid by customers. Widespread generator use can be seen as another indirect measure that the shadow price of electricity is high in Bangladesh.

Test 2: This test explores whether changes in the amount of electricity supplied to the economy should lead to significant changes in investment, the result of this test being positive.

Test 3: This test analyses how actors circumvent the problems caused by the lack of electricity. The conclusions suggest that the use of generators by Bangladeshi firms is the most usual way to mitigate the effects of a lack of reliable electricity from the grid.

Test 4: Based on the assumption that the manufacturing sector requires larger electricity inputs than the service sector, the test provides no evidence that electricity-intensive sectors are performing worse than those that are less electricity-intensive, which is inconsistent with the results of the three initial tests.

The analysis carried out shows that access to electricity is not a binding constraint to economic growth. However, in the long-term Bangladesh will need to focus on improving the quality and relevance of education to increase the supply of skilled workers, and thus productivity and economic diversification.

## 2.6.2 Evidence provided by other documents

**IMF2011:** The document mentions electricity as one of the key determinants of cost competitiveness and therefore of growth. The solutions provided include better demand management, more aggressive efforts for energy trade with neighbours, ensuring the efficiency of electricity production and distribution, and ensuring the financial viability of the electricity industry. Due to the severity of the power crisis, the GoB has been forced to enter into contractual agreements for high-cost, temporary solutions, such as rental power and small independent power producers (IPPs), on an emergency basis, much of it diesel or liquid-fuel based. This has imposed tremendous fiscal pressure, which may have negative macroeconomic effects. Later in the document, it is mentioned that electricity trade with neighbours is probably the option with most potential for unlocking Bangladesh's long-term energy constraints in a cost-effective manner.

**WB2012:** The document is consistent with BIGD and IMF2011 in that it identifies lack of electricity supply as the main constraint for growth. To support that claim, useful data is provided. The value lost due to electrical shortages increased from 2.9 percent of sales to 12.3 percent between 2002 and 2007. That means that the losses that Bangladeshi firms suffer are much higher compared to 5.4 percent of sales lost in Pakistan and 5.5 percent in India. Other key data show that only 55 percent of households have electricity and that Bangladesh ranks last among its Asian competitors in terms of power outages. Although there has been a significant increase in the share of households with electricity connections during 2000-2010 - from 31 to 55.3 percent, access to electricity is a key factor to perpetuating social inequality in the country.

**RaY2009:** Like the rest of documents, RaY2009 states that shortage of electricity power is the key constraint for economic development. It mentions that power shortages was a major issue in the 2008 general election – the first reference to this problem from a political perspective. Additionally, it offers comparative information about use of electricity in different countries, which shows that consumption in Bangladesh is lower than in the rest of them with the only exception of Nigeria.

### 2.6.3 Gaps identified

While all the studies indicate that shortage of electric supply is the main constraint for economic growth, none of them try to question how this constraint was originated and, more importantly, how it is perpetuated.

### 2.6.4 Areas that need further analysis from a PEA perspective

From a PEA, the first issue to explore is whether there are any actors who benefit from the current situation. If the answer is positive, the subsequent analysis should focus on exploring whether these stakeholders have the power/bargaining power to maintain the current status quo or if their behaviour is merely opportunistic. Another set of questions should be focused on how different public actors perceive this situation. Accumulated evidence shows that the main trigger for action for governments in countries dominated by clientelist relationships is not how serious the problem really is but how the problem is perceived to affect the interests of those in power. This is critical to explore whether there is a real alignment between the priorities publicly established by the GoB and the authenticity of its intentions.

However, it could be the case that reverting this situation really escapes the control and possibilities of the GoB, as the IMF2011 report indicates, pointing out at regional power trade as the main way to overcome this constraint. If that were the case, a specific PEA on regional power trade for South-East Asia would be necessary. The main purpose of this analysis would be:

- To identify the key stakeholders, pinpointing the interests they have in regional power trade (RPT) agreement and the influence they are able to bring to bear.
- To identify the decision making processes that have affected RPT agreements in the past which will determine decision-making in the future.
- The next step is to look more broadly at the context within which RPT decisions are made, and how contextual factors may affect decision-making in the future. To facilitate the systemic understanding of the political economy factors surrounding RPTs a multi-level analysis framework should be used, including (i) macro level analysis both at regional and national layers; (ii) meso level analysis to explore the “scaffolding” of the economy of RPTs, including factors affecting implementation; and (iii) a micro analysis to explore relationships between decision-making affecting RPTs and issues like public awareness, accountability, transparency, etc.
- Other issues that should be explored include (a) the domestication of regional regulatory frameworks; (b) historical relationships between countries that will determine the willingness/capacity to cooperate; (c) the differences of bargaining power between different national actors that will condition their incentives to work together with neighbouring countries.

As mentioned at the end of Section 2.4, it is necessary to explore in depth the main barriers preventing the formation of PPPs in this area, both from a stakeholder and regulatory point of view.

Finally, it is also necessary to explore the barriers that exist in the financial sector to improve long-term financing that may help the development of small public or private power projects. This analysis should be part of a wider PEA of access to and use of financial services, as explained in sub-section 2.1.4

## 2.7 Natural Capital

Adverse geographic characteristics increase the risks to investment opportunities, raise costs for businesses, and have a negative impact on poor and remote populations. This section explores issues related to climate change, land resources, and mineral wealth. However, most of the analysis is focused on climate change, as the issue of access to land was already discussed in the section of macroeconomic risks.

### 2.7.1 Main conclusions of the BIGD

Using information about natural disasters (mainly floods, cyclones, and storms), and the data provided by the World Risk Index (WRI) that ranks Bangladesh as the fifth most at-risk country in the world, the report concludes that the negative social and economic impact of these disasters will most likely continue to pose a major development challenge for Bangladesh in the future.

### 2.7.2 Evidence provided by other documents

**IMF2011:** The report not only acknowledges that Bangladesh is one of the most climate vulnerable countries in the world but also put emphasis on ways to revert this situation. While accepting that the response to climate change must be global, the document defines the Climate Change Management Strategy (CCMS), adopted by the GoB as a key element to reduce the vulnerability to climate change. The CCMS prioritizes adaptation and disaster risk reduction, and also addresses low carbon development, mitigation, technology transfer and the mobilization and international provision of adequate finance. The challenge that Bangladesh faces to effectively implement the CCMS is to scale up investments.

**WB2012:** Like the other documents consulted, the WB2012 also emphasizes the importance that climate change will have for the country – it will affect Bangladesh's growth through ex-post impacts of climate and weather. Ex-post impacts include the direct impacts of climate phenomena like sea-level rise, changes in crop yields, and floods after they occur. As the sea-level rises, the land available for agriculture will be adversely affected, putting pressure on the prices of land, crops, and the output of downstream industries. Climate change also depresses labour demand growth, with the demand for less-skilled workers being more adversely affected than for skilled workers, and the effects becoming more severe with more frequent floods.

**RaY2009:** No reference to climate change is made in this document.

In order to have a clearer vision of the threat that climate change poses for growth, the OPM team has also explored other documents, the most important one being the PEA on

Climate Resilient Development, carried out by the Institute of Development Studies (IDS), hereafter IDS-PEA.

**IDS-PEA:** the main aim of the document is to explore the interplay between actors in the area of climate change planning in Bangladesh. The IDS-PEA also examines relative importance of ideology and power configuration between actors in generating and deciding over the ideas for this planning. Finally the report looks into how internationally defined ideas influence and gets translated in national planning. The whole document revolves around the elaboration of the Bangladesh Climate Change Strategy and Action Plan (BCCSAP) in 2008. Before that, the document explores the national political discourse on climate change, the general governance structure, and the administrative structure in the country related to climate change. The international drivers in the process are also explained so to give the reader a complete picture of all forces and factors intervening in the process. The IDS-PEA has a well-defined methodology which allows to have a clear understanding of (i) what the problem to be addressed is; (ii) what are the main governance factors surrounding climate change planning; and (iii) drilling down to the political economy drivers which constrain or support the planning process. Issues like power relations between actors, ideologies and values, roles and responsibilities, and historical legacies are sufficiently explained, giving the reader a dynamic picture of the internal processes that took place around the design and planning of the BCCSAP. However, the limited stakeholder analysis carried out, with no in-depth description of actors' main interests and potential responses to external incentives, prevents the document to offer a good understanding of how actors may act to respond to climate change challenges.

### **2.7.3 Gaps identified**

While the BIGD, IMF2011 and WB2012 documents correctly identify the risk posed by climate change for economic growth and highlight some measures to reduce the risks involved, they failed to explore how these measures can be correctly implemented. They also fail to explore how climate change ranks among the GoB priorities, which is a key factor to understand how resources will be allocated to deal with the challenges faced. This is something that the IDS-PEA does although with the gaps mentioned in the paragraph above.

### **2.7.4 Areas that need further analysis from a PEA perspective**

Using the foundations set by the IDS-PEA report, it would be necessary to carry out an in-depth stakeholder analysis of main actors involved in climate change, so as to understand better how they will act to respond to climate change challenges. In particular, this stakeholder analysis should focus on four points:

- How to increase political ownership of all parties, which is a necessary precondition to establish a robust debate and exchange of ideas;

- How to increase institutional ownership on the climate change planning process, which is also a precondition for mainstreaming BCCSAP into the national sectoral and planning process;
- How to strength local governments, seen as key actors in implementation of the BCCSAP;
- What are the main constraints and barriers preventing establishment of a robust accountability mechanism in the area of climate change that has ownership and trust of all actors, and with utilisation of both national and international resources.

## 2.8 Conclusions

The results provided by the joint analysis of the four documents are inconclusive. Electricity is the only factor widely recognized as constraining economic growth in Bangladesh. Finance, microeconomic risks, human capital and corruption are some of the areas where the varying evidence does not allow an irrefutable conclusion.

It is important to note that the BIGD provides a very positive, almost unrealistic picture of the Bangladeshi economy. In fact, only electricity and, to a lesser extent governance, are seen as threats for the national economic prospects. It is possible to suggest a link between this rosy vision of the situation in the country and two methodological elements contained in this report:

- The abundance of over-simplistic assumptions contributes to a shallow analysis that fails to explore the reasons behind economic constraints and their deeper effects. For example, corruption is not seen as a binding constraint as “Bangladesh’s economy (both private and public) has always been able to find a way around the problems caused by corruption”. In other words, if the Bangladeshi economy has grown in the recent years despite the existence of high levels of corruption, then it is possible to conclude that corruption must not be a constraint to growth. This kind of argument is repeated several times along the document.
- The other methodological issue, which is linked to the previous one, is the lack of a systemic analysis in the BIGD report. Factors that can act as constraints for economic development are analysed on an individual basis. The authors never make an attempt to explore how different factors interact and reinforce each other; and how they create synergies that exponentially multiply their damaging impact. Negative path dependence in Bangladeshi economy can only be understood by having a holistic vision of the constraints affecting the country.

While IMF2011, WB2012 and RaY2009 present a more consistent methodological approach, they also lack an in-depth analysis of how economic constraints are created and perpetuated in Bangladesh. In other words, they do not explore the *whys* and *hows* of economic development in the country. For that reason, and in addition to the gaps from a political economy perspective identified at sectoral level, it would be necessary to

carry out a PEA study at country level so to better understand (i) how the regulatory framework in Bangladesh has an impact, both positively (creating opportunities) and negatively (by creating bottlenecks and barriers), on the economic growth; (ii) how stakeholders shape and implement this regulatory framework, as well as their incentives and motivation to do it; and (iii) a systemic view of the synergies created by constraints as well as opportunities that affect economic growth that may be used to identify entry points for doable/actionable reforms.

In the following section, a recent PEA *at country level* carried out by the EU will be analysed. The aim is to identify what are the main strengths and weakness of this document, so to have a better idea, from a methodological perspective, on how to build an adequate PEA to explore constraints for growth in Bangladesh.



## 3 The Country Wide PEA of Bangladesh – EU

### 3.1 Main purpose of the study

The main goal of the EU-PEA report is to understand how economic change is currently taking place in Bangladesh. While the authors of the document acknowledge the importance of historical structural factors to explore how changes are occurring, the emphasis of the analysis is put on the role that different stakeholders play in the process. By exploring what the document defines as actors' incentives and interest, the EU-PEA aims to identify which new stakeholders are more likely to act as drivers for change in the middle term. A key assumption made across the whole document is that the deep rooted patron-client structure that characterises almost all aspects of socio-political and economic spaces of the country will keep affecting the development and implementation of a series of much needed democratic governance reforms in the country.

### 3.2 Methodological approach and conclusions of the report

Interestingly, the report contains no description of the methodology employed to carry out the PEA. However, a review of the document shows that the whole analysis revolves around two main elements: trends, longstanding or current ones, and a stakeholder analysis aimed to explore how actors influence these trends.

Thus, **Chapter 2 – Structural Factors** mainly describes the traditional power dynamics in Bangladesh, highlighting the importance of family and patron-client relations as main drivers of economic activity. This pattern is replicated throughout all statements of society - from the top decision making levels of the State to the grassroots. As a result, the study indicates that the current political activity should rather be seen as factional groups made up of patron-client favours and loyalties based on widespread corruption and immediate rent-seeking aspirations, than the result of opposite political ideologies confronting each other in terms of which political programme better suits the country's development.

The rest of the chapter is dedicated to exploring the interest and incentives of several actors, namely the Parliament, political parties, local governments, the judiciary, the bureaucracy and the military, and how they manage power. However, this analysis of interests and incentives is quite limited and is carried out in a non-systematic way with an abundance of generalizations. For example, the private sector actors are presented as homogeneous groups where all members share the same interests and responses to incentives. This over-simplification is one of the main weaknesses of the document.

According to the document, actors' main motivation is to maintain their quota of power within the existing system. Competition between these actors is described as limited and the report suggests that none of them have the incentives to lead the processes of changes and reforms in the country.

The following elements are also missing in Section 2:

- A more comprehensive description of structural factors (other than history) shaping actors' interests and incentives;
- An in-depth analysis of how decision-making processes take place, including what actors form the policy communities, internal interactions within them and the balance of power within them;
- A description of main potential supporters of the reform processes and their interests to promote them; suggestions on how different actions promoted by actors like DFID may enhance their bargaining power; suggestions on how actors like DFID may have a more influential role in the process.
- A brief explanation of how reform coalition-building strategies can be promoted.
- A description of the role played by other key stakeholders in these processes, like private actors and CSOs. In the case of the latter, there are a section dedicated to them in Chapter 3, but it is merely descriptive, and it makes no mention to their specific role (current or potential) within a dynamic decision-making process.

**Chapter 3 – *Trends that can foster or hinder change***, explores how different new trends like industrialisation, urbanisation and modernisation are acting as counterbalances for the far-reaching patron-client relationships, the widespread corruption and rent-seeking attitudes of most public actors.

The main conclusion of this chapter is that economic growth and poverty reduction has been achieved despite the existence of important constraints in areas like governance, human rights and corruption. The document put emphasis on the approval of new regulation that will increase the level of democratic governance and institution building, and how this regulation could be used as an entry point for internal and external advocacy and demands for enhanced governance and accountability. At the same time it explains that the overall human rights situation has worsened as the government has narrowed political and civil society space, and shielded abusive security forces from accountability. How and why this important contradiction is taking place is not explained in detail.

In terms of violence against women in Bangladesh, the document mentions that the main problem is the absence of effective implementation of existing laws and lack of responsive justice systems. However, no further explanation is provided on how to overcome this situation.

The key trend to foster change, according to the document, is the private sector, which is defined as the engine of the economy. By taking advantage of Bangladesh low-cost competitive edge, it is expected that the country “may become the new China”. The role of the private sector in the overall development of the country provides businesses with a strong leverage with the government, altering the traditional power system based on the political parties' control of public structures.

The document also makes a reference to the limited role that those at the bottom of the pyramid play in the political processes and discussions. Actors in power need to maintain this situation for self-conservation and reproduction. Interestingly, it also mentions that the private sector relies heavily on the availability of cheap labour force. This seems to suggest that private actors, rather than acting as promoters of changes and reforms, may be interested in the preservation of the existing status quo, which contradicts an affirmation made earlier in the document about the potential role of private actors to improve governance, accountability and transparency in the country.

This sections explores the issue of access to land and land management, which is defined as a core element when it comes to understanding the dynamics of environmental issues, but also food security, poverty, marginalisation and minorities and indigenous rights, rule of law and overall economic development. Again, the main problem is not in the existence of an adequate regulatory framework but the difficulties to implement and enforce the existing one.

The document also explores briefly the role of media, social media and CSOs. In particular, social media is seen as a fundamental opportunity to create spaces where young people and CSOs can gather, exchange ideas and initiatives, as well as get organised. The section dedicated to CSOs is basically descriptive, with limited emphasis on exploring the interest and incentives of these organizations.

Finally, the last section of this chapter explores briefly the regional context of Bangladesh.

**Summing up**, it can be said that this sections aims to identify potential windows of opportunity for change in Bangladesh. However, the section fails to (a) explore these elements from a systemic perspective, so to understand how they interact with each other and their relative weight within the whole economy and political environment; and (b) to link the description of the existing windows of opportunities with the contextual factors operating in the country, so to have a clear vision of the likelihood of these windows of opportunity happening as well as their potential positive or negative impact. In other words, the document fails to undertake a scenario analysis exploring the impact, risk and likelihood of the identified opportunities.

The lack of a clear methodology makes it difficult to visualize how some of the conclusions were made. For example, among them it is mentioned that “while the evidences of a deep change process are clearly visible, what is less clear is where this change will lead”. However, a big part of the analysis is based on the presumption that most public actors are committed to maintain the current status quo. Therefore, it is difficult to say where the evidence that allow indicating these “deep change process” comes from. Similarly, the other big conclusion in this section, namely that “the next future will witness a struggle between the traditional power holders and the new players” is not sustained as it is evident that some new private actors may be interested in perpetuating the existing socioeconomic situation. Again, the lack of a detailed analysis of the interest and incentives of different stakeholders prevent having a clearer vision of how they may interact with each other.

The box below presents other specific elements that need to be considered from a PEA angle.

- The document makes no reference to whether the failure to implement new laws and policies aimed to improve governance is due to lack of capability/capacity of those in charge of enforcing them or lack of political will. This is key to understand how reform processes are hindered by existing bottlenecks. It will also help to understand whether bottlenecks are the result of conscious, active decisions made by actors benefiting from the existing status quo or the result of negative path dependence.
- Further analysis is required to explain the contradictions in the regulatory framework between laws aimed to improve governance and those aimed to restrict it. How are these processes taking place? Are these processes occurring in parallel? The latter option would imply that there are actors acting as champions of reforms so to improve governance while other actors would resist it. What is the balance of power between these two groups? If both processes are being sponsored by the Government of Bangladesh (GoB), what's the political logic behind it?
- In terms of violence against women, while it is clear that a cultural problem may exist in the country, it is important to understand where the main bottleneck affecting the implementation of laws against gender violence is and how to overcome it.
- The document argues that “the private sector could use its influence with the government to advocate for reforms and infrastructure investments, which would not only benefits growth but also have direct repercussions in other areas of development and poverty reduction”. However, it is a mistake to treat all the private sector as a homogeneous group, with the same interests and similar responses to external incentives. A more detailed analysis of the motivation and incentives of private sector is required, which the document fails to provide.
- A more detailed analysis of the linkages between the problem of access to land, corruption and lack of enforcement/capability of public actors is necessary.
- The fact that the study does not provide a comprehensive map of bottlenecks constraining economic growth and development does not allow a clear vision of how CSOs can contribute to overcome barriers and constraints to improve pro-poor growth in the country.
- The growing influence and radicalisation of Islam is also mentioned, but no analysis of the political and economic implications of this phenomenon is provided.

**Chapter 4 – Stakeholders that can act as drivers of change.** This section of the document aims to provide answers to two questions:

1. What are the drivers that can support the steady economic development and poverty reduction trend in the middle term and how?
2. What are the drivers that can make sure that economic development will bring along further human development improvements and enhanced governance and how?

The EU-PEA analysis carried out indicates that the stakeholders with the most potential for change are profit oriented non-state actors such as the private business. This is justified by the fact that, as a key stakeholder for Bangladesh's growth, the private sector

benefits from a strong leverage capacity with the GoB. The presence of international business in the country is seen as an opportunity for change as they are less dependent on the complex web of relations that underpins the power structure. It is also mentioned that international companies cannot act alone. Instead it is suggested that their leverage power is increased when they are part of larger reform coalitions, including CSOs and media and public opinion in the countries of origin.

The contradiction spotted in Section 3 about the incentives of the private sector to lead a reform process is highlighted again when it says that corruption will be accepted as long as doing business in Bangladesh remains lucrative. That affirmation is valid as well for other elements, like governance or poor levels of social and economic development. It is clear that the private sector will push for reform only within the limits of its interests. It is important to bear in mind that the more linked business and politics become the more difficult will be to promote changes in the country. And the report recognizes that this is increasingly happening in Bangladesh.

The analysis mentions that youth movements can also act as a driver of change. The spread of the internet, 3G mobile phones and social media can help to bring different youth groups together, like the educated urban youth and the, so far more passive, urban youth operating in the informal sector. However, the report also recognizes that some of these groups may have no incentives to promote change as their well-being is closely linked to the established system.

Although the study recognizes that women have made important progress in the last years in Bangladesh, it also states that women who aspire to be more active in decision-making processes face important challenging political and cultural barriers. The solution provided is to provide women with incentives to act as economic and political agents instead of being employees at the lower level of the production chain, and passive recipients of special programmes and safety nets. However, the report fails to establish what incentives these are or how they will operate to overcome existing barriers.

Media and social media are seen also a key players in the change process, but the report establishes that in today's shrinking liberties context, journalists and media entrepreneurs are coming under increasing pressures and threats, and therefore their impact is quite limited.

On paper, the GoB is also committed to change and most of its policies and development strategies follow that line. However, the great challenge remains to translate strategies and policies into reality. The document describes how the existing negative synergies and patronage relationships are an insurmountable obstacle for those public actors, mainly technical elements within the bureaucratic apparatus, which may wish to promote process of changes and reforms.

The document also mentions that a thorough decentralisation reform may undermine the political-patronage control machinery and therefore may act as a trigger for change. Despite some setbacks along the process, at a lower layer of local government, the GoB government has enforced a series of more participatory mechanisms like the Project Implementation Committee (PIC) and the local management committees. These

institutional layers represent entry points to build local government good practices which can lead to bottom-up demands for further gradual participation in decision-making.

Generally speaking, this section of the document fails to make a transition from windows of opportunities to specific, concrete entry points. The reason for that is the failure to explore in detail how actors may respond or interact with each of these windows of opportunity. As a result, the recommendations for further action are inconclusive or non-existent.

Although most of the questions about the role that stakeholders may play to promote change in Bangladesh have already been described in other sections, the following elements in Section 4 need further analysis from a PEA perspective:

- How reform coalitions, including international business, are formed? What is the incentives for private companies to be part of them?;
- While the document recognises the existence of potential public actors who may want to promote change, it fails to explain how their bargaining power can be enhanced, i.e. by the intervention of some international donors aiming to empower them.

### **3.3 Strengths and weaknesses**

#### **Strengths**

- The EU-PEA offers a robust description of the main windows of opportunity that may help to create a more enabling framework for pro-poor growth and economic development in the country.

#### **Weaknesses**

- The limited stakeholder analysis carried out, with no in-depth description of actors' main interests and potential responses to external incentives, prevents the document from offering a good understanding of how actors may act upon these windows of opportunity to create a more pro-poor environment for economic growth.
- As a result, the document lacks a section with a description of specific entry points – suggestions for actors like DFID or the EU to carry out doable, efficient actions to make the most of the existing opportunities in the country.
- The lack of methodology makes difficult to track down how conclusions have been reached.
- Absence of contextual analysis, exploring how long-term contextual factors shape the current economic environment.
- Actors are described in an individual way, ignoring the fact that they usually operate in groups, as part of political coalitions, policy communities or being part of different types of arenas.
- Lack of systemic analysis. As a result, the conclusions offered are too static – readers do not get a good understanding of the internal dynamic and forces operating behind the decision-making processes.

## 4 Suggestions to design a PEA to explore constraints to growth in Bangladesh

The final section of this document will be divided in two parts: the first one will suggest some of the elements that a PEA exploring constraints to growth in Bangladesh could contain, while the second part will provide a tentative budget, based on similar assignments, for the realization of this work.

### 4.1.1 Considerations to design a PEA to explore constraints of growth

- The PEA should be a sectoral-level analysis, incorporating several cross-cutting issues, so to have sufficient operational focus to guide programme design.
- Having said that, the report should also include the following country-level elements:
  - An institutional analysis exploring how existing regulation has an impact, both positively and negatively, on economic growth in Bangladesh;
  - An stakeholders analysis so to have a clearer vision of not only how actors shape, implement and enforce the regulatory framework but also of their incentives, motivation and capability to do so;
  - A comprehensive mapping of the linkages and synergies between barriers as well as opportunities that constrain/enable economic growth, at macro, meso and micro level.
- By combining a sectoral level analysis and elements of the country-level analysis, the report should contribute (i) to have a wider vision of how pro-growth decision-making processes occur at national level, something that is completely missed in all the documents analysed; (ii) to better understand the role that different actors play in these decision-making processes; and, above all (iii) to explore in depth how the actions proposed at sectoral level may impact in the wider economic environment and *vice versa*. By doing so it is possible to make better informed decisions about the cost-effectiveness of potential courses of action.
- In light of the gaps identified in the documents that were analysed, the sectoral-level PEA should focus on access to and use of financial services, with emphasis of three cross-cutting elements:
  - The gender dimension of financial exclusion.
  - The long-term lending dimension of access to finance, with particular focus on the funding of infrastructure projects, mainly electricity.
  - MSMEs funding.
- By carrying out a sectoral-level PEA on financial services, including these three cross-cutting issues, not only is it possible to better understand how a key element in the HRV framework (access to finance) works but also which other elements affect the low returns to economic activities, like infrastructure or human capital.
- A more detailed description of the main areas to be covered by this sectoral PEA can be found at the end of sub-section 2.1.4.

- In addition to the sectoral-level PEA, a PEA on RPT could help to understand better the binding constraints existing at regional level to improve power trade, as explained in detail in sub-section 2.6.4.

#### **4.1.2 Tentative budget for the proposed PEA**

A sectoral-level PEA on access to finance that includes the three macro elements plus the cross-cutting analysis of gender finance, long-term finance and MSME funding would require approximately 82 working days to be distributed among an international consultant and team leader (42 days), a senior local consultant with experience in financial sector development (25 days) and a junior consultant/researcher (15 days). The assignment would entail spending between 12 and 15 working days in Bangladesh having meetings and discussions with relevant stakeholders.

The total cost of the project would be in the region of GBP 52,000-60,000, all expenses included.

This amount of time and money is consistent with the cost and time employed in projects with similar goals and scope. For example, a PEA on Agribusiness sector in Northern Uganda for DFID implemented in 2014 by OPM where 77 days were employed had a total cost of approx. GBP 52,000.

In 2013, OPM carried out a PEA of the oil sector in Bolivia for NORAD. The number of days employed in the project was 87 and the total cost of the project was GBP 43,700. Please note that in this case, the cost of local consultants in Bolivia was much lower than in Bangladesh – an oil expert in Bolivia with 20 years of experience charges USD 200-250 per day, while a senior expert in Bangladesh with similar experience in financial sector may charge up to three times this amount.

In 2011, a PEA of gold mining in Burkina Faso implemented by OPM for the World Bank had a total cost of USD 80,911 after having used 60 working days divided into three senior international consultants and one senior local consultant.